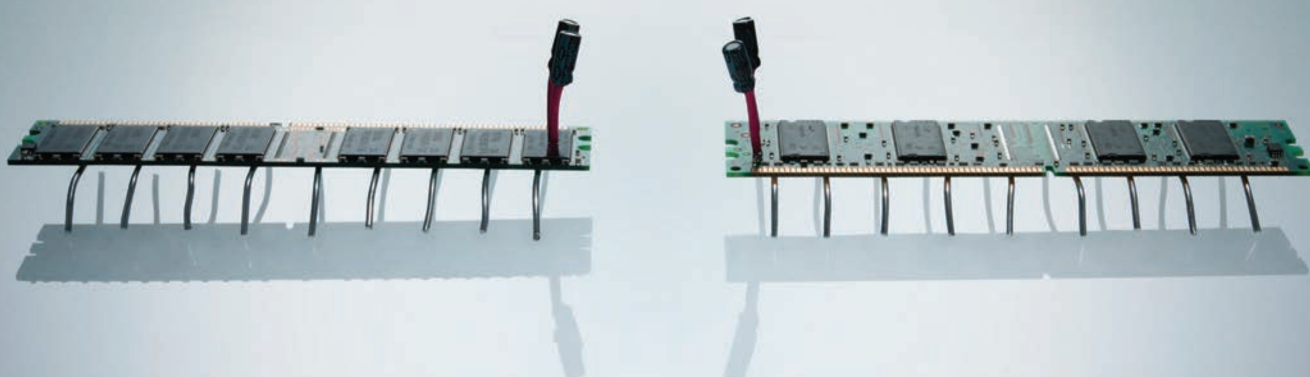
THE LONDON JOURNAL

THE VOICE OF YOUR PROFESSION

INSURANCE GETS THE TECHNOLOGY BUG

Why it should be used as a force for good



Competitive? Moi?
LMG's Aubert discusses modernisation and Brenaissance

In the spotlight
Performance Management Director at Lloyd's Jon Hancock considers if tech is a threat, promise or opportunity

Financial services
How tech can help the financial planner and the public

The Insurance Institute of London
PFS | CII

INSIDE THIS ISSUE

3 PRESIDENT'S COMMENT
Russell Higginbotham on why technology and data should be used as a force for good

4 ABRIDGED ANNUAL REPORT
Allison Potts highlights what's new at the Institute

5 DIVERSITY AND INCLUSION
Lynsey Cross looks at the role of Denise Wilson in the fight for gender equality in the City

6-7 REINSURANCE
Ian Branagan and Justin Emrich cut through the hype about blockchain and InsurTech to find the true impact

8 CLAIMS
What's new in artificial intelligence and what effect will it have on claims handlers? Austin Milne investigates

9-11 LONDON MARKET
Nicolas Aubert updates us on what is being done to make the London Market more competitive

Malcolm Newman considers the implications of Brexit on the City

David Ledger discusses the introduction of central electronic placing

12-13 MARINE
Has switching to electronic bills of lading led to an increase of documentary fraud? Andrew Mackenzie fishes out the facts

14 AVIATION
Simon Abbott considers this new and exciting exposure of space tourism

15 PROPERTY
Andy Brooks looks at the challenge of adding cyber crime and cyber terrorism to property policies

16-17 INTERVIEW
Meet Jon Hancock – the Performance Management Director of Lloyd's

18-19 YOUNG MEMBERS
Hannah Kate Smith looks at innovation in insurance and provides a reality check

20 PROPERTY INVESTORS
The role of technology in risk management. Anna Whitfield reveals how tech is being used to detect hidden problems

21 CII
Promoting public trust in insurance is at the heart of the CII's Royal Charter. Sian Fisher and colleagues discuss how the Institute is responding to wider change

22-24 FINANCIAL SERVICES
Peter Matthew discusses how technology can help the general public with financial planning

Pensions Dashboard: Dr Yvonne Braun updates us on this worthy initiative

Robo-advice: David Stevens looks at the pros and cons of this technology

25 SOCIAL MEDIA
Angela Lloyd-Read and Julia Filsell-Chapman join forces and ask 'Just because you can, should you?'

26-29 HOT TOPICS
A whistle-stop round-up of the biggest issues in insurance and financial services in London

30 EMERGING ISSUES
Insurance at the crossroads – Roger Sanders considers the way ahead

31 IIL PROGRAMME PREVIEW

WELCOME

TECHNOLOGY FOR GOOD

It is my pleasure to warmly welcome you to the 2017 edition of The London Journal.

My theme for my year as President of the Insurance Institute of London is 'technology'. Before adopting that theme, I asked colleagues "How long before you think the traditional insurance process will look completely different?" There was general agreement that it would be 'sooner rather than later'. People seemed to think things would be very different in five years, but with many feeling it could be much sooner.

So, collectively we know the disruption is coming, but how do we prepare? How do we plug in? How do we get ourselves up to speed? How do we make sure that, as a sector, we use the technological change and the vast amount of data it can provide, to not only make sure we stay relevant but to ensure that our business is ready to compete and meet the needs of a new customer who wants simple, flexible coverage, and use technology and data as a tool for social good too?

As a result, when considering the selection of topics for this edition of the London Journal, I invited the Chairs of all our market committees to think about what technology means in the context of their sector of the business. I hope you find the articles as enlightening and reassuring as I do.

Finally, my sincere thanks to everyone who has contributed to this edition and supported me during my year in office. ●

The Insurance Institute of
London

Insurance Institute of London,
The Insurance Hall,
20 Aldermanbury,
London, EC2V 7HY

020 7600 1343
www.iilondon.co.uk

OFFICERS:
President: Russell Higginbotham, FCII
Deputy President:
Roger Sanders, OBE, Cert PFS
Treasurer: Dominic Mignon, FCCA
Immediate Past President:
Dominic Christian
Institute Secretary: Allison Potts
Editor: Roger Jordan

The *London Journal* is the official magazine of the Insurance Institute of London. Views expressed by contributors are not necessarily those of the IIL or the editorial team. The IIL will accept no responsibility for any loss occasioned to any person acting or refraining from action as a result of the material included in this publication. The *London Journal* is online at **www.iilondon.co.uk/publications**

ISSN 2045-1636 | © Insurance Institute of London

redactive

Design: Redactive Media Group
17 Britton Street, London, EC1M 5TP

020 7880 6200
www.redactive.co.uk

Russell Higginbotham

RUSSELL HIGGINBOTHAM, FCII
IIL President
Head of Life and Health Products, Swiss Re

TECHNOLOGY AND DATA: FOCUS ON THE GOOD WE CAN DO

Technology. The press is covering it, everyone is talking about it and we, as a profession, are spending time and money investing in it. For all of these reasons and more, the subject was an easy choice to theme my year as IIL President.

Some point to the dotcom era and argue that much of this is just another hype-fuelled failure in waiting, while others are far more positive about the potential of technology to transform our business. I'm in the second camp.

I believe the potential isn't simply tied to the possibilities of more efficient ways to do old processes – the real potential lies in the increased power we have to help society. Advances in technology and data bring new opportunity for insurers to 'do good' – this is where we need to keep our focus if we are going to thrive.

We live in an age of instant gratification – wifi when we want it, a ride where we need it, the perfect song when we feel like it. Even so, let's face it – insurance still isn't at the top of everyone's 'must buy' list. This is particularly true in life and health. Advances in technology and data alone won't persuade people to change their fundamental view, or disregard, of their need for insurance. Yes, we can make it easy to buy and faster to transact – and these things will make a positive difference for those who fall out of the pipeline once they've decided to buy. But there's more we can and should do.

LOWER PREMIUMS CANNOT BE THE END GAME

In the life and health space, there's a lot of current focus on lower-hanging fruit such as wearable devices that help the fit get fitter and the healthy get healthier. There's nothing wrong with rewarding healthy people with lower premiums, but how useful is this in our quest to get more people to buy insurance? Using technology to make cover cheaper can't be the end game. I'm hopeful that the next stage of development will focus on how we can expand the pool and how we can extend our blanket of protection and increase the number of people we secure with valuable and appropriate cover.

MORE INFORMATION = MORE ACCESS TO INSURANCE

A great example is tackling an underwriting challenge such as diabetes. We are already exploring how to use wearable sensors and other technology to help people better manage their diabetes, improve their condition and enjoy a healthier lifestyle – all of which leads to a more open and lower-cost insurance cover. Even better, it could help us accept more diabetics into the risk pool. For me, that's good news and a great example of how we can use new technology and data to do good.

The same is happening in the motor business with telematics and, ultimately, the autonomous vehicle. Some bemoan these trends as the risks reduce and the premium pool shrinks. However, I see it as just the opposite – more people will be able to afford cover and we will have fewer uninsured vehicles with fewer accidents and deaths.

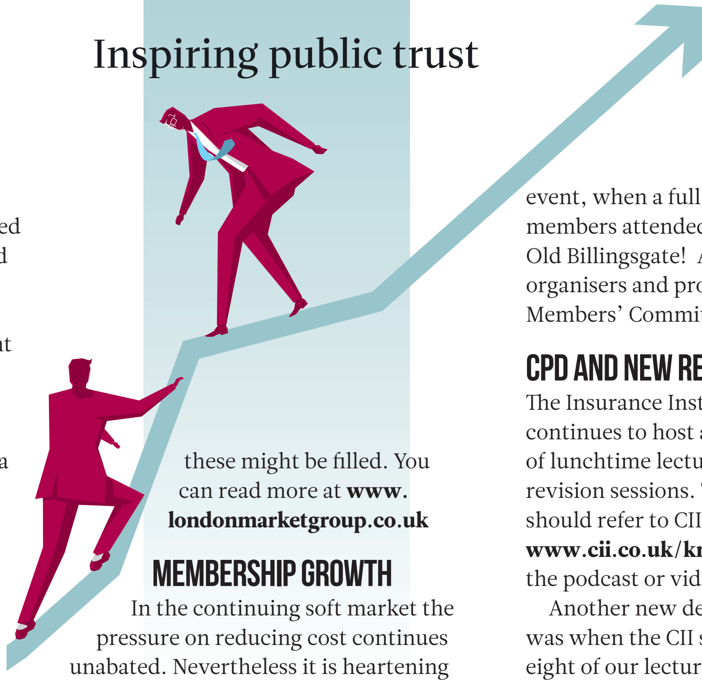
This focus on 'doing good' must be the mantra for the wider insurance sector. Without it, issues of data access and privacy concerns will have us mired in regulatory issues, consumer rejection and complaints.

Let us embrace the 'doing good' aspects of technology that allow us to make insurance easier to buy, faster to transact and, most importantly, able to meet the needs of many more customers. ●

ABRIDGED ANNUAL REPORT

WHAT'S NEW AT THE INSTITUTE?

Inspiring public trust



The Chartered Insurance Institute's Royal Charter, drafted more than a century ago, stated that inspiring public trust in insurance was the CII's central purpose. Since her appointment as Chief Executive of the CII, London Council member and Vice President Sian Fisher has devoted herself to discovering through consultation with a broad range of stakeholders, including the London Institute, what that Royal Charter directive means today and how we can best organise ourselves to achieve that objective. The Insurance Institute of London is delighted to work with the CII to provide insightful leadership, relevant learning and an engaged membership. Find out more at **www.cii.co.uk/media/7303038/your_cii_strategic_manifesto.pdf**

SUPPORTING THE LONDON MARKET GROUP IN MARKET MODERNISATION

In 2014 the London insurance market came together under the collective banner of the London Market Group (LMG) to examine its future prospects and what needed to be done so that the London market retains and enhances its worldwide reputation as a centre of insurance excellence. The result was the London Matters report, which made sobering reading as it highlighted major change was required. One important factor identified in that report was the need to attract a talented and diverse workforce. From the start, the London Institute has been working with the LMG's Talent and Diversity group to help identify the skills gaps and how these might be filled. You can read more at **www.londonmarketgroup.co.uk**

MEMBERSHIP GROWTH

In the continuing soft market the pressure on reducing cost continues unabated. Nevertheless it is heartening to find firms and individuals investing in professionalism and taking up Chartered status and qualifications. Once again the Insurance Institute of London's membership has reached a new record figure of 24,232, representing 4% growth; 4,893 are also members of the Personal Finance Society.

Currently 52% of London's members are under the age of 40. London's Qualification Mentoring pilot scheme encourages as many members as possible to achieve the Advanced Diploma (ACII) and is now in its second year with 60 mentees taking part. This is one of the IIL's contributions to maintaining and enhancing the London market's reputation as a centre of excellence. Congratulations to Charlie Heathcote, ACII, the first person to graduate from the scheme. Charlie has rejoined as one of our Buddy Mentors.

But it's not all work. This year also saw the greatest ever attendance at any IIL event, when a full capacity 936 young members attended our Winter Ball at Old Billingsgate! A big 'well done' to the organisers and promoters, the Young Members' Committee.

CPD AND NEW RESEARCH STUDIES

The Insurance Institute of London continues to host a vibrant programme of lunchtime lectures, seminars and revision sessions. Those that missed out should refer to CII Knowledge Services at **www.cii.co.uk/knowledge** and look for the podcast or video.

Another new development this year was when the CII suggested that it film eight of our lectures so that these could be shared with the rest of the CII group in an even more user-friendly format. Also new this year was a series of full-day revision lectures for AF3 (Pension Planning Process), AF5 (Financial Planning Process) and Final Salary Pension Transfers.

We have also inaugurated a new research study looking at war risks and political violence insurance. This study has attracted high-level contributing authors, including the CEO of Pool Re. We thank everyone who has volunteered for this study.

We also hope to bring news soon of other new studies – on cyber insurance and on airside liability. If you are an expert in either of those subjects, please contact me at **allison.potts@cii.co.uk** ●

ALLISON POTTS
Institute Secretary

WE'RE NOT THERE YET

… and the hard bit is still to come

In 2017, with women leading the UK, Lloyd's of London and the CII, it seems unlikely that the London insurance market should be discussing gender equality in the workplace. Yet here we still are.

Denise Wilson has been having this conversation since 2010 when, recognising that there was an entire gender missing from British boardrooms, the UK government commissioned the Davies Review to examine the underrepresentation of women serving on FTSE boards.

The review, of which Wilson was CEO, came to a close in 2015, having successfully reached its target of increasing the number of women on FTSE boards to 25%. This success is echoed in the insurance sector where women make up almost one-quarter of board members.[1]

The women appointed come from varied and diverse backgrounds with some key elements in common – their relevant experience, their ability and business acumen, and, says Wilson, '… the likelihood that without the Review, they would still be waiting for their place at the top table.'

Wilson is now a member of the steering group for the Hampton Alexander Review, the successor to the Davies Review, which is acting on the recommendations of its predecessor, increasing targets and widening the scope to promote opportunities for the layer of women below board level. She is also a non-executive director of Ecclesiastical Insurance Group, chairs the Royal Academy of Arts Friends Board and was the first female director of the UK's gas transporter Transco. Wilson is very familiar with being the only woman in a male dominated boardroom and industry.

"Yes, the Davies Review was successful, but we're not there yet," she says, "and one might argue that we have the hard bit still to come."

"There was a lot of low-hanging fruit, and there are a number of companies who think that now they've got one woman on the board they can tick the box and move on. Clearly that's not the point."

So what next? "We must continue to raise the bar", says Wilson. "We've set the target of female appointments at 33% from 25% for FTSE 350 boards, and we've moved down a layer to include the executive committee and their direct reports."

"Success has sold the cause," she comments. "It's not just the right thing to do – there's a strong business case and we've proved it works."

In fact, McKinsey & Co's 2015 report *Diversity Matters* shows that companies in the top quartile for gender diversity are 15% more likely to have financial returns above national industry averages – compelling figures that a number of firms in our sector are acting on. Lloyd's of London, Legal & General and Nationwide, among others, have implemented programmes intended to develop the female talent pipeline and promote and recruit more females into senior roles.[2]

But inevitably, it's not all plain sailing. A PWC survey showed that 73% of female millennials working in financial services believe that while their organisations talk about diversity, opportunities are not equal for all.[3]

"Confidence is a huge issue," says Wilson. "Not the confidence women have in themselves, but their lack of confidence in the culture of corporate environments, particularly in financial services, where social activities like golf and drinking are still embedded in perceptions of success."

"There's no lack of female talent within the insurance or finance industry and much more can, and should, be done to develop female talent for successor planning and the executive pipeline outside the old boys' club traditions."

"It's essential to have men with and behind us on this – we need them to champion this cause to make the workplace somewhere where both men and women can thrive."●

[1] *Incisive Media Insurance Census 2017.*
[2] *Virgin Money Empowering Productivity Report in association with HM Treasury March 2016.*
[3] *398 millennials working in banking and capital markets, 115 in insurance and 83 in asset management interviewed for PWC's female millennial survey 2015.*

LYNSEY CROSS
Chief Operating Officer, Amtrust
Chair, IIL Diversity and Inclusion Committee

CUTTING THROUGH THE HYPE

What are the potential impacts for the (re)insurance industry?

Generally, the phrase 'InsurTech' is used to cover too many concepts and disparate technologies to usefully guide a discussion. Compound that with negative connotations associated with it being described as disruptive and it is no wonder that confusion exists as to what it really means for insurance.

Technological advancement will change all industries over time. Insurance is founded upon data, information, analysis and process, rendering it certain to be impacted by technological innovation. Technology will transform the insurance business in the coming decade, from the Internet of Things (IoT) to artificial intelligence and blockchain ,to name just three segments of 'InsurTech'. Availability of information about insured assets will give rise to a new spate of risk management techniques, underwriting tools and increasingly rapid innovation of products and services.

NARROWING THE CONVERSATION TO BLOCKCHAIN

A blockchain is a decentralised ledger of all transactions in a network. Blockchain, which first emerged as the system underpinning the cryptocurrency Bitcoin, provides a shared record of transactions that is maintained by a network of computers, rather than a centralised authority. And so, blockchain can provide an immutable record of the transaction and a mechanism (consensus) for all parties to agree on the details of the transaction. The blockchain system becomes the method of secure and auditable transactions between parties, of data and approvals for example. This provides confidence (a warranty) of what happened when in the form of a single identical shared ledger and also may introduce significant processing efficiency.

The potential impacts for processing and efficiency improvements seem obvious. A 'block' is merely a digital representation of an object or action. The 'chain' is the linking together in an untamperable structure of updates to the status of the block. A block could be anything from a claim to a payment of that claim to the automated application of a policy condition or even a digital description of physical and risk characteristics of a house, car or boat. This potential for a 'block' to represent many elements and actions in the insurance supply chain means the application of blockchain could impact many areas of our business.

Where are the potential key benefits, areas of impact and over what timescale?

Potential benefits range from increased processing efficiency, cost reductions, data and contract certainty, auditability, and increased rapidity of data flows. Risk-financing value chains could be fundamentally reinvented. On the processing side alone, some commentators have identified billions of dollars of cost in the (re)insurance sector that could be eliminated.

The largest short-term potential utility will be in the revamping of existing outdated, often manual, processes within and between businesses. Blockchain will begin to play a role in areas such as claims management and transactions closing within the next two to five years. Transformation in these areas will reduce costs for existing business but might also lower the barrier for new industry entrants, from an overhead perspective. Adoption areas that require 'peer-to-peer' agreement, such as digital or 'smart' contracts as opposed to those that might be actionable within an organisation, such as an internal underwriting process, will likely be developed and adopted on a longer timescale.

WHAT ARE THE KEY DEPENDENCIES AND BARRIERS TO BLOCKCHAIN ADOPTION?

To realise the most obvious, nearer-term benefits, blockchain will need to operate at an industry-wide level and thus require collaboratively designed and adopted industry-wide, strategically designed standards, protocols and functionality. Without these in place, there is a risk that a number of non-compatible and competing blockchain solutions could evolve organically in the marketplace, reminiscent of the VHS/Betamax battle (or HD DVD versus Blu-ray for our younger readers).

An impediment to its wide-scale adoption is that blockchain itself requires a number of 'off-chain' technologies to be in place before it can be fully utilised. For example, it does not lend itself to the storage of documents, but it could link to or utilise other electronic document interface standards used in other industries. Another possible impediment to adoption is that it is yet to be proven at scale in the complex insurance ecosystem in which we currently operate. With the initial focus most likely to be on processes operating at an industry level, adoption speed will be driven by the desire of the business to embrace and facilitate change. Unwarranted inertia may be the thing that most enables potential disruptors to enter the market.

A key inhibitor may be governance. Insurance is a highly-regulated profession. It has been suggested that regulators need to create a regulatory network using their own blockchain, which would allow them to have a node in every jurisdiction in which they can monitor systemic risk in real time. Shaping this regulatory environment is a key challenge to unlocking the potential value of blockchain.

> THERE HAS BEEN MUCH DISCUSSION IN OUR SECTOR ABOUT 'INSURTECH' OF LATE. BUT WHAT IS IT EXACTLY? AND HOW WILL IT CHANGE OUR MARKETPLACE?

INITIATIVES

Recognising the importance of sector-wide shared development, two recently-created large-scale initiatives are focusing on the evaluation of blockchain and whether the technology can help make the insurance industry more efficient. The Europe-based B3i project (short for the Blockchain Insurance Industry Initiative) was launched in October 2016 and includes many of Europe's largest insurance groups. More recently, the US-based 'The Institutes' industry body has started a similar initiative as part of the Enterprise Ethereum Alliance. Both efforts aim to provide a way for insurers to explore use cases and potential benefits across the entire insurance value chain.

BLOCKCHAIN AND THE LONDON MARKET TARGET OPERATING MODEL (LM TOM)

As the name suggests, the London Market Target Operating Model is focused on the operations of the market rather than the products and services that market firms sell. That said, blockchain (and other new technologies) are likely to have a transformational impact on the sector as a whole and for the LM TOM, it is seen as having a contributory role to play in rethinking common services in which transactions move and are reconciled between parties.

As such, it is a particular focus for the TOM Innovation Exchange, which is actively looking at where blockchain could play a part in the market's future infrastructure.

CONCLUSION

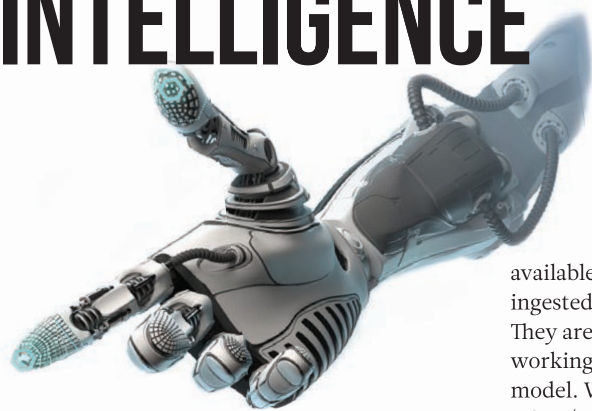
No single technology is the answer to all issues, and it is certainly not the case with blockchain. There is often much hype with new technology and blockchain is no exception.

This hype is increased by the perception that it is hard to get one's head around, it leaves one feeling nervous that other people have 'got it', and I haven't, therefore I need to do something. Thankfully, in the case of blockchain there is time. Many experts are experimenting and working out exactly where and how it could play a role. What is clear is that the sector is going through a quiet transformation before our eyes, and blockchain is playing its part. However, change may not necessarily bring about disruption for the insurance business, it may just mean change. And change should be seen as a good thing for our sector as it strives to modernise and control costs. ●

JUSTIN EMRICH
Chief Information Officer, Atrium

IAN BRANAGAN
Director, Group Chief Risk Officer, Renaissance Re

ARTIFICIAL INTELLIGENCE



What's new in artificial intelligence and what is its impact on claims handlers?

There are numerous articles dealing with the artificially intelligent (AI) robots that are coming to get us. Our jobs will be automated and, rendered superfluous, we will receive Universal Basic Income and while away our lives watching TV recommended especially for us by a robot. These facts are proved by pictures of robot arms doing innately human things – typing on a keyboard, using an ATM – against a backdrop of cascading zeros and ones. But at least the hype and scaremongering gets us talking and thinking about what AI actually might mean for us.

Defined as 'the simulation of any intellectual task', the sexy sub-fields are those we hear most about – moving objects (driverless cars); knowledge representation (computers winning at Go and Jeopardy); natural language processing (Siri, Alexa); and perception (face recognition software). But the sub-field most likely to impact claims handling is machine learning, with its principles of 'predict, error, train'.

To borrow (and simplify) an example from the excellent Machine Learning Guide podcast by OCDevel, imagine you wish to predict house prices in a particular area. There is a mine of data on which to draw (all houses previously sold) and a range of weighted factors influencing price – location, size, number of bedrooms and proximity to schools. The machine uses that data to predict price based on the variables (predict); once the house is sold, it compares the actual price with its prediction (error); and uses that additional data to better predict the next house's price (train). And so it goes on. The more weighted variables and the more houses sold, the more accurate this becomes.

How to apply this to claims handling? Lawyers will say subjectivity is needed. That understanding born of a thousand claims enables them to spot nuance and steer through tricky situations. Data analysts will reply that empirical data from a million claims reduces the probability of error to near zero.

There is some precedent. In January 2017, Fukoku Life Insurance Mutual Company announced that IBM's Watson would replace agents categorising injuries and assessing claimant eligibility; Colossus in the United States evaluates personal injury claims, treatment and general damages settlements; and Premonition mines court details and litigation data to identify the best litigation lawyer depending on the court and judge.

What do these have in common? Data. Notably, they all use large, publicly available data sets, so the huge volumes ingested result in greater accuracy. They are legal analytics tools essentially working on the predict, error, train model. We can't just swap a person for a robot (even one that can use an ATM); we have to prepare the ground by amassing structured data on the relevant variables.

WHAT TO DO NEXT?

Don't panic. But don't put your head in the sand. The insurance industry wants accuracy and cost-effectiveness and its global players are big enough to have the huge data sets required. Machine learning is coming your way, so embrace it.

While historic data may be patchy and incomplete, insurers are honing the MI they require of their professional advisers; the building of big data sets is underway. Identify the relevant variables, monitor the data, look for trends. Predict, error, train – isn't that how human claims handlers should operate anyway?

And as for our jobs? Well, machines do tasks, not jobs. Messy bits of human randomness will always impact house prices and insurance claims. Until we can predict the weighting of 'London money' gazumping the Bristol market or claimants instructing awkward solicitors, we should be safe from the Universal Basic Income. People still like to be advised by people. And if a robot can't work out contactless payment, there's hope for us yet. ●

AUSTIN MILNE
Head of Legal Service
Design RPC

MAKING THE LONDON MARKET MORE COMPETITIVE

The *London Matters* report of 2014 gave us a detailed picture of our market and the challenges we face: increased competition, markets with lower transactional costs and lighter-touch regulation, emerging economies without strong cultural or business ties to London and the need to find the next generation of market professionals.

In September 2016, we launched the LMG Manifesto to encapsulate our comprehensive, business-led response to those challenges. It outlines four interdependent work streams:

- *Building a diverse, dynamic workforce*, which offers a deep talent pool for the market to draw on;
- *Telling the London Market story* to provide our buyers with a clear case for coming here to purchase our product and services;
- *Creating a better business environment*, so that the London Market can respond to new client demands and existing and emerging risks;
- *Making London an easier, more cost-effective place in which to do business* by implementing market level change.

Each element of the plan is mutually dependent on the others and there is real momentum in all of them.

This modernisation agenda has made great progress, particularly with the successful launch of the market's electronic placing platform, PPL, in July 2016. Brokers and underwriters are actively using the platform for terrorism, financial and professional lines and marine risks – with other classes of business being rolled out through the rest of 2017 and early 2018. However, while being a more cost-effective place in which to do business is crucial, it will be entirely academic if London cannot speak with a single voice and take definitive action on several other critical issues.

Our response to the UK's decision to leave the EU is another example. In March 2017, LMG published its Brexit Roadmap, which outlines its recommendations to the UK Government in the trade negotiations. The report highlights three key areas:

- The need for a guarantee of regulatory equivalence with the EU;
- A new trade deal that gives both UK and EU insurers, reinsurers and brokers continued rights to undertake cross-border activity;
- The early agreement on an implementation period to avoid a cliff edge on the day the UK leaves the EU.

Brexit is also an opportunity to grow our market – a Brenaissance! With 80% of the market's business coming from outside the future EU, new trade deals with existing partners and those countries where there is significant underinsurance are vital.

As part of its trade negotiations, the government must continue to work to remove barriers that currently restrict London-based insurers and reinsurers from operating in some markets.

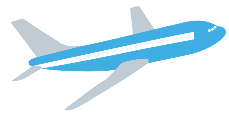
Following LMG engagement, the UK Government published draft regulations for insurance-linked securities (ILS), which is a positive step forward in facilitating the entry of the UK into the dynamic ILS market. The government is giving very positive support to the London market's growth agenda and we are confident that ILS business will be conducted onshore in the UK in 2017.

We also have a chance to reinvigorate the regulatory regime. In many other centres, the regulators actively promote local insurance markets and do it very well. So there is an opportunity for the UK regulators to review the overall impact of regulation to ensure that it is not damaging the London insurance market, and to play a role in its growth.

This new world is challenging, but it also offers opportunities to make some very positive changes that will allow our unique marketplace to grow and thrive and we need to seize the moment. ●

NICOLAS AUBERT
Chair, London Market Group
Chief Executive Officer, Willis Towers Watson GB

BREXIT AND ITS IMPACT ON THE CITY OF LONDON



According to Nigel Farage, 23 June 2016 was freedom day, yet the overwhelming feeling among City institutions was shock. Many had wished for continued integration of financial services with open borders – and there were strong economic arguments in favour of this. When David Dimbleby announced on the BBC that the UK had voted to leave, I and many others were left wondering how this would affect London, and in particular the London insurance market.

The immediate responses to the vote were calls to retain everything we currently had. This included free movement of capital, open access to EU markets and, of course, free movement of people so that London could still attract the best talent. This was probably not fully thought through, but does reflect how people react when the unexpected happens. At heart businesses tend to be conservative with a small 'c' and they often resist change, particularly dramatic overnight change.

It was eight months later – 29 March 2017 – that Theresa May triggered Article 50, setting the two-year clock ticking. Some like Mr Farage would say, why delay? One very good reason is that it has given people time to think, to reflect on the implications and develop a much more thought-through position. It certainly gave the London Market Group (LMG) time to speak to all its stakeholders and decide what was required to maintain the pre-eminence of London's position.

The result is the LMG Brexit Roadmap, copies of which are available on the website **www.londonmarketgroup.co.uk/**

This highlights three main issues:

- The need for a guarantee that the London insurance market will be considered to have regulatory equivalence with the EU;
- A new trade deal with the EU, which gives both UK and EU insurers, reinsurers and brokers continued rights to undertake cross border activity;
- The early agreement on an implementation period to avoid a cliff edge on the day that the UK leaves the EU.

The roadmap also seeks continued access to talent. Of the 48,000 people working in the London insurance market, it is estimated that around 5% come from the EU. This is not such a large number that it cannot be incorporated into any targets or limits the government may set, yet vitally important to ensure that London can continue to retain and attract EU talent.

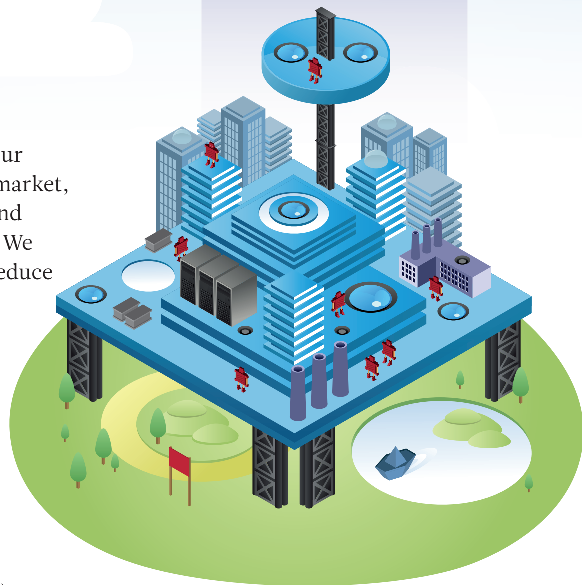
There is definitely an alignment of interest between the London market and the government. None of us want business to move to competing markets and there is active dialogue between the LMG and the government on the main issues. We will continue to work closely together throughout the negotiations to obtain the best outcome available for all the market participants.

However, it is not all bad news. Change also brings opportunity. Many government departments are working with LMG to identify areas in which we can work together to bring new business to London. It is clear we will need to develop a trade agreement for services business with the EU. There is no existing template to follow but there is an opportunity to develop one that can be used by the UK when talking to markets such as China, Brazil and India. These are countries where there is significant underinsurance, markets that London needs to grow its market share if we want to remain the global hub for (re)insurance.

A future in a post-Brexit world does not need to be based on the shock we felt last June, but one based on opportunity on a global scale. Perhaps June 23 2016 will turn out to be freedom day after all. ●

MALCOLM NEWMAN
Managing Director – EMEA Hub, SCOR, Chair, International Underwriters Association of London

PPL
THE STORY SO FAR



If we are to maintain and grow our share of the world's insurance market, we must move with the times and modernise the way we operate. We need to deliver simplicity and reduce cost so that our participants can concentrate on using their expertise to deliver the value proposition that makes London so compelling.

As part of the drive to make the London market an easier place in which to do business, Placing Platform Limited (PPL) was set up by the London market associations (IUA, LIIBA and LMA) to create a single market solution for central electronic placing. It is a priority initiative within the London Market Target Operating Model (LMTOM) – a comprehensive programme of projects designed to enable the London market to grow by being highly accessible, efficiently run and relevant to the needs of our customers.

This is an excellent example of London market participants coming together in a centralised effort to achieve efficiency and consistency, while avoiding duplication. This is probably the first time that the market has collaborated on this scale to deliver a key initiative and in such numbers. The platform enables brokers and insurers to quote, negotiate, bind and endorse business digitally. Risks can be negotiated and placed both face to face and electronically, removing paper from the process and creating a digital information flow and audit trail.

Since going live in July 2016, we have pursued a controlled product roll-out programme starting with stand-alone terrorism placements and followed by financial and professional lines and marine. We are delighted by the adoption momentum in the first eight months. Since going live more than 3,000 risks have been bound, 4,747 endorsements made, and 77 carriers including five MGAs and 19 brokers are signed up to the platform. The product roll-out will continue throughout 2017 and the first half of 2018, with property, casualty, reinsurance and aviation coming on line as soon as the market is ready.

As each company – whether that is a broker or an underwriter – increases their connection to the platform, so their amount of internal support and collaboration grows and that helps to rapidly progress adoption. Following every class roll-out we conduct a 'lessons learnt' session, which helps improve the process for the next.

This positive trend is evidence that the benefits of faster underwriting, more accurate document production, clear audit trails and ease of reporting are being recognised. And, most importantly, it is helping us deliver a better and more coordinated service to our clients.

Market feedback is the main driver for any changes to the platform and we want the market to shape the future of PPL, as well as help integrate it into other initiatives within the LMTOM, such as the structured data capture initiative, which will help deliver an earlier realisation of benefits through reduced re-keying. We are working closely with the platform's users to identify areas for improvement and we are introducing further system enhancements to provide the additional requested functionality.

The platform has made a good start and continues to gain momentum as it demonstrably improves accessibility, empowers people and resolves process efficiencies. I firmly believe it will help London to maintain its global leadership position as the market of choice for speciality insurance and reinsurance business, and would urge all market participants who have not already engaged to do so as soon as possible to really learn what it can do to help their business. ●

DAVID LEDGER
Chair, Placing Platform Limited
Chair, Aon Benfield UK &
Chief Operating Officer,
Aon UK Limited

SWITCHING FROM PAPER TO ELECTRONIC BILLS OF LADING – HAS THIS LED TO AN INCREASE OF DOCUMENTARY FRAUD?

ANDREW MACKENZIE, ACII
Claims Advocate, Marine Claims, Marsh Associate member of the Association of Average Adjusters

For both the maritime and marine insurance industries, the bill of lading (BOL) is used in legitimate business operations to evidence receipt – the contract of carriage and title. Fraud erodes this system, however. To combat the threat of documentary fraud (DF), the introduction of the electronic bill of lading (eBOL) has been hailed as a means of minimising traditional, paper-based frauds. Despite these efforts, there is uncertainty regarding possible new risk exposures. My aim is to offer guidance from an insurance perspective, reviewing the effect of eBOLs and if these might lead to an increase in fraud.

PROBLEMS OF PAPER BILLS

When understanding the function of title to goods, manipulating maritime trade provides the potential fraudster with the means to acquire cargoes and monies unscrupulously. Developments in publishing and reprographics have eased fraudsters' abilities to copy, manipulate and forge paper trading documents to fool the unwary. Considering their vulnerability, is there still a place within shipping for a paper mechanism fraught with risk?

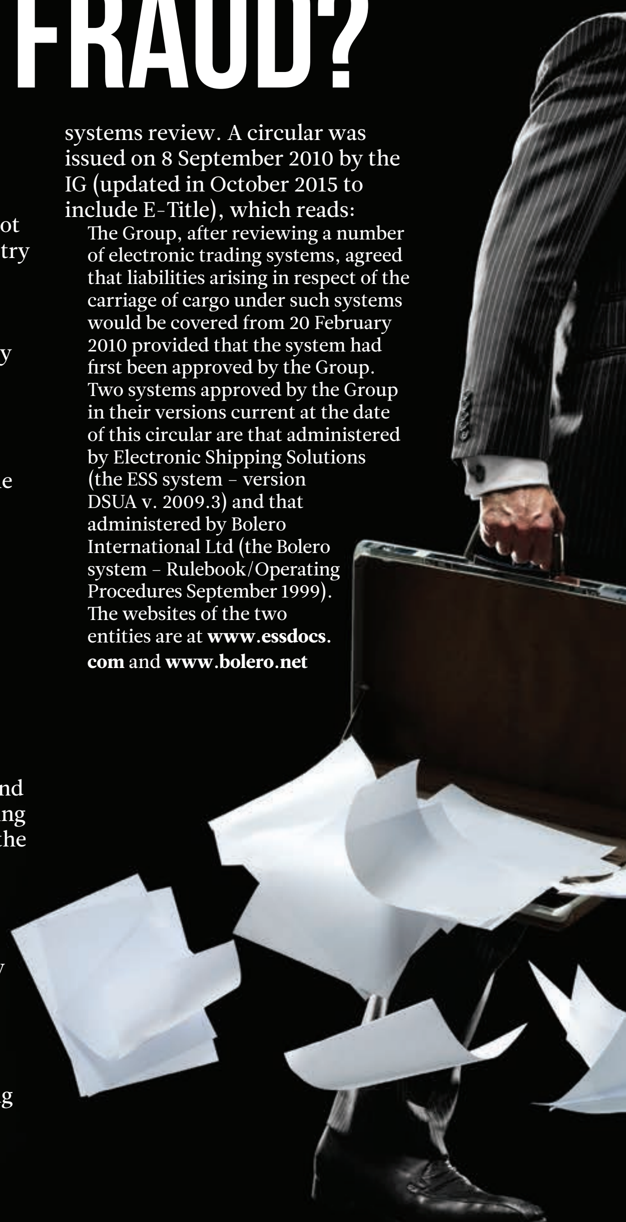
EMERGENCE OF EBOLS AND ACCEPTANCE BY INSURERS

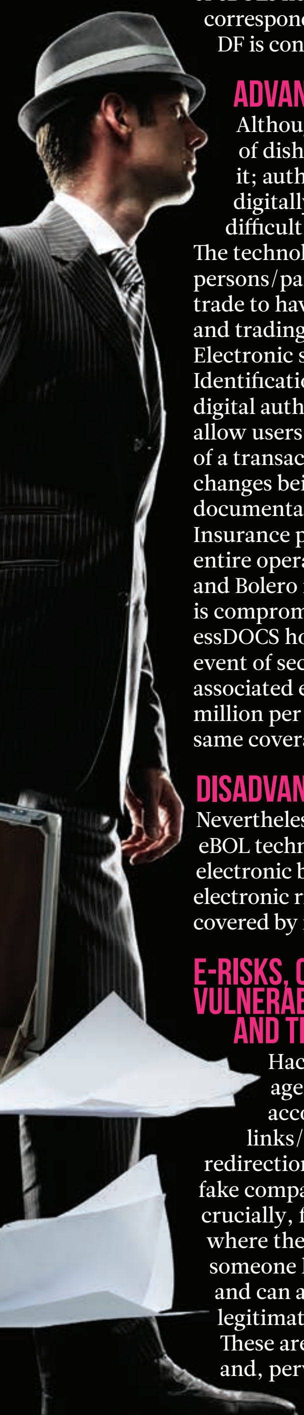
Recognising the benefits of information technology, it did not take long for the maritime industry to follow suit. eBOL services are now offered by three separate enterprises:

- Bolero sends bills electronically on behalf of the carrier to prospective consignees via the internet, following authentication by a digital signature, and submitted to the Bolero Title Registry.
- essDOCS allows for eBOLs to be drafted directly onto the CargoDocs system.
- E-title is a peer-to-peer system and utilises the user's back office functions to create electronic titles through a hardware security module (HSM).

Debate has reigned among insurers, especially protection and indemnity (P&I) clubs, concerning their acceptance, with security the main concern. Before February 2010, the International Group of P&I Clubs (IG) relied upon the Paperless Trading Endorsement, which specifically excluded liabilities arising out of the carriage of cargoes under electronic trading systems, in which such liabilities would not have arisen under a paper trading system. However, the position was reversed following an eBOL systems review. A circular was issued on 8 September 2010 by the IG (updated in October 2015 to include E-Title), which reads:

> The Group, after reviewing a number of electronic trading systems, agreed that liabilities arising in respect of the carriage of cargo under such systems would be covered from 20 February 2010 provided that the system had first been approved by the Group. Two systems approved by the Group in their versions current at the date of this circular are that administered by Electronic Shipping Solutions (the ESS system – version DSUA v. 2009.3) and that administered by Bolero International Ltd (the Bolero system – Rulebook/Operating Procedures September 1999). The websites of the two entities are at **www.essdocs.com** and **www.bolero.net**





ASSESSING THE MERITS OF EBOLS

There are concerns for insurers, however, regarding the security features of electronic bills. The advantages and disadvantages of eBOLs helps determine the corresponding effects where DF is concerned.

ADVANTAGES

Although there is no preventing of dishonesty, eBOLs combat it; authenticating signatories digitally and making it more difficult to amend once issued. The technology allows only those persons/parties authorised to the trade to have access to the system and trading documentation therein. Electronic signatures and Personal Identification Numbers (PINs) ensure digital authorisation. Audit trials allow users to review the progress of a transaction and oversee the changes being made to the trading documentation, when and by whom. Insurance protection safeguards the entire operation for both essDOCS and Bolero in the event that security is compromised. For instance, essDOCS holds liability cover in the event of security breaches and other associated eRisks for up to USD20 million per eBOL. Bolero has the same coverage.

DISADVANTAGES

Nevertheless, despite these advances, eBOL technology is not impenetrable; electronic bills have created new electronic risks, not traditionally covered by marine insurance.

E-RISKS, CYBER CRIME AND VULNERABILITY OF PROCESSES AND TECHNOLOGY

Hackers can target shippers'/agents'/carriers' email accounts, produce modified links/email addresses, email redirection, doctored attachments, fake company websites and, crucially, fake eBOLs. Furthermore, where there is internal collusion, someone has access to the system and can actually generate bills, legitimately, within the system. These are accepted by the system and, perversely, gain credibility, because they are electronic. Moreover, there are additional technological exposures.

VULNERABILITY OF PEOPLE

Naturally, a technological system is only as reliable as the people that maintain it. The risk is elevated still further when those people are too reliant on apparently fool-proof technology. Indeed, banks today have centres outsourced worldwide, in which processing staff read the screen but never handle the original trading document, whether paper or electronic. Being a processing department, fraud is of the least concern; they are engaged as payment agents, not investigators.

CHALLENGES OF INTERNATIONAL LAW AND INDUSTRY ENDORSEMENT

International trade is very widely spread, with certain countries that are comfortable with eBOLs and others that are not. Where there is acceptance of eBOLS, attitudes are varied and not necessarily universal in all international markets, particularly in those that are slower to implement technology. These complications could reveal themselves in the event of trading disputes and litigation.

CONCLUSION

On the face of it, the eBOL is a better secured method when compared with the paper equivalent. Use of encryption, digital signatures and audit trails prove useful in thwarting fraudulent actions. Despite these advances, however, no solution can claim 100% security. My several recommendations may assist practitioners in identifying eBOL exposures and help complement existing risk management strategies.

RECOMMENDATIONS

TRAINING

Staff should be trained better in international trade. Victims of fraud often lack information governing the commodity, route, method of trade and ability to identify inconsistencies and irregularities in the documentation used and the parties involved.

CYBER AWARENESS AND RISK TRANSFER

Practitioners must be cyber-aware when it comes to their businesses and

- confirm where all address commissions and brokerage commissions are destined;
- check the registered details of the parties involved;
- confirm the banking details direct with receiving bank and the parties involved;
- undertake background research on the parties involved and their past dealings.

DUE DILIGENCE

Shippers/carriers, banks and insurers should ensure that constant vigilance is maintained and discourage passive acceptance when handling eBOLs. Fraudsters need only the inattentiveness of staff members to masquerade falsified/forged documentation as the genuine article.

ELECTRONIC BILLS OF LADING CLAUSES

For P&I clubs and their members/insureds, clauses can be drafted under a charterparty agreement, authorising said member to utilise eBOLs freely and without prejudice to their operations. Hold-harmless agreements can also be agreed in respect of liabilities resulting from their usage.

POTENTIAL EFFECTS OF THE UNITED NATIONS CONVENTION ON CONTRACTS FOR THE INTERNATIONAL CARRIAGE OF GOODS WHOLLY OR PARTLY BY SEA (THE 'ROTTERDAM RULES')

Finally, under the Rotterdam Rules, there is the potential for 'functional equivalence' of eBOLs as an alternative to paper BOLs. Under Article 8(a), eBOLs are considered legally equivalent to paper BOLs and would confirm their function as a document of title. This would resolve any lingering doubts concerning their legal enforcement. At the time of writing, only three out of 20 countries have ratified the Convention. Although unlikely that it will come into force in the near future, the Convention would certainly ease legal difficulties and the DF threat. ●

SPACE TOURISM: A NEW EXPOSURE

The planned flight to the moon and back scheduled for 2018 will be the first manned space mission to the moon for some forty-five years. The payload will include two space tourists, who will be the first private individuals to orbit the moon. They will be on board the Dragon 2 spacecraft to be launched on SpaceX's Falcon rocket.

Space tourism has been around for a while, but the concept is one thing and practice quite another. Virgin Galactic came about in October 2004 when SpaceShipOne delivered the weight of three people to space and back via a privately-funded vehicle. Since then, people from more than fifty nations have signed up with Virgin Galactic, paying US$250,000 to fly into space on SpaceShipTwo (SS2). Despite the long lead-in time, the first commercial passenger flight is still pending – it suffered a setback when SS2 was lost during an October 2014 test flight. Virgin Galactic is hopeful of its first manned flight this year.

Virgin Galactic is not unique in hitting bumps in the road towards private space flight. XCOR, founded in 2008, expected to fly one passenger accompanied by one flight crew in the Lynx Mark 1. A conventional take-off and landing aircraft was to propel the craft 60–100km into space but the project is on hold for now.

Another of the high-profile space tourism companies is Blue Origin, which will use a conventional vertical take-off rocket. The capsule, seating six astronauts, separates from the launch vehicle to coast quietly into space before dropping back down to Earth using parachutes. The first test flight was in April 2015, the first successful vertical landing was in November 2015 and the latest test flight in September 2016 tested the capsule's emergency escape from the booster. Following a further test, the target for the first paying customers is 2018.

Last, and by no means least, founded in 1998, Space Adventures is the first private space flight company, sending its clients via the Russian Soyuz spacecraft to the International Space Station on eight occasions so far.

How is the insurance community responding to this new and exciting exposure? Is this an aviation risk or a space risk? Space insurance is very technical and most underwriters employ space engineers to provide expert knowledge on the launch vehicles and the payloads/satellites. However, this knowledge does not extend to passenger liability for space tourists, which many brokers/underwriters argue is more akin to aircraft passenger liability. In addition, operators' customers are purchasing very expensive tickets, giving an unusual risk profile coupled with the dangers of space flight. Space Adventures, the only current private operation sending tourists into space, has purchased PA insurance for its clients.

The liability regime is unclear. All commercial passenger aircraft operations are subject to several international conventions and prescribed liability regimes in states in which they operate. However, space liability conventions only address damage caused by space objects. The UN Outer Space Treaty addresses the need to protect astronauts engaged in space exploration but does not define astronauts or refer to space tourists.

United States' legislation has three categories of people on board space vehicles – crew, government astronauts and space flight participants (SFP). The Commercial Space Launch Act (CSLA) uses the term SFP rather than passenger to avoid confusion with use of passenger in common law and aviation-related law. The amended CSLA (CSLCA 2014) now provides for cross-party waivers in respect of SFP, which was not addressed in earlier legislation.

The insurance market is certainly up to the challenge and the aviation, PA and space markets will no doubt vie for a piece of the action. But there is still a great deal of uncertainty, not only in the performance of commercial space flight operators but also in the status of the space tourist in terms of government regulations and international law. ●

SIMON ABBOTT, ACII
Underwriting Executive
Global Aerospace
Chair, IIL Aviation Committee

THE CHALLENGE OF CYBER TERRORISM

In the large corporate and multinational client sector, current market conditions have encouraged attempts at widening the scope of coverage in property policies. Clients are particularly interested in cyber and cyber terrorism exposure and how they might transfer some or all of this to the insurance sector.

There are many stand-alone cyber products available in the market and undoubtedly these have an important role to play, but there are some clear limitations. The cover trigger, conditions and exclusions will almost certainly not be consistent with the main property policy, which itself is often a non-standard manuscript form. The limits available on a stand-alone policy are often relatively small in the context of the property limits and the available cyber product limits may not even exceed the client's own risk appetite. Such clients often prefer to deal with a limited number of insurers on a 'relationship' or 'partnership' basis, which is usually not the case or even possible with a stand-alone product. That said, the stand-alone market provides some areas of cover and benefits that are not usually available on the property policy – client restitution, ransom payments and public relations costs, for example.

Simply adding cyber or cyber terrorism to a large client's property policy is not straightforward. The approach may be to add a specific section or to amend an electronic data exclusion or a combination of both. Such solutions require care and are largely untested by the courts, and they do not have the benefit of extensive previous claims experience. The trigger of cover may need to explicitly state that 'damage' includes 'intangible damage', which may be necessary to overcome the previously accepted legal interpretations that apply.

> The challenge of adding cyber and cyber terrorism to property policies

With business interruption, cover needs to address the extent that insurers wish to extend any cyber cover provisions to suppliers/customers and to 'utilities'. Looking at the complex interdependency issues presented by multinational clients, third party manufacturers and distribution networks are often fully integrated into the client's business and treated almost as an insured party by the client and as such should receive equal review by insurers. The utilities, such as energy suppliers and telecoms providers also present unique challenges. Here, insurers not only face a complex risk management assessment but also an almost unmanageable sideways accumulation of risk between their many clients. Significant interruption to a telecoms provider, for example, is likely to be a national issue and not simply affecting a few clients.

This accumulation of risk is perhaps the most difficult issue that insurers face. On its own, a single client suffering a cyber loss, even a very large incident, can probably be considered a normal part of an insurer's business, albeit a new and untested exposure. These covers also require the reinsurance market to support solutions for cyber. Much of this risk will ultimately need to be shared in the way single incidents are in other parts of the property policy.

The cover potentially provided to utilities and telecoms companies under a cyber heading presents a massive accumulation problem for the industry. There is so far little common ground on cover and no commonly available external models to help manage the issue. Cyber terrorism also presents a problem that is hardly the sole province of the insurance industry and it is, at least in the United Kingdom, a topic under much scrutiny at both government and company board level. For insurers, pooling and risk sharing with government seems the obvious area for further work.

This is a topic that presents a great opportunity to expand our scope and provides a new and potentially lucrative market space, assuming we can successfully address the many challenges and obtain client support to fund the exposure. ●

ANDY BROOKS, FCII
Immediate Past Chair,
IIL Property Committee

IN THE SPOTLIGHT

Jon Hancock, Performance Management Director at Lloyd's talks to IIL President **Russell Higginbotham**

RH: What are your early reflections in your new role as Lloyd's Performance Director?

JH: It is a privilege to be part of this great institution and to have a hand in helping shape its future. It is a pivotal time for Lloyd's as we navigate tough conditions – not just within our market, but across the global insurance industry.

My first reflection is that market conditions are just as competitive inside Lloyd's as they are outside! We need to acknowledge that, and we are seeking ways to trade sustainably through it. Equally, that there are some areas where we could make it easier to do business within and with the Lloyd's market – and we need to maintain the work we are doing to fix that.

I've taken the opportunity over the past few months to talk to literally hundreds of people – in the market and the Corporation of Lloyd's – to hear how my team can work to help make the market operate better. We are changing some of our oversight approach so we're even more effective at what we do.

We are introducing account managers later this year, which means there will be dedicated points of contact for all of our oversight activity. This will deepen the understanding between the market and the Corporation, and mean all of our oversight activities are joined up and at their most effective.

We are also adopting a more risk-based approach to the way we work. This means we will spend more time focusing on syndicates and issues we're really worried about and where we can have most impact – and less time on the best performers. These and many other activities we have underway will both improve our oversight and all make it easier for the market to do business with and within Lloyd's. Those two things are compatible and are essential for us to thrive in these tough and enduring market conditions.

Another reflection, and an issue which is high on everybody's agenda, is costs. Not one of those hundreds of people I have spoken to believes a total cost base of around 41% is a good thing – or is sustainable.

The combination of administration and acquisition costs isn't working and we need to do something about it to make ourselves more competitive. And much better to take action now and disrupt ourselves than wait for somebody else to come along and disrupt us!

I am sure that the combination of the actions we are taking, together with the Lloyd's market's vibrancy, innovation and underwriting expertise will drive us through these tough trading conditions.

RH: With the current low interest rate environment, low growth in most mature markets and the likely prolonged Brexit negotiations, how do you see the prospects for Lloyd's and what will be the key areas of focus?

JH: As long as we continue to make good progress on our long-term strategy, I think the prospects for Lloyd's are excellent.

This strategy includes our modernisation plans, which are already having an impact on the efficiency with which risks and premium/claims payments move around. We are also looking at ways we can harness the power of Big Data and how we can use blockchain to help the market work more efficiently, reduce costs and develop new business opportunities.

Our global market access strategy will continue to grow our network around the world both in emerging markets – we recently opened our India office, for example – and in our established ones. This includes Brexit of course, and our recent announcement that we are going to set up a European insurance company in Belgium is an important part of our work to ensure that our customers can continue to access Lloyd's expertise and policies around the world.

Innovation is also a key strategic aim. With the risk landscape changing so quickly – cyber, for instance – customers are demanding new solutions to the risks they face. Insurers need to ensure they can respond to this demand and at Lloyd's we have an excellent track record in supplying new products to customers. We were the first to insure cars and the first to insure satellites; we are now leading the world in providing cyber insurance products.

And we are investing in talent – crucial if we are to compete in the tech-driven, local markets we are starting to see in insurance markets around the world.

RH: Why are you so confident Lloyd's will thrive in the future?

JH: We support business growth at home and abroad. Customers can access our unrivalled underwriting expertise and knowledge in more than two hundred territories across the world through Lloyd's multiple distribution channels.

All of our policies are supported by the Central Fund, which backs every insurance policy that is written by us. This is unique to Lloyd's. And we are investing in innovation and technology to make it easier for all our stakeholders to do business with us.

That's a very powerful combination and one that I am confident will see Lloyd's through whatever market conditions lie ahead.

RH: My President's theme is 't echnology' – how do you see this impacting Lloyd's? And the wider insurance sector? Do you see it as a threat or an opportunity?

JH: I think we need to move away from labelling new technology as a threat. Ever since the invention of the personal computer, technological advancements have transformed business processes and infrastructure. It has also enabled business efficiencies and increased productivity, ultimately improving the bottom line, as well as freeing people up to undertake more interesting and fulfilling activities.

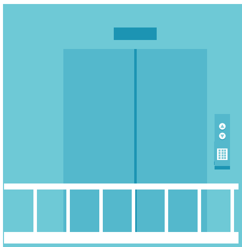
For Lloyd's, and the insurance industry, technology has enabled the transferring of risk from countries all over the world. It has also given the world access to the concentration of specialists that work in the London market – the global hub for specialist and commercial insurance.

Technology has helped us connect with our customers in efficient, innovative and exciting ways. And it can help us do so much more: as we digitise our market, we are reducing errors, speeding up processes and understanding risks better.

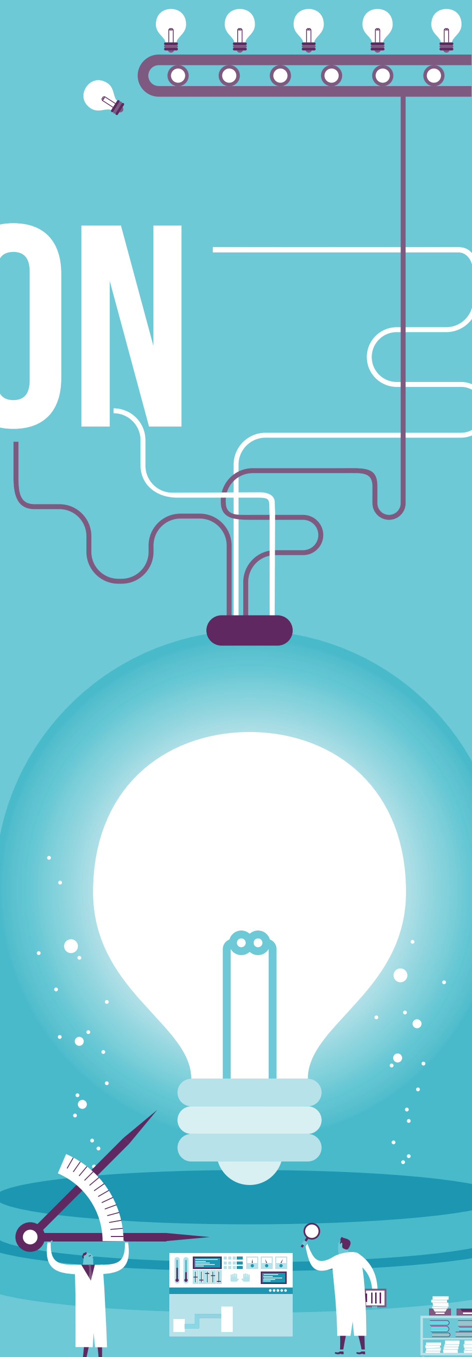
With the world changing rapidly, and the risks evolving just as quickly, we need to harness technology so that we can be as agile and responsive as possible. The modernisation of the London market is absolutely critical to our success if we are to compete with, and beat, tech-savvy competitors. The introduction of an electronic placing platform – enabling brokers and insurers to quote, negotiate and bind business digitally – is a critical development and vital that we all adapt and embrace it. For the very first time, the London insurance market is collaboratively establishing global data standards with colleagues around the world and creating common data across the market.

And so I say your President's theme is a great one! Embracing technology is a huge opportunity for us to retain and attract the best people into our industry, and to provide our customers with the products they want in the manner in which they want them. Technology is only a threat if we don't respond, and why on earth wouldn't we? ●

I THINK WE NEED TO MOVE AWAY FROM LABELLING NEW TECHNOLOGY AS A THREAT.



THE INNOVATION GAME



Six years ago, I entered the insurance profession as a fresh-faced, enthusiastic master's graduate. At this point, my only real experience of insurance was making a claim on my student contents policy after an unfortunate fire at my university residence. That said, I knew I was joining a business steeped in heritage and expertise and this really appealed to me.

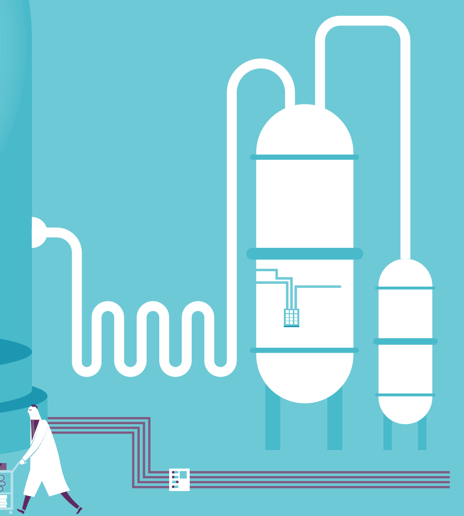
Thinking back to 2011, and specifically to the insurance sector, the term innovation seemed merely a buzzword rather than an active process in which people engaged. Likewise, technology was discussed, with much talk around archaic system upgrades and embracing smartphones; but in my view, not much was really being done about it. I'm sure there were pockets of progress, though beyond that, innovation and technology were not seen as concepts worth consideration. They weren't depicted as a burning platform that required immediate attention and the benefits weren't always understood.

Fast forward to 2017 and the landscape has changed dramatically. The advancements in technology and the pace of change are ever increasing. Our world continues to be shaken up by a plethora of new ideas and products. Blockchain, the Internet of Things and artificial intelligence are becoming commonplace in our everyday language (and if they're not, they will be soon). As KPMG alluded to in its report, *The Insurance Innovation Imperative*, technology is undoubtedly seen as a disruptor to insurers' business models – and you'd be foolish not to agree!

Recently, we've seen the rise of the 'sharing economy', with technology companies such as Uber and Airbnb dominating traditional industries by facilitating peer-to-peer transactions. These organisations place greater reliance on intangible assets (Uber owns no taxis; Airbnb owns no lodgings), which may not be the subject of traditional insurance covers. Exposure measures commonly used in pricing risks such as physical asset value, wages or turnover may no longer be appropriate. For some time, there has been a perception that there is a gap between what we offer as a business, and what the customer wants. As the pace of change increases, the gap will widen. If we are slow to respond, we will miss the boat – and disruptors will enter the market place and beat us to it!

Slice, an insurance start-up launched in the United States in late 2016, aims to do just that. Slice offers cover for people that use homeshare platforms such as Airbnb. The customer determines the length of coverage (which can be just minutes or days) and pays on a per-use basis. Once set up, customers can add extra coverage via the Slice app or by SMS; on-demand insurance for an on-demand economy. Customers' needs are constantly evolving; individuals can simultaneously be taxi drivers or homeshare operators, so the industry must adapt to ensure their needs are catered for, or risk losing out.

Traditionally, we structure around classes of business. If we focused on the fortuitous events that could impact a business instead, might we create a better product? A product that the customer really needed, wanted? Innovation can help us to find the answer; this should excite us, not daunt us. Innovation and technology are incredible enablers; they make the world go round. They determine what we need to insure, the way in which we insure it and the way the customer wants to purchase it. We have some great industry examples of innovative concepts too; cyber insurance, telematics and research into driverless cars, to name but a few.



Innovation activity is high on the agenda of many boardrooms. In 2016, Airmic published a research paper, having asked its membership base of risk managers how innovative was their broker and/or insurer. Only 1% of respondents said their insurer was 'highly innovative'; nobody ranked a broker in this category. Almost 40% said their insurers ranked as 'hardly innovative', while 25% said brokers also fitted this category. So, despite the boardroom focus, are we still struggling to innovate?

This really begs the question of whether the (re)insurance market as a whole creates a space in which people can innovate. We create innovation roles and teams; innovation becomes their 'responsibility'. Surely this undermines the concept of innovating? Innovation is everybody's business. It may well be improving customer experience, but I feel this is a by-product, with the initial drive to innovate coming from a desire to reduce cost bases. Though the original trigger no longer matters, we should ensure our customers are at the forefront of our future innovations.

There appears to be some progress, however – examples include Aviva's Digital Garage and AXA's Lab in Silicon Valley. Their purpose is to foster a start-up culture with the support and capital of a much larger organisation. The challenge is how they can integrate their solutions into a complex, corporate entity.

People are the single most important thing that will drive change for our industry. We are recruiting the next generation, but we are not offering them an attractive working environment. By 2025, around 75% of the workforce will be made up of millennials, yet for many young professionals, most of the technology we use (including email) is considered obsolete, and that is just one factor in a growing list of expectations.

Tech is trendy; tech is sexy, so how do we position insurance as a brilliant place to work too? How do we persuade our future actuaries to try out insurance, rather than tech? We must also look to other sectors and employ people that can bring alternative experiences and new ideas to the table.

As technology advances and our customers' needs evolve, we will need different skill sets to help us to innovate. We must identify the skills we need, the DNA of the people we want – and create an environment where they can thrive. We need innovators with entrepreneurial mindsets to challenge the way we do things, lead the charge; because that is how we will change things for the better.

Historically siloed, let us work together and create a collective voice for our profession. We are sometimes perceived as a sector that people 'fall into' and this mentality needs to change. We cannot wait for people to come to us; we should promote ourselves to them. Let us make ourselves more accessible and better market the amazing things we do to help people, businesses and society. Let us talk about the amazing opportunities we have waiting for up-and-coming innovators to tackle. The future-proofing of our profession relies on our ability to evolve; this will only happen with the right talent and skill sets in the driving seat.

I chose to work in this industry because I was excited about the opportunities it might hold for me and I knew this was an environment I could thrive in; not because I 'fell' into it. I was impressed by our history, dating back over 300 years to Lloyd's Coffee House, and the breadth of expertise within the London market. Yet, mine and many people's first experience of insurance is the first time they make a claim.

If we are going to survive for another 300 years and beyond, we must embrace traditional and new skills. We must start shouting about ourselves, because we do incredible things. We insure change, we enable innovation, and so we must up our own innovation game. ●

HANNAH KATE SMITH, ACII
Underwriting Strategy Leader, RSA

THE ROLE OF TECHNOLOGY IN RISK MANAGEMENT

For property owners, the use of risk management software to assist in management and risk reduction and the associated business costs has seen an upsurge in recent years. This technology can be used to manage risks such as health and safety, accident, fire, environmental, contractor management, legal and operational – and to do so in a consistent and cost-effective manner across client portfolios. Some of the major benefits include:

- logging and tracking of risks through to resolution;
- evidence of risk management processes and actions;
- logging of compliance inspections and reports, ensuring legislative compliance;
- management of accident information in order to demonstrate due diligence;
- monitoring and improvement of environmental performance;
- detailed reporting and analysis of risk management performance; and
- reduced risk, improved asset protection and reduced business costs.

Among the range of software enhancements is a system that allows 24/7 access from anywhere in the world on any web-enabled device which is helping businesses gain maximum benefit from the fast-paced advances in technology.

Another area in which technology plays an important role is the use of thermographic cameras on insurer risk surveys. Electrical fires remain one of the most common causes of fire, often with devastating results for a business. Anything that mitigates this risk is a sound investment considering the relatively low cost (a functional camera can cost as little as £500). Thermographic inspections can detect a wide range of defects and can play an important part of any planned maintenance programme.

Thermography is a non-invasive and non-destructive test (NDT) procedure that uses infrared technology to identify excessive temperature increases (hot spots, which are usually invisible to the naked eye), caused by factors such as electrical faults, overloaded circuits, friction, underrated equipment, loose connections and poor terminations. The majority of equipment using power will experience an increase in temperature prior to failure.

Thermographic inspections can focus on many critical areas affecting a business, including a buildings and mechanical plan. Infrared radiation in varying wave lengths are emitted from objects that have a temperature above –270°c. By monitoring the levels of varying heat emitted, via an infrared detector (camera), and with results interpreted by an appropriately trained operator, the equipment can identify most faults before a failure or potential fire. It is worthwhile talking to insurers or brokers about these devices as part of general risk management discussions.

Technology is assisting in combating one of the main causes of losses in the United Kingdom – that of water damage. Several providers have developed technology to detect leaks and among the services available is a water damage protection service that helps reduce the water damage from burst pipes and leaks, which costs property owners and insurers over £920 million[1] each year. Several solutions are available. The systems are modular and can be upgraded with flexible solutions in a variety of applications. Key features include:

- Automatic flow control and leak detection;
- automatic water shut-off;
- wireless switches;
- optional on/off timed delay;
- automatic decalcification; and
- high-quality stainless steel motorised valve.

Also on offer are management information and reporting tools to alert and inform property owners and managers of any leaks as they happen. The products have been used successfully across several investment types, from vacant and unoccupied properties, second homes and holiday let properties, to hotels, apartment buildings and student accommodation.

In summary, technology continues to play a key role in mitigating risk within the real estate sector, a sector of the insurance market that continues to offer attractive returns for all stakeholders. ●

[1] *Association of British Insurers 2015.*

ANNA WHITFIELD, ACII
Client Director, Real Estate Practice, Aon Risk Solutions

THE CII STRATEGIC MANIFESTO

One of the catalysts for the 2016 launch of the CII's Strategic Manifesto was the unprecedented rate of change taking place across the insurance sector. Insurance firms, from global corporations to entrepreneurial start-ups, are adapting to the expectations of millennials, new technologies and disruptive innovation.

As a professional body, the CII has a responsibility to not only keep up with this sector-wide evolution, but to become a relevant, modern and diverse innovator. It is also committed to inspiring public trust in the technological progress, which is changing the shape of financial services globally. The manifesto's 14 work-streams have been crafted with these ambitions in mind.

The Future Horizons workstream will find ways for the CII to bridge the gap between start ups and service providers to help them innovate responsibly, using consumer-focused standards.

In order for us to remain relevant during a time of significant change, we must embed innovation into our organisation and adapt our offering to members.

In February 2017, a study by University of Oxford director Carl Frey revealed that insurance underwriting was the profession most at risk of being automated over the next 10 to 20 years. The findings suggested that there was a 98.9% chance of underwriters being replaced by robots over this time, followed by motor insurance assessors at 98.3%.

It is clear that in the next decade the skills required by professionals in our sector will look very different to today. Traditional roles will be replaced with IT programmers, data scientists and engineers, and we have a responsibility to deliver exams, training and qualifications that reflect the changing professional landscape.

Under the Living Learning workstream, we are reviewing and developing our courses and qualifications in order to ensure they deliver the skills of the future. We will also find ways to use technology to improve the way we deliver this content and engage more broadly with our increasing and more diverse membership base. For example, by the end of 2017 our online study and revision support service, RevisionMate, will be accessible by way of a new app.

We will also pilot a new invigilation service that will allow students to undertake their examinations remotely via a webcam and microphone rather than be forced to travel to a staffed examination centre.

This type of innovation is critical to reaching a more geographically dispersed membership base and extending international reach, which is the purpose of the workstream A Great Big World.

The Open for Business and Partners on the Journey workstreams will investigate ways to improve the infrastructure of the CII website, and deliver enhanced digital access to CPD, learning materials and other components of our member proposition for both UK and international consumption.

Consumers expect to be able to engage with their service providers at any time from any place and Open for Business is focused on delivering the technology to make this happen.

To achieve the lofty ambitions set out in the Manifesto, it is important that the CII itself becomes a modern organisation that attracts the best and brightest and supports our staff with modern working styles. Under a new target operating model, we will develop a digital environment in which staff is equipped with the modern tools required to deliver each of the Manifesto's work-streams.

This will help underpin the CII's ongoing role of securing public trust in an evolving insurance and financial services landscape, and helping to deliver the full benefits of technological innovation to consumers who engage with our sector. ●

SIAN FISHER, ACII
Chief Executive, CII

JOHN BISSELL, ACII
Chief Operating Officer, CII

SIMON GRAHAM
Learning and Assessment Director, CII

EDUCATION = MARKETING

The UK general public do not understand the benefits of financial planning. Clearly the profession and its corporate bodies have a lot of work to do to rectify this, and to repair the damage of mistrust wreaked by the old financial services industry.

I wanted to do my part to help this effort and in 2010 I started the educational website MeaningfulMoney with two aims: I wanted to enable people to make their own decisions about the simple aspects of their personal finances, and I wanted to fly the flag for financial planning.

Since then I have created over 300 videos and 200 podcast episodes, and enjoy over 50,000 downloads a month of my podcast. I now receive email from listeners every day telling me how I have empowered them to take action and move forward toward their own financial freedom. And many want to engage me to work with them or refer them to a colleague in their part of the country. By educating the general public, I have elevated myself and my profession in their eyes.

Now, more than ever, we have the opportunity to teach people what they need to know and what they need to do to succeed financially. Thanks to the internet, we can reach them where they are, on social platforms and through blogs, videos and podcasts, and all for negligible cost.

Some might question the wisdom of teaching people to do their own financial planning. Might we not do ourselves out of a job? I do not believe so. In fact, I think that by educating the public, we refine the pool of potential clients, leaving behind those who genuinely need our expert advice.

Take the example of house or car insurance. Most of us now use comparison sites for simple annual renewals, but if we need something more complex, then we may still turn to an expert for a more bespoke policy and service. Likewise, a prospect looking to arrange a simple pension or ISA would be perfectly well served going to one of the many direct to consumer platforms available online. But for complex at-retirement or estate planning, most people would still prefer to talk to a professional.

Very often the first sort of prospect becomes the second. And the prospect that I helped take matters into their own hands may, some way down the line, come back to me for the complex stuff. Or they may refer me to their friend or family member whose needs are more complex now.

These days, everybody searches online for whatever product or service they are looking for. Do not feed me the line that your clients are not online – it is rubbish. Or if it is true, then you ought to be looking down a couple of generations if your business is to survive the next ten years.

Instead, why not be the best, most visible professional in your field when they do search? There is no shortage of things to write or create videos about. Think of the questions you are asked every day by clients, and start by answering them. Commit to writing one blog post a week. Make each post about your prospect, and not about you, and pretty soon you will have a rich resource on your website that prospects and existing clients will appreciate.

A fancy brochure website simply does not cut it in 2017. By producing a steady stream of educational, entertaining and empowering content, you will elevate yourself above your peers and attract more of the right prospects for your business. Educational content is the 21st century way to market yourself and your business, and if you have not started yet, you may get left behind. ●

PETER MATTHEW
Founder,
MeaningfulMoney

YOUR PENSIONS AT A GLANCE

An update on the Pension Dashboard Project

The *Financial Times* recently interviewed millennials about attitudes to money and investment. One of the typical comments was 'I don't know who my pension is with'. This is not confined to younger cohorts: last year, research from consumer organisation Which? found that nearly half of workers over 50 with a personal pension are not confident about the money they have saved for retirement. A fifth said they have never checked how much cash they have saved in total, and the same percentage would not know how to find out about the details of their pots.

Taking this together with the fundamental changes in pension provision away from final salary pensions to defined contribution pensions, with the attendant shift of risk from employers to individuals, our increasing life expectancy, and the move towards an estimated 11 jobs during a career, and it is clear that a step-change in engagement with pensions is needed. This is why the ABI has been advocating a pension dashboard for some years. This would bring together a single view in one place online for pension entitlements, including the State Pension, defined contribution and defined benefit pensions, both in the private and public sector. Services such as this already exist and are popular in Scandinavia, the Netherlands and Australia.

In September 2016, the ABI was commissioned by HM Treasury to project-manage the efforts of 17 pension providers and six technology firms to deliver a pension dashboard prototype to prove once and for all that it is possible, from a technology point of view, to give UK savers access to information about all of their pension pots in one place. In March 2017, the Pension Dashboard Project met its deadline to demonstrate a working prototype to government ministers.

In April, the Pensions Dashboard TechSprint, opened by the Economic Secretary to the Treasury, saw 80 FinTech developers come together to explore innovations that could be unlocked from the prototype -an event quickly dubbed 'Strictly Come Dashboard'. Within 18 hours, teams had programmed Amazon's Alexa to hold a conversation about pensions, built chat bots that deliver guidance at specific life events and created a new service comparing physical health to financial health using data from fitness trackers. This shows just what is possible in terms of reimagining pension savings by harnessing advances in big data and artificial intelligence.

But delivering the prototype is only the beginning of an arduous journey towards industry-wide implementation, currently planned for 2019. Much more needs sorting: the regulatory framework for dashboard providers; the availability and quality of data; the operational, funding and governance model for the pension finder service or services connecting dashboards and pension providers; cross-industry data sharing agreements; and how to force schemes reluctant to provide data to the table so that the dashboard can really show all of peoples' pension, rather than only some of them.

Not all of this can be solved by the industry on its own – it will need continued government support and action, particularly around legislation to ensure all schemes play ball. The scale of the challenge is immense: the UK's pension landscape is heavily fragmented, with thousands of schemes, and separate regulators.

This project has enormous potential. It can support people's retirement planning, bring pensions into the 21st century, help make them relevant to younger people, and support financial advisers by freeing them of the time-consuming task of gathering their client's pension information. The ABI will be passionately making the case for continued government support when the new government is in place after the June 2017 general election. ●

More detail at is available at **pensionsdashboardproject.uk**

DR YVONNE BRAUN
Director of Policy, Long-Term Savings and Protection, ABI, and Project Lead, the Pension Dashboard Prototype project

THE WORLD NEEDS ADVICE, DIGITAL ADVICE

Imagine a world where you can conveniently manage your savings, debt, protection and retirement needs with personal advice recommendations regularly streamed to you through a single app: human help on hand for when it is needed and all at an affordable, monthly cost – a personal financial adviser in your pocket.

A pipedream? With the rapid development of the so-called robo-advice phenomenon and digitisation of financial data, the UK FinTech sector is on the cusp of creating everyday solutions with potential to deliver a societal benefit of helping consumers secure better financial outcomes.

The need for greater consumer engagement in their financial self-provision is an obvious one with benefits flowing to individuals, the financial services sector and the UK economy. Recent government initiatives are driving this agenda at pace, including workplace auto enrolment, Pension Freedoms and ISA reforms.

Improved choices are welcomed, but in reality can be a headache because with more choice comes more risk.

It is apparent consumers don't have the necessary support to help them make the best decisions for them. For example, six in 10 of those approaching retirement don't intend to use a professional adviser. [1]Without change, the sheer complexity will inevitably result in financial 'self-harm' for many – potentially causing a 'mis-buying' crisis on a wider scale – with a further erosion of consumer confidence in the industry.

The need for consumers to have access to expert help to confidently make better financial decisions has never been greater. Financial advice particularly has a pivotal role to play here because it is defined as the threshold regulatory standard of professional qualification and service for making specific personal recommendations on which products to purchase, backed with an implicit lifetime guarantee on the suitability of the advice.

But, with too few advisers, onerous manual processes and high costs, advice today is generally perceived as a daunting, unaffordable option.

Consequently the application of sophisticated FinTech to digitalise advice services emerges as a desirable mass-market opportunity, with potential for enhanced user experiences and in doing so de-risking product distribution from inappropriate 'self-serve'.

WHAT DOES THE MARKET LOOK LIKE TODAY?

Following early evolution in the United States, where over $75 billion of assets are served through robo-advisers, there are now 40 so-called robo-advisers in the United Kingdom. With elegant user experiences and variable levels of sophistication, these are characterised by focusing solely on automated investment fund selection, which, ironically, do not represent regulated advice solutions. But in FinTech things move fast. In summer 2015, LV=, in partnership with Wealth Wizards, launched the world's first fully regulated online retirement advice platform generating automated recommendations selected from across different providers and products. With over 50 active participants, including high street banks, predicted to enter in the next 12 months, early adopters look set to secure advantage by learning fast from initial insights.

INNOVATION REQUIRED WITHIN A ROBO-ADVICE SOLUTION

Developing fully functioning automated advice solutions is undoubtedly complex. Designing algorithms and technology to automate the nuanced judgements of a skilled financial adviser is just one dimension of innovation. Reimagining user-friendly digital data collection, creating smart risk and governance controls to constantly validate the systemic quality of the automated advice, and designing in the desired level of integration with human advisers and back-office systems are equally crucial to success.

DOES THIS MEAN THE DEATH OF THE ADVISER?

Reports of robo-advice signalling the death of the adviser are widely exaggerated. Robo-advice presents a clear opportunity for advice businesses to become more efficient and mainstream. Creating and continuously evolving robo-solutions that can help more customers than ever truly benefit from their freedoms of choice can only be achievable in partnership with qualified professional adviser expertise. The future looks bright for advice.

[1] Data from research carried out by Opinium for LV= during 16-21 Feb 17, 1008 sample size.

DAVID STEVENS
Director – Advice Strategy, LV=

JUST BECAUSE YOU CAN, SHOULD YOU?

Social media – a repository for cat videos and holiday photos, an opportunity to see more than fifty-seven million beautifully composed photographs of #breakfast, and the quickest way to ensure that your music video or movie trailer gets maximum worldwide exposure.

In an always-on, constantly connected world, social media is a tool with the capacity for the greatest impact in the smallest amount of time; so where does social media fit into financial services?

It is easy to find examples of financial services firms that have approached social media with initial gusto, failing to keep momentum. Facebook pages set up in earnest, lacking new content. Twitter accounts remind followers to maximise ISA contributions before the end of the tax year, or announce the annual charity bike ride, with nothing to keep followers interested for the rest of the year.

But, among the long-abandoned Facebook pages and ill-informed Instagram accounts, there are some in financial services getting it right.

THE BIG BRAND: MASTERCARD

The credit card giant has expanded its 'priceless' campaign on social media, giving it something to say that goes beyond just marketing messages. The concept of 'money cannot buy' experiences means MasterCard can share videos, photos and stories of exciting, inspiring priceless moments. The brand's sponsorship of, among others, the UEFA Champions League and the Olivier Awards allows it even further opportunity to talk beyond balance transfers and online security.

Take-out: Find your theme or a subject you can legitimately talk about and go with it. Remember though that it must still link to your brand or service.

THE UPSTART: ATOM BANK

Atom has entered the market as a mobile first bank wanting to shake things up. It uses social media to show potential customers why they are different, with a friendly, but authoritative tone of voice. Its Facebook page links to useful articles and blogs on its website, demonstrating its expertise. Alternatively, its Instagram account (often a tricky platform for more 'serious' brands to crack) gives an insight into its team, behind the scenes and therefore the human side, something that big banks struggle with.

Take out: Think about the role of each social platform, do not just do the same on Facebook, Twitter, Instagram and LinkedIn. Do not be afraid to show your human side – people buy into people.

THE INDIVIDUAL: MICHAEL KITCES

Kitces is a financial planner who claims Twitter has helped him quadruple his income. He has over 36,000 followers, built from sharing useful information, his own expertise and engaging on a personal level. He also has his own blog, Nerd's Eye View, giving him somewhere clear to direct his followers to get a taste of the kind of insight they will receive if they employ him.

Take out: Have an opinion and do not be afraid to engage with your following. Potential clients want to have an open conversation, not talk to a boring wall. And think about the role of social media – if you are sending potential clients to your website is it good enough? Is there a clear way to contact you? Is your blog interesting, relevant and up to date?

Social media is communication, and to be successful it needs to be considered. Are you targeting clients or introducers? Are you marketing the firm or the individuals within? How will know if you have been heard? Are you selling something, and if so, how will you remain compliant?

If you can answer questions like these and are willing to commit the resources, social media might be just the right way to spread your message. ●


ANGELA LLOYD-READ, DIP PFS
Financial Planner, Rosemount IFA Ltd


JULIA FILSELL-CHAPMAN
Associate Digital Director, Speed Communications

HOT TOPICS

HOT TOPICS IN INSURANCE AND FINANCIAL SERVICES

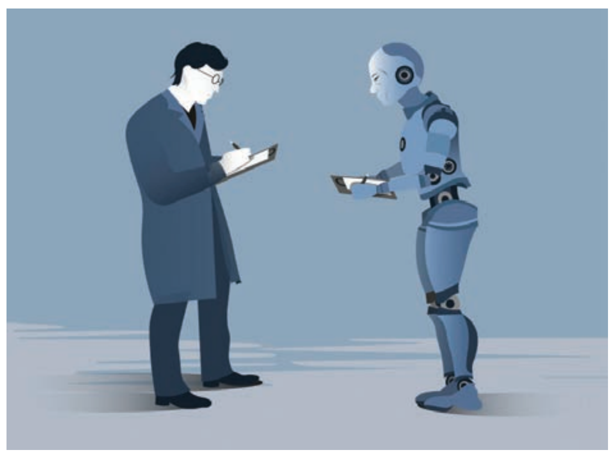
Find out which issues are taxing the best brains in our business

ILLUSTRATIONS BY: **SIBEL EKEMEN**

FINANCIAL SERVICES

EDWARD GRANT, FPFS

Chartered Financial Planner, Director, Technical Connection Chair, IIL Financial Services Committee



The past 12 months have seen several significant political and economic surprises, while we are constantly reminded that technology and artificial intelligence is becoming increasingly important. Some believe robo-advice will replace the face-to-face advice process, but what we are likely to see is technology assisting in the reduction of costs of servicing our existing clients once a relationship is established.

The financial services profession has flourished since the introduction of the Retail Distribution Review, and when our clients wanted reassurance after the Brexit vote or Trump's election, old-fashioned relationships and advice had a key calming influence.

Technology has replaced some of the tasks undertaken by the financial adviser. Investors can access valuations and portfolio analysis at a click of a button. They can buy and sell assets with ease. However, increasingly they seek multi-channel reassuring communication, explanations of their circumstance utilising cash-flow models and confidence that their future is progressing per their financial plan.

One of the biggest challenges will be tomorrow's client, how we can effectively work across the generations and be relevant for the children and grandchildren of our existing clients. While the Personal Finance Society membership has grown to about 37,000 and just over 5,300 Chartered Financial Planners, we need to find the next generation of advisers who can relate to and service future relationships with advice, an old-fashioned value, at its core. ●

CLAIMS

MARK GRAVES, ACII

Director, Swiss Re Services Chair, IIL Claims Committee

Technology remains an enabler in the claims world. One of the areas in which we expect to see an increased focus in 2017 is artificial intelligence. Machine learning and language processing will impact our claims processes and allow data analysis for trends and patterns. And in the world of cyber-related losses, has the target moved beyond pure data breach? The claims community is observing this and while the general cyber-risk threat continues to escalate (data breach included), the ability to handle incidents, which damage operations and trade capabilities, is becoming increasingly important.

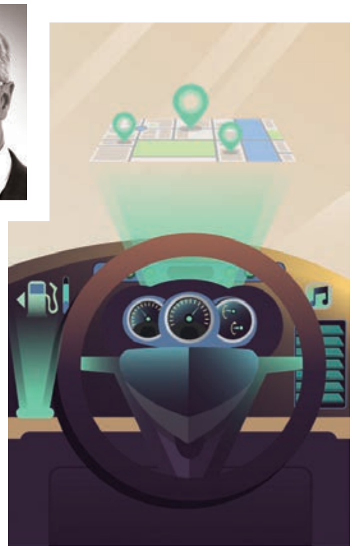
We are also mindful of the impact of the 2016 Enterprise Act and some of the uncertainties that this might have, specifically in relation to the late payment of claims – for example will this change the approach to reserving? Is there a greater exposure for leaders to a following market? What is a reasonable amount of time to investigate and assess a claim?

These areas make it clear that in order for someone to be a top-flight claims professional of the future they need to have adaptability. However, some of the core skills, such as good claims negotiation, being transparent and managing expectations, remain hugely important. This is the reason why our lecture programme this year will also focus on how to progress your claims career as well as a specific lecture on the art of achieving resolution. ●

ACCIDENT

NEVILLE WHITE

Senior Corporate Liability Underwriter, UK Property and Liability, TokioMarineKiln on behalf of the IIL Accident Committee



As the liability market recovers from the shock of the discount rate change that was announced in March 2017 and which caused motor, EL and PL insurers a collective £5.6 billion reserve deterioration, one must wonder what else lies ahead.

Most noteworthy is the Vehicle Technology and Aviation Bill, which sets out the legal landscape for autonomous vehicles. The likely outcome will be a single motor policy that covers the driver and, as and when fully autonomous, the vehicle. In effect, keeping the remedy for injury compensation unchanged from today. Fully autonomous vehicles won't become the norm until the 2030s, but when they do, accidents will fall by 90% as the human contribution to accidents is removed. As a consequence, there will be a substantial release of underwriting capital from this class, as it becomes redundant. Motor manufacturers and product liability insurers must address the risk of vehicle faults arising from the new technology, particularly in relation to malevolent hacking of car technology systems and ransomware.

Other risks on insurers' minds include abuse, which has been a recognised risk for care homes and religious organisations; now, following the recent revelations of abuse in youth teams of professional football clubs back in the 1980s, compensation will be sought. Sporting associations and their insurers must also take account of the recognition of concussion risks, following a US headline class action relating to American football. ●

AVIATION

SIMON ABBOTT, ACII

Underwriting Executive, Global Aerospace
Chair, IIL Aviation Committee

For the wrong reasons, 2016 was a record year in the aviation insurance market.

The airline insurance market suffered another loss year, on the back of poor results during 2013–15; 2015 was one of the safest years ever, yet underwriters still made a loss writing this class. Despite this dismal backdrop, 2016 airline rates in general still tumbled albeit there were signs of change. Those accounts with large losses did see rate increases and more premium carried.

The aviation products market had been faring a lot better until last year; 2016 is shaping up to be the worst-ever performing year for aviation products!

One of the losses arose from the grounding of the EC225 (Super Puma) helicopter by the British and Norwegian civil aviation authorities. The loss occurred when an EC225 was ferrying oil workers to Bergen in April 2016. Another large loss, in July 2016, involved a Bell 525 Relentless helicopter, which crashed during flight tests.

These two losses alone have the potential to wipe out most of the products premium for the year, without taking into account any other losses. Products losses typically have a long tail, that is to say, that they do not tend to mature for five years.

Aviation insurance has wallowed in the doldrums for several years; surely now it is time for the market to harden? ●

LONDON MARKET

DAVID GITTINGS

Chief Executive, Lloyd's Market Association
Chair, IIL London Market Committee

Among the London Market's topics are making London an easier place in which to do business, building a diverse, dynamic workforce which offers a deep talent pool for the market to draw on, telling the London Market story, creating an environment for innovation and, not least, minimising the impact of Brexit.

Electronic placing (PPL) presents us with a once-in-a-generation opportunity to modernise the way risks are placed in London. It allows brokers and insurers to quote, negotiate and bind business electronically and will be at the heart of how future business is transacted.

Automatic integration of data into underwriting and other back office systems, where it can be utilised for the placing, signing, closing, claims processing and renewal of business, will be a big step forward.

We want to create an environment for innovation so that the London Market can respond to new client demands and existing and emerging risks.

Increasing government awareness of market issues and articulating the unique London Market proposition is also vital at a time of increasing international competition. We recognise that we need to tell the London Market story better in order to provide our buyers with a clear case to purchase our products and services.

All of the above is set against a variety of challenging market conditions, excess capital and increased operational and regulatory costs. We live in interesting times! ●

MARINE AND ENERGY

JUDY KNIGHTS, ACII

Chartered Insurer Director JK Knights Review Ltd, Lloyd's & London Insurance Market Marine & Energy Consultancy Chair, IIL Marine and Energy Committee

The energy market is going through its most challenging period of the past 15 years and the lowest level of drilling activity since the 1980s. Hundreds of rigs are idle in the Gulf of Mexico. When reactivation occurs, will this be an emerging risk or a time-bomb in waiting?

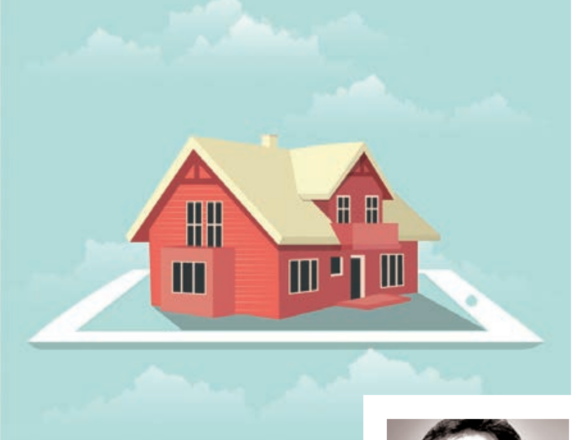
Expensive, complex wreck removals continue to cause concern and in the next lecture programme we will look at the management of wreck removals and also places of refuge for vessels in distress.

Lectures are also planned on technical aspects of unmanned vessels, and the insurance consequences of a large shipping company insolvency. Also, there is the question of how sacrosanct shipowners' limitation rights are, following the Atlantik Confidence case, and the issue of assessing accumulation, particularly in the light of the Tianjin explosion and superstorm Sandy. The intended 2018 withdrawal of the joint naval presence makes the re-emergence of the piracy threat a real concern.

The Panama Canal expansion is the catalyst for infrastructure changes and has had a huge impact on shipping, with the demise of the Panamax containership.

Other topics include Iran sanctions, which take up huge amounts of underwriting time. The process of risk and title transferring during a standard cargo sale does not fit in the sanctions/compliance 'box'. If Washington re-imposes sanctions on Iran, this will make business impossible for many insurers.

Cyber remains a hot topic, albeit more from an extra expense or loss of reputation standpoint than physical loss or damage to goods in transit. ●



PROPERTY

IAN FRANCE, ACII

Chief Underwriting Officer – International Property, XL Group
Chair, IIL Property Committee

The property insurance market faces an ongoing battle to stay relevant in a fast changing world, but this change also brings opportunity with technology opening new frontiers for profitable growth.

The 'internet of things', a web of connected devices, machines, people and organisations, has the potential to provide benefit to both property insurers and their clients. Insurers are already starting to make use of smart sensors, which can provide a wealth of data that can be used to improve the timeliness and impact of maintenance and repairs to help mitigate preventable losses.

Technology can also have a positive impact on business interruption exposures. For example, 3D printing is starting to change supply chains and help minimise downtime after property damage events. While the full impact of these changes evolves, it is important that London market professionals are up to speed with the potential benefits of new technology, the use of data and analytics and the advance of artificial intelligence.

In the post-Brexit world, London must take advantage of the opportunities created by technology. We need to remain at the forefront of innovation and develop strategic plans to address this new and evolving risk landscape. The London market has the talent to capitalise on these opportunities to differentiate the value of our offering to both new and existing customers. This will be a strong area of focus for the property market. ●

PROPERTY INVESTORS

ANNA WHITFIELD, ACII

Client Director, Real Estate Practice, Aon Risk Solutions
Chairman, IIL Property Investors Committee

The UK real estate sector continues to be buoyant and offers significant opportunity for both brokers and insurers, with attractive returns in this sector reported in 2017. Unlike previous years, UK weather events did not dominate, and this has positively added to bottom line returns.

Competition remains strong and, with new entrants emerging, significant capacity is available. The impact of the Insurance Act is being viewed in the way that risks are presented, but there is little sign yet of change to the claims settlement environment.

European investment continues to be attractive across all investment types and the logistics sector continues to grow given the continuing trend of online purchasing. Challenges include the continued availability of Nat Cat covers, particularly given the seismic events in Italy in 2016.

Residential property remains of interest, particularly in the private rented sector (PRS) and is a growth area mainly in key UK cities. There are opportunities for student accommodation investors, with some adopting models of outsourced operations and others combining property investment with operational control.

The development pipeline remains strong and the role of public realm and sustainability in both regeneration projects and redefinition of existing urban space is increasingly becoming key to many property investors in delivering wider social benefits as part of development and asset management initiatives.

Cyber is an emerging risk, with increased awareness of risks associated with smart buildings and the need to procure relevant insurance solutions. ●

REINSURANCE

IAN BRANAGAN

Director – Group Chief Risk Officer, RenaissanceRe Chair, IIL Reinsurance Committee

There is never a shortage of hot topics across our business. Reinsurance has a history of coping with change, often driving it, and evolving to new long-term states. Candidates for 2017 hot topics include Brexit and geopolitical uncertainty, capital supply and demand imbalance, cross-class risk packaging, InsurTech, supply chain efficiency, the protection gap, cyber threat, food safety, climate change and resiliency, regulation, and talent, to name but a few.

Focusing on any single topic might lead one to miss the interconnectedness of these threads, some of which represent potentially fundamental, sectoral change for the industry; however, we must keep in mind that our customers and their needs are changing too. The question we need to continually ask is: 'Are we providing the products and services that our customers want and need, in a form that is accessible and desirable, and at a cost that is reasonable on a risk-adjusted basis?'

The industry has never been static in terms of product development, distribution, and the application of science and data. However, the pace of change has been slow; the most revolutionary sectoral change in the industry supply chain in the past 30 years coming from the capital supply side.

The changing short- and long-term needs of our customers, from individuals to sovereign states and how the industry must develop and adapt its value proposition to meet them, is the real hot topic. ●

INSURANCE AT A CROSSROADS

I have enjoyed my year as Deputy President of the Insurance Institute of London and if I should be fortunate enough to be elected as President for 2017–18, I have been thinking about the theme I would choose for my year in office. I have faced two significant challenges: timing and relevance in a fast-changing world, and how to encompass the four strands of general insurance, the Lloyd's and London markets, life, pensions and long-term saving, and financial advice. Even while penning this article, the news broke regarding the unexpected UK general election called for 8 June.

Every sector faces the twin challenges of restoring trust and rebuilding confidence, while at the same time continuing to innovate and manage the many economic and political risks. Each sector has identified its goals; for example, the CII has a new '2021 Roadmap', which sets out a strategic manifesto with public trust at its heart and a goal of insurance professionals achieving parity with the established professions of surveying, law and accountancy. Lloyd's has developed its strategy with its 'Vision 2025' building on progress on electronic trading and settlement but, somewhat contentiously, expanding its physical geographic reach by opening offices abroad (and not just as result of Brexit).

Then we have regulation: the FCA's Financial Advice Markets Review for financial advisers; the transposition by the FCA on 23 February 2018 of the Insurance Distribution Directive (regardless of Brexit); and the role of Lloyd's itself as a regulator, additional to the FCA and the PRA, and how it can balance the cost and enforcement of regulation with the need to facilitate innovation and risk-taking – Lloyd's original strengths.

As a profession and a career of choice, insurance has become increasingly successful; for example, the Insurance Institute of London has a record number of members – well over 24,000 – with 52% of them under age 40, 60% female, and 20% members of the Personal Finance Society. Many are attracted to the variety offered by the activities of underwriting, broking and the selling of insurance, not to mention the increasing awareness of insurance's social and public utility in managing and reducing corporate and individual risk.

However, the one constant focus for the insurance profession, regardless of in which part of the market an individual works, is and must be … you've guessed it – 'the customer'. We have to stay close and relevant to our clients and customers, harnessing innovation with stability and long-term customer relationships. Insurers will need to step up the rate of their digital transformation; intermediaries and advisers will have to embrace more and more technology to be able to service their customers speedily and cost effectively, whether it's called 'robo-advice' or not. The Big Data tech revolution is only just beginning, ushering in the end of the filling-in of forms for personal lines and, maybe, health and life insurances.

The insurance business's 'Uber moment' has yet to emerge, but expect it to do so within four years or so. The vast majority of market participants expect digitally enabled new entrants to gain market share at some point, through differentiation on factors other than price. The biggest barrier to innovation for established players is legacy IT systems, which is probably why only a minority of those in the market expect an existing major player to disrupt the market with a new product or service. That would be a shame!

We may aspire to innovate and to retain stability, but, ironically, we are unlikely to achieve either without technology; the 2016/17 theme of 'technology' just will not go away! ●

ROGER SANDERS, OBE, CERT PFS
Deputy President, IIL, 2016–17

THE LONDON INSTITUTE PROGRAMME PREVIEW

Here is just a taster of some of the events coming up in our programme. More lectures and events are being added all the time, so please check our website **www.iilondon.co.uk** for the full details of venue, time, and registration process. If we have your email address we will send you weekly updates. Go to **www.cii.co.uk** and click on My CII to update your email address.

Date	Event Type	Subject	Speaker	Venue
2017				
15 June	Young Members' event	Networking drinks with the Young Members' Committee	n/a	Revolution
29 June	Young Members' event	Blockchain	Deloitte	Swiss Re
3-5 July	Accident event	Professional Indemnity Conference	Various speakers	Robinson College, Cambridge
13 July	Financial Services day course	Final salary pension transfers	Tom Ryan, APFS, Chartered Financial Planner, Astute Pensions	Brooks Macdonald
3 Aug	Young Members' event	Young Members' Committee Summer Party	n/a	Dinerama
21 Sept	Educational visit	Introductory Tour of Lloyd's	Martin Leach	Lloyd's
25 Sept	AGM	To all members of the Insurance Institute of London: Notice is hereby given that the Annual General Meeting of The Insurance Institute of London will be held at the Insurance Hall, 20 Aldermanbury, London, EC2V 7HY at 12.45pm	Russell Higginbotham, FCII, IIL President Roger Sanders OBE, IIL Deputy President	Insurance Hall
5 Oct	London Market lecture	Dementia – one of life's great certainties	Sian Fisher, ACII, Chief Executive Officer, Chartered Insurance Institute	Lloyd's
9 Oct	Awards	Diploma awards and prize-giving ceremony	President, IIL	Insurance Hall
10 Oct	Marine & Energy lecture	Hanjin – the insurance consequences of insolvency	Mike Roderick, Partner, Clyde & Co	Lloyd's
12 Oct	Reinsurance lecture	ILS & London	Des Potter, Managing Director, GC Securities, Guy Carpenter	Lloyd's
16 Oct	Member reception	IIL member reception	President, IIL	Insurance Hall
18 Oct	Accident lecture	The impact of emerging rehabilitation technologies on serious injury claims	Mark Burton, Partner & Head of Catastrophic Injury and Joe McManus, Partner, Kennedys Law	Lloyd's
19 Oct	Aviation lecture	The financially healthy global airline industry: a temporary aberration or structural change?	Brian Pearce, Chief Economist and Director, International Air Transport Association (IATA)	Lloyd's
19 Oct	Young Members' event	Networking drinks with the Young Members' Committee	n/a	Revolution
1 Nov	Accident	Macroeconomic trends and the professional indemnity market	Julian Smart, Partner, BLM	Lloyd's
2 Nov	Property Investors lecture	Sustainability strategy of developments	Anita Mitchell, Head of Sustainability – Europe, Lendlease	Lloyd's
7 Nov	Marine & Energy	Place of refuge: is the future bright?	Hugh Shaw, Secretary of State Representative for Maritime (SOSREP)	Lloyd's
8 Nov	Reinsurance lecture	Will your personal/business data ever be safe?	Sir John Scarlett, KCMG, OBE, former Chief of the British Secret Intelligence Service (MI6)	Lloyd's
16 Nov	Reinsurance lecture	Economics: what is the outlook?	Kurt Karl, Head of Economic Research, Swiss Re	Lloyd's
17 Nov	Young Members' event	Young Members' Winter Ball 2017	n/a	Old Billingsgate
21 Nov	Educational visit	Introductory Tour of Lloyd's	Martin Leach	Lloyd's
21 Nov	Accident lecture	Changing the game through data analysis: telematics and the Internet of Things	Linden Holliday, CEO, MyDriveSolutions	Lloyd's
22 Nov	Marine & Energy lecture	The 'Atlantik Confidence' case: how sacrosanct are shipowners limitation rights?	Alex Kemp & Rory Butler, Partners, Holman Fenwick & Willan	Lloyd's
23 Nov	London Market lecture	Chemical, Biological, Radioactive and Nuclear	Steve Coates, Chief Underwriting Officer, Pool Re & representative from Cranfield University	Lloyd's
7 Dec	Educational visit	Introductory Tour of Lloyd's	Martin Leach	Lloyd's
13 Dec	Carol Service	IIL & WCI Carol Service	Reverend Oliver Ross	St Katharine Cree

For further 2017/18 dates visit: **www.iilondon.co.uk**

GET MORE FROM YOUR CII MEMBERSHIP IN YOUR INBOX

Get more from your membership by signing up for e-alerts from the Insurance Institute of London about high-quality, no cost or low-cost, CPD opportunities. Keep your contact details up to date at **www.cii.co.uk/my-cii/**

FOR THE JOURNEY

Make your next move with confidence using our downloadable lecture podcasts at **www.cii.co.uk/knowledge/insurance-institute-of-london**

ON YOUR PHONE

Got something to say? Join the conversations on Twitter **@IIL_London** and on LinkedIn

FROM THE NEWSSTAND

Read the IIL Journal anywhere by downloading it from the publications page at **www.iilondon.co.uk**

ON THE WEB

The latest thinking is only a few clicks away at **www.cii.co.uk/knowledge**

ON YOUR CV

Demonstrate your professionalism with a CII qualification. Go to **www.cii.co.uk/qualifications**

OUT AND ABOUT

Looking for a quiet spot for a private meeting or somewhere to catch up with your email? The Members Suite at the Insurance Hall provides PCs, phones and a quiet meeting zone.

FIND US

The Insurance Institute of London
The Insurance Hall
20 Aldermanbury
London
EC2V 7HY
020 7600 1343
Email **iil.london@cii.co.uk**

FOMO – THE FEAR OF MISSING OUT!

If we don't have your email address we can't invite you to free CPD-accredited lectures and seminars, arranged by the Insurance Institute of London and your London PFS Committee.

To check your details are up to date go to: **www.cii.co.uk** or **www.thepfs.org**

Log in with your PIN or email address plus password then click on **My CII** or **My PFS**.

The top box should be 'User Profile details'. Click 'Edit my details', then scroll down to the bottom of the screen – to the 'Data protection and privacy' section.

To get invitations from us about free lectures, the middle box should be **UNTICKED**.