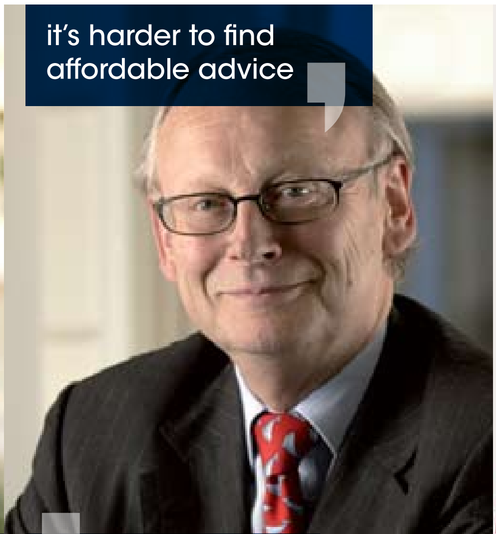
The Insurance Institute of **London**

The London Journal **2014**



inside this issue

Graham Clarke

President
Insurance Institute of London

Welcome

The objectives of the Insurance Institute of London are 'to raise the levels of professional knowledge of those working in insurance and financial services in London and to assist our members in their career development'.

These objectives are achieved through a wide range of activities, which include a comprehensive lecture series, this annual journal, research studies, educational visits and an extensive professional and social networking programme – each activity carefully designed by members for members to enhance their professionalism.

London is the largest of all the local institutes. It strives to ensure that London maintains the highest standards of qualifications and professionalism and nurtures the talent of the future.

It was with this in mind when I took office in September 2013 I chose 'the importance of mentoring' as my theme. This has been addressed in both the Institute's lecture programme and this edition of the London Journal.

I have been very encouraged by the support shown when raising this topic in our industry and I particularly wish to record my thanks to everyone who spoke and wrote on this topic.

Every year approximately 500 volunteers contribute their expertise to create the London Institute's lecture programme and they donate well over 2,300 hours of their time on a pro bono basis. Their contributions have been enjoyed by over 10,000 attendees and a further 2,000 who downloaded the podcasts. I would like to thank everyone who participated. I hope you have enjoyed the Institute's programme of events and activities. Please remember, this is your Institute and if there is more we can do to support you, we would welcome your ideas.

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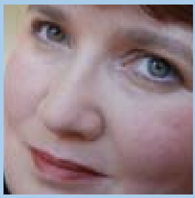


Allison Potts

Secretary
Insurance Institute of London

Insurance Institute of London – bigger and better

In the 2013–14 season we commissioned 74 lectures, 18 educational visits and five major networking events.

Bigger membership

Over the past five years membership of the Insurance Institute of London has grown by 40% and now stands at well over 21,100 members. In the past year membership grew by 8.25%, and notwithstanding the concerns about the impact of changes following the retail distribution review, the Personal Finance section of our membership also grew, by 3%. In all, 4,097 new members joined us during the year, many from firms that have achieved Chartered status. With 38% of our members aged under 35, we are a thriving Institute.

Strategy for success

In view of this rapid growth, the London Institute's Council decided to conduct a strategic review to ensure that:

- the growing membership is represented at all levels;
- our continuing professional development services meet members' needs;
- governance is conducted in line with best practice;
- communications are efficient; and
- our networking events continue to be successful.

A Strategy Review Working Party was established, led by the Institute's Honorary Treasurer and which comprised members from a variety of backgrounds – both general insurance and financial services – and representing a range of ages and experience.

Improvements suggested by that team are being introduced, and more will follow over the coming months.

Continuing professional development

The London Institute generates tremendously valuable CPD opportunities, not only for London members, but also for all members of the CII Group around the world. The quality of our lecture programme is recognised by its CII CPD Accreditation status.

This year members benefited from important lectures given by the Deputy Head of the Prudential Regulatory Authority; the Director of Supervision of the Financial Conduct Authority and the Chairman of the European Insurance and Occupational Pensions Authority. The strategic challenges faced by the reinsurance market were a key theme with highly popular lectures by the Managing Principal, Nephila Capital; the Chief Economist, Munich Re and the CEO, Renaissance Re. Tackling UK flood risk and the growth in cyber attacks were two of the hottest topics of the session with important presentations by the ABI on the creation of Flood Re and the rising tide of cyber attacks was illustrated by Kennedys. Greg Case, the President and CEO, Aon plc, rounded off the session by discussing the importance of London, Lloyd's and risk advisers in today's global economy.

CPD for PFS members too

Reflecting the interests of the growing number of PFS members, IIL hosted eight financial services lectures and forged closer links with the PFS London Region and plans are in hand to co-host a course on critical thinking and a seminar on the implications of crowd-funding and peer-to-peer lending, early in the new season.

CPD for young members

In addition to its ever popular networking event, our Young Members Committee hosted two seminars specifically designed to appeal to their age group. 'Cyber Insurance – it's going #viral!' included a commentary from Sir Edward Garnier MP, QC a former Solicitor General, and 'Third party capital – the end of insurance as we know it?' was addressed by Professor Alan Punter, Visiting Professor in Risk Financing, Cass Business School. If you missed any of our lectures, you can download podcasts and CPD certificates from the CII Knowledge Services site.

Diversity

In the 2012-13 season, we appointed our first volunteer Diversity Champion, Erik Johnson, ACII. The role of the Diversity Champion is to work with the London Institute and the London Region of the PFS to uncover barriers to diversity and to work on solutions. A diversity and inclusion plan was approved by the London Council during the year which includes direct reports to Council; improving information on the Institute's website; working with other interested bodies to host lectures and events; to investigate the creation of an IIL committee to drive London's further work and contribute an article to this journal. Erik is standing down from this role at the end of the session and the Officers record their thanks to him for his ground-breaking work. The Officers also thank those members who have kindly volunteered to take on these duties.

Graham Clarke

CEO, Miller Insurance Services LLP
President, Insurance Institute of London

Don't forget the client

Our clients come first and we must work with regulators to ensure that this principle is not lost.

Our market is undergoing one of the most significant periods of transformation since Lloyd's launched its mid-1990s Reconstruction and Renewal project. The changes then were to address a series of crises that primarily affected the Lloyd's Market; nearly twenty years later we are experiencing a structural shift in our industry as a result of the escalation of regulatory burden, the increase and breadth of sources of capital, the shifting marketing tactics of global brokers, and changes in distribution channels.

Understanding our clients

Markets and brokers have several different and conflicting challenges; it is crucial that in addressing these issues that we do not lose sight of the reason we all exist and the one thing we all have in common – the service of our clients.

Our clients value our understanding and appreciation of their individual industries, first-class security, reasonable pricing, market longevity and resilience, process efficiency and delivering on the promise to pay on valid claims.

While increased regulation protects our clients and is thus a benefit, when regulation is escalated to the point that the burden of compliance distracts us from our clients, it becomes detrimental. Where the burden drives the lower quartiles of the broking and underwriting markets to search for more robust and better-capitalised partners, it is promoting a strong and healthy market. But I believe we are in danger of paying too high a cost for regulation – not only in terms of money, but also in terms of the many working hours now dedicated to regulatory framework compliance; our clients come first and we must work with regulators to ensure that this principle is not lost.

Although new sources of capital are a concern for those interested in maintaining the status quo, the growth of this alternative financial resource is a positive development for our market. Despite accusations of 'hot money', this does not appear to be either unsophisticated or short term. A strong, well-capitalised market is in the best interests of our clients, so it is crucial that no barriers prevent these resources supporting our industry.

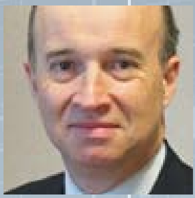
The move by global brokers to adopt quota share placement arrangements has been the subject of much commentary, particularly because these have moved from more opportunistic markets to more established global insurance companies. While there are many examples of clients realising meaningful benefits from scale-based schemes, this particular trend will result in a move away from term-setting and custodianship by specialised industry experts to the inevitably conflicted, broker-controlled quota share arrangements becoming more commonplace today. The result will be an incongruous relationship between brokers and markets, one that is deeply flawed and not in the long-term best interests of our clients.

Markets and brokers have several different and conflicting challenges; it is crucial that in addressing these issues that we do not lose sight of the reason we all exist and the one thing we all have in common – the service of our clients.

Accessibility

Change continues in our ever-evolving distribution model. Distribution is an emotive topic, and one that tends to be rife with self-interest, by both brokers and underwriters. My view is that an easily accessible Lloyd's and London Market with strong expertise and service is the best way to ensure the high standards for which it is renowned. If this expertise is diffused to local markets, it is crucial that we protect the brand by insisting on the high levels of knowledge and transparency that are the lynchpins of this marketplace.

The convergence of the factors I have described is set to have a widespread impact on the landscape – the promotion of modernisation and efficiency throughout the business, merger and acquisition activity and the diffusion of both sources of capital and access to markets. Where we are acting in the best interests of our clients, all of these are positive; where we are not, we put at risk 326 years of the service standards and culture of excellence that have been at the heart of the Lloyd's and London markets.



Stephen Riley

Executive Director, Global Aerospace
President-elect, Insurance Institute of London

Too much management, not enough risk

Essentially modern risk management is a series of responses to a succession of corporate disasters or failures.

Modern risk management has been a largely reactive discipline based on improving corporate governance, introducing new systems, controls, monitoring and reporting designed to limit the power of individuals to act outside of a framework of rules, regulations, guidelines and cultural aspiration statements.

Before all of this existed we relied on a more limited form of government regulation, we had independent audit and we had the full panoply of the law. For the best part of two hundred years that worked well with periodic bouts of market 'failure' throwing up problems and leading to new solutions, some good, some bad.

Defences failed

So did the growing risk management industry, whether it be the internal company arm, a government regulator or the army of external consultants, auditors and actuaries stop the greatest disaster to befall modern capitalism during 2007–09? Well obviously they didn't. All three lines of defence failed, totally missing what was happening and perhaps even compounding it by giving a false sense of comfort to customers, to governments and to the organisations themselves – not forgetting the dear old tax payers. Surely this is a case of too much management but not enough risk (management).

Risk management aspires to be predictive, to stop something from happening. If it often fails to do this, should we merely consign it to the dismal science bucket along with economics or should we think again about what we are trying to achieve and recalibrate our approach. This should be an essential task for any insurance business. We are, and have always been, in a risk management business. It is our bread and butter, so we should know how to do it and to do it better and ask ourselves the questions that are really important.

Quality people and training

We should start with the quality of the people we employ and their training – not only technical training but also how employees learn to behave within an organisation and towards its customers. If we look at remuneration policies today, in many companies far too much complexity has been introduced. There are long-term and short-term plans, there are share grants and share options.

There is supposedly identity of interest between the individual, the business and the interests of the shareholders but what is important here is the balancing of personal goals, business unit goals and organisation wide goals. I believe it is much better in a firm if the vast majority of rewards are geared to the overall success of the company rather than the actions of the individual, particularly for senior people. Interests should be aligned with the company that you work for and ensuring that what benefits you benefits the company and vice versa.

Since the financial crisis, we have clearly travelled down the road towards more specific and more prescriptive regulation. But is it the right amount of regulation? What have the design and implementation of Solvency II given us apart from large consultancy bills, big project exhaustion and endless policy statements? Has this just created a mania for compliance? Can we now be confident that the new regime in place in the UK, the EU and globally 'will do what it says on the tin' – is this all too much management and not enough focus on the 'real' risks? I believe much more needs to be done to make sure that the people who work in financial service companies and customers both individual and corporate, understand the risk landscape in which they sit, and understand what behaviour is desirable and expected from them. Then we might succeed in forestalling the next major crisis.

> *We should start with the quality of the people we employ and their training – not only technical training but also how employees learn to behave within an organisation and towards its customers.*

Andy James, ACII

Underwriting Assistant, Catlin

Rising to the challenge

Inga Beale, ACII, Chief Executive Officer of Lloyd's, was asked a series of questions about career development in the London Market by young member Andy James, ACII, Underwriting Assistant, Catlin. Reporter Terry Hayday, FCII, Optimum Consultants.

AJ: I joined Catlin in 2011 on its graduate scheme. What route to employment at Lloyd's would you recommend?

IB: Graduate schemes are a great route into the London Market. The Lloyd's three-stage rotational scheme has several unique features. Graduates spend time with the Corporation of Lloyd's, managing agents and with brokers. This gives them an overview of the market and helps them choose an area most suited to them.

AJ: What happens to applicants who don't get selected for such schemes?

IB: Today, employers are much better at spotting those with potential. Many have sophisticated talent management programmes. Don't be afraid to start at the bottom, because, if you are good, your abilities should be recognised and you may well be fast-tracked to more senior positions. Everybody, in making their career choices, should carry out due diligence on the quality of the talent management schemes of future employers.

AJ: Lloyd's is also championing apprenticeship schemes for school-leavers. Why?

IB: I spent many years in Switzerland, Germany and France. In continental Europe, apprenticeship schemes are really popular. They have a completely different standing and young people are really proud to participate in them. In the UK, we are still developing such schemes, as employers are recognising that it can be a great way to harness talent and diversify the workplace.

At Lloyd's we have 12 apprentices joining our scheme in 2014. We target local London boroughs and are especially keen to tap into the talent of school-leavers from Tower Hamlets.

AJ: You talk about diversifying the workplace. Can you tell me about the content and reasoning behind your Inclusion@Lloyd's initiative?

IB: Within our diversity and inclusion programmes we are looking to attract people with different ideas, different backgrounds and different experiences. A cultural mix generates genuinely diverse points of view which can benefit business. As Lloyd's develops internationally, we need people who can better understand specific cultures, procedures and how business gets done outside of London.

AJ: How will you advertise career opportunities at Lloyd's to people outside the UK?

IB: This year, we are launching our virtual global development centre and opening up training for overseas visitors. We have 25 professionals from China coming to Lloyd's for a ten day programme to educate them about the London Market. We are also becoming more involved in European MBA fairs.

AJ: Lloyd's Vision 2025 and Strategy 2014–2016 promise 'an accelerated career path … for high achievers'. What does that mean?

IB: It's about recognising talent early and promoting accordingly. We run our modular Developing Leaders at Lloyd's programme in conjunction with London Business School,

Recognise your best competencies and develop them as well as you can.

encouraging managing agents to put forward their perceived leaders of the future. Participants work alongside Corporation staff on market projects to help them develop requisite leadership skills.

We want managing agents and brokers to have their own high quality talent programmes. When I worked for GE in Kansas, I saw how it managed people as robustly as it managed the numbers. It had rigorous plans for its staff, which maximised opportunities for people. The flip-side is that people have to have the courage to take the opportunities that come their way; as I did when moving to Kansas.

AJ: Are you saying that aspiring leaders should seek opportunities abroad?

IB: Clearly, I am not advocating everybody having to leave London, but there is something to be said about gaining valuable leadership experience in another environment.

AJ: Should the traditional career path on an underwriting box or as a broker naturally lead to a senior management role in Lloyd's?

IB: It should depend upon the individual. I started out that way. I got my ACII, but then wanted to get involved in cross-team projects, from which a desire to lead soon developed. Managing people, especially in diverse teams, has been so valuable for me in my present position. However, not everybody wants to be a CEO. If managing people is not right for you, don't do it. It's important to do well or even excel in your chosen area of expertise. There's no need to take an excellent underwriter, for example, and put them in a management role if they're best suited to underwriting. Recognise your best competencies and develop them as well as you can.

AJ: Do you think Lloyd's should mandate that those in senior positions should study for insurance exams?

IB: I love the idea of making insurance as professional as it can be. I began my career with the Prudential and was expected to get my ACII. In our market, mandating requirements is no substitute for encouraging competing firms to adopt best practice. At Lloyd's, we recognise that having a professional cachet sends out such a positive message to those with whom we do business.

AJ: What have been the key changes in insurance during your career?

IB: As a young underwriter, I relied heavily on personal relationships, but didn't use data in the way that it is manipulated today. Data analytics has transformed our industry.

The regulatory landscape has also changed dramatically. Increased capital requirements, allied to the modelling work required, did not exist when I began my career. The other major change has been the emphasis on the customer. There's been a huge shift in focus towards those who pay their premiums to us. In a digital age, we must always remember that customers have so much more access to information and that leads to greater choice of product, carrier and service.

AJ: Does all this extra data actually help an institution that is 326 years old and has been generally successful?

IB: We are in the risk business and the world is changing and becoming much more sophisticated. Receiving, analysing and understanding data is essential. We simply cannot operate as we did in the past. We also need to embrace the use of technology more. Your generation is characterised by its digital social world. The insurance industry needs to keep pace and convert its practices to suit the way people are living their lives.

AJ: Are you saying that the computer will replace the underwriter/broker relationship?

IB: No, because so much of the business written in Lloyd's is bespoke, highly complex and relationships are still important. However, underlying services have to be much quicker. We know that people can do their banking from their smartphone or track Internet purchases at the press of a button. We need to ensure that the insurance industry doesn't get left behind. One day, wouldn't it be great to think that policyholders could track the progress of their claims and any payments due to them? Again, it's a question of really focusing on the customer.

AJ: In your career, have you received any advice which has really helped you or had a mentor that has been particularly influential?

IB: I've had in-house mentors and those from outside the industry. They have been particularly helpful when I've had confidential career decisions to make. The most important people, though, have been those who've had the courage to back me and who have instilled in me a confidence to help me overcome any obstacles. For me, following my own instincts has been important and I've never been scared to take on challenges, especially those in the London Market.

Don't be afraid to start at the bottom, because, if you are good, your abilities should be recognised and you may well be fast-tracked to more senior positions.

Chris Beer

CEO, Merryck & Co

Why leaders need mentors

I am fortunate to have worked with many extremely competent business leaders in some of the world's biggest companies and am proud to have played a part in their success.

Leadership has never been easy, and much has been written on what makes a good leader. However, a large amount of the investment in people development is focused on how to be a better manager rather than a great leader. Zenger-Folkman identified the 16 competencies that truly differentiated 'extraordinary leaders'. Topping the list were things such as 'inspire and motivate others', 'build relationships' and 'connect with the outside world'. How well are we supporting our aspiring leaders in developing such skills?

VUCA

And what about the particular challenges that leaders are facing today. The American military coined the term 'VUCA' (Volatile, Uncertain, Complex, Ambiguous), which has been adopted to describe the increasingly difficult environment in which leaders find themselves. It is certain that this concept will resonate with many of us in our daily lives.

The insurance industry is particularly aware of the Black Swan concept – the event that is supposed to happen once in a blue moon. We have had many more Black Swans to deal with recently and this is likely to continue.

The pace of change is increasing and what was true yesterday might not be true today. The ability to hold different possible futures in mind and to deal with that ambiguity is a key attribute that future leaders must develop.

It's pretty tough being a leader today. Historically, the leader was expected to know the answers, chart a certain course and give people clear direction. But in a VUCA world it is difficult, even impossible, to lead in this way.

It's not surprising that the level in senior leaders is higher than ever, and the neuroscience tells us that stress reduces cognitive ability. Focus, decision making, energy, action are all affected. This is why mentoring is becoming a key tool for helping successful, capable leaders perform at their best.

Peers working together

So what is mentoring? It is peers working together in a unique one-to-one relationship for the sole purpose of the client being as successful as they can be.

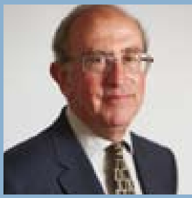
The experienced, impartial, objective support that a mentor provides is a vital ingredient in retaining perspective – enabling greater strategic clarity, better decision making and the energy and enthusiasm to ensure committed action.

The mentor has stood in the mentee's shoes and has directly experienced the challenges from the mentee's perspective and this allows a greater level of constructive challenge and support that enables bigger and quicker shifts.

So when might mentoring be appropriate?

We usually find that mentoring can be most valuable at times of transition; where the size and scope of the role that the individual is asked to take on is beyond previous experience and where the interactions with other parts of the organisation are very different in nature. A key part of the mentor's support is to enable a place of calm and reflection, where the main priorities can be identified, and the leader's time and focus concentrate on the things that really make an impact. The leader's success is less about what he or she does but more about how he or she leverages the talents of those around them. How the leader engages with others, the impact they have on others, the values they hold, the behaviours they model, the consistency of their approach are all visible measures of the impact the mentor will have on the leader.

Mentoring is becoming a key tool for helping successful, capable leaders perform at their best.



Sir Nicholas Montagu

Chairman, Financial Ombudsman Service

Never let up: Why the Financial Ombudsman Service became a leader in diversity

Our success lies in never letting up and mainstreaming diversity into everything we do.

When I'm asked why I'm passionate about diversity, I point to it as a rare coincidence of business, moral and social imperatives. It makes obvious business sense for any organisation to attract high-calibre people of all sorts, and to develop them to the maximum of their potential, just as it does to reach the widest possible range of customers or consumers, by understanding and meeting their needs. Morally, it's wrong for people to be excluded or held back because of irrelevant differences, and, socially, it's desirable for an organisation to mirror the society it serves.

At the Financial Ombudsman Service, where I have been Chairman since 2012, my major aim is to get diversity recognised as an intrinsic part of what we do, not as an add-on. I'm immensely proud of what we have achieved there, and of how we have achieved it.

We have a head start because the Service is the most values-driven organisation I've ever worked in. Wherever I go, people respect their colleagues for what they are and in the fullest sense – and that's almost a definition of how diversity works internally. Knowledge is treated as a resource to be shared, not a source of individual power, and people take pride in and celebrate each other's achievements.

There's a lot to celebrate and a huge range of people doing the achieving, in terms of age, ethnicity, sexuality, religion and all the other things that create that rich diversity which is our strength. We have numerous employee-led networks reflecting these differences, and I'm delighted by the way that separate groups come together to talk about their shared concerns and experiences. In a telling moment recently, after a tremendously successful 'Inclusion Week', one person commented that every week should be just that – and we've really taken that to heart.

Our success lies in never letting up and mainstreaming diversity into everything we do. That's why we were recently accredited as Leaders in Diversity – one of only three organisations in the country, and the only national one, to get that recognition.

Knowledge is treated as a resource to be shared, not a source of individual power, and people take pride in and celebrate each other's achievements.

That mainstreaming applies to both our external and internal faces. As a service, we want anyone in any section of the community who might have a problem with their financial supplier to know about us and come to us. That means reaching out to different communities and groups all around the UK. Young people may have a different grasp from older people; some minority communities may be less at ease dealing with big financial institutions; people with mental health problems need special help to enable them to get a fair outcome to their complaint.

That's why we have such an active outreach programme and why we work nationally with many organisations, including a wide range of disability and mental health charities. They help us better understand the special needs of our consumers and, through them, we can reassure those consumers that we are here to help and that we understand those needs. We are strong, internally and externally, on gender equality, featuring three of our leading female ombudsmen (or should that be "ombudswomen"?) in the official guide to International Women's Week.

Diversity really is at the heart of everything we do and of all our successes. But we are not resting on our laurels – if there's one thing diversity work has taught me, it's that you need to run to stay still. We don't want to stay still – we're always looking to do better – so for us the race will always be on.

Erik Johnson, ACII

IIL Diversity Champion and Representative's Committee and Assistant Vice President, Allied World

Working towards inclusion

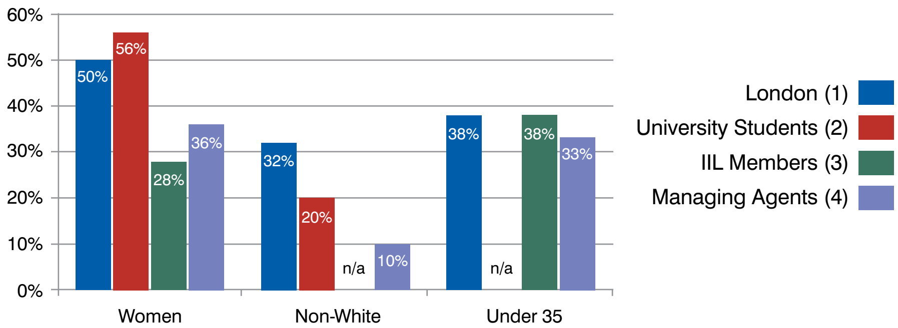
How to make the London market a diverse and inclusive environment, where difference is valued and inclusion leads to innovation and opportunities.

Much has happened in the Diversity & Inclusion (D&I) space in the London market in the past year:

- The IIL Council adopted a D&I strategy
- The IIL Young Members' Committee hosted a 'Dive into Diversity' lecture
- The LMA and Corporation of Lloyd's formed the Inclusion@Lloyd's group
- The LGBT Insurance Network hosted 'The Pursuit of Inclusion: Strategies that Work' lecture

Diversity & Inclusion has become more important to industry leaders, but what is driving this interest? Based on data, demographic forces might be responsible.

The population of London is changing along with the mix of graduates. However, the London Market appears to be missing out on talent that is increasingly diverse. Where might this diverse talent be going?



Sources: (1) 2011 UK Census; includes only people classified as employed; (2) Higher Education Statistics Agency; gender data are for all students; ethnicity data are for first-year students; (3) IIL; data on ethnicity are not available; (4) LMA; data are based on median results from a voluntary survey.

Imagine a black female law student, Jen, in her final year of studies. She is considering a career in law or liability insurance. Her uncle is an underwriter in the United States. He encouraged her to consider insurance as a career.

Jen does some web research and locates the Law Society's Ethnic Minority Lawyers Division and the multicultural networks of a few large law firms. She notices that many law firms prominently publicise D&I credentials. Looking at careers in insurance, Jen spots the Women's Insurance Network but finds little else in the way of D&I materials credentials. She decides to attend her university's career fair to learn more.

Jen visits stands from several of the 'Magic Circle' law firms that are manned by staff from senior partner to associate. Luckily, she meets a female partner who explains the opportunities available for all new graduates, the networking and support offered by her firm's various D&I employee networks, and the increasingly diverse partner pool where 30% of partners are women. Jen manages to find one insurer stand, where she

> *It is vital to ensure that Lloyd's remains as relevant to our clients and other stakeholders in the future as it has been in the past. As we develop Lloyd's presence in existing markets and as new high-growth markets open up, Lloyd's needs a workforce that is not only of the highest possible calibre, but also can quickly establish strong relationships with new clients and understand their needs, to be able to work creatively collaboratively with them, regardless of their diversity characteristics. Diversity throughout our workforce can help identify opportunities and build these relationships more quickly.*

Paul Jardine, COO, Catlin Group Ltd and member of the Inclusion@Lloyd's Group discovers that they don't have any D&I networks and only 5% of their senior underwriters are female.

Armed with her good degree and leadership experience gained running her university's debate team, Jen decides to apply to three law firms. She can see herself being successful in the legal sector based on the external D&I messaging she saw from Law Society and law firms and the role models she met through the career fair. After a few interviews and assessment centre days, Jen accepts a job with a London law firm's insurance litigation team.

What can the insurance industry learn from Jen's story? Basically, it needs to be much more active and visible in relation to D&I. There are four areas on which the sector should focus to achieve this:

- Communicate our commitment to D&I, outlining the importance of D&I and plans for change.
- Get D&I onto board agendas and demonstrate tangible results, giving credibility to D&I work.
- Encourage D&I networks to provide role models, support, guidance, and networking opportunities for D&I communities, companies, and the wider industry.
- Educate employees and leaders on the importance of D&I so that they understand the impact of unconscious bias on themselves and others; changing attitudes, cultures, and working practices in the process.

With 82%[1] of Lloyd's business originating from outside of the UK, we need to speak the language and conduct business in ways that meet our customer needs. Making progress on D&I is a business imperative. While change requires focus, time, and resources, the benefits are worth it. We can't afford to miss out on the diverse talent pool that will drive the innovation and change that we need for a thriving industry, now and in the future.

For further information please contact me at iildiversitychampion@cii.co.uk or visit the IIL's D&I webpage.

Across the Lloyd's market we have started to focus on D&I to ensure that we attract and retain the best people to support the growth of our business. Lloyd's managing agents, brokers, the Corporation of Lloyd's and Lloyd's Market Association are collaborating to raise awareness and share best practice so that our workplace is highly inclusive and delivers the talent and innovation required for continued success.

Dominic Christian, CEO, Aon UK Ltd and Chairman of the Inclusion@Lloyd's Group
Deputy President-elect, Insurance Institute of London

We are in a professional services business and our staff is absolutely the most valuable asset we have. Staff members are employed for their skills, attitude and value/contribution they can make to ongoing business success. A diverse workforce is a must because it makes 'commercial business sense'.

Additionally, the quality of debate at senior/board level is enriched by contributions from all levels and we actively encourage and invite a cross-section of staff to boardroom lunches to give a view from their perspective and to challenge the board on any relevant issues. Transparency is key in everything we do and having an inclusive workforce that understands why we do what we do, makes it a healthy and harmonious environment.

Ashwin Mistry, OBE, ACII, Chairman, Brokerbility and CII President

We are too casual about diversity in insurance. I believe it is one of the most inclusive and welcoming environments to work in but we tend to take for granted that outsiders are aware of that. They almost certainly aren't and we are missing a trick. Let's face it, insurance is largely the preserve of white males and in this day and age, that is quite frankly embarrassing. We have certainly made progress in recent years but we must do more with greater confidence and get past the gender issue. We need to consider the full range of diversity – gender, race, age, sexual orientation, social and economic background – and make it clear both in theory and practice that everyone, with the requisite talent and drive, can make a great career for themselves in insurance.

Amanda Blanc, ACII, Executive Director, AXA and CII Past President

[1] Lloyd's Annual Report, 2013

Ken Crerar

President and CEO
Council of Insurance Agents & Brokers

FAME – a model for the UK?

The Foundation for Agency Management Excellence (FAME) was established by brokers in the US to indentify and promote talented people from non-traditional backgrounds. Could a similar initiative in the UK increase diversity and help boost innovation?

Katelin Robertson was a single mother trying to juggle school, work and life with a toddler. Bryan Fuller was a US Army veteran and a father of two. They were non-traditional students with non-traditional careers in mind: commercial insurance broking.

They were perfect for FAME. FAME (Foundation for Agency Management Excellence), is a non-profit organisation established by the Washington, DC-based Council of Insurance Agents & Brokers. It has long worked to promote leadership and excellence in the agent/broker community and has funded publications on important industry issues. Recent topics include producer licensing, insurer insolvency, advantages and disadvantages of the employer-based health insurance system, and how to develop and implement an effective intern programme.

The FAME scholarship programme was started in 2006 on an experimental basis with four scholarships of $5,000 each. Its mission was to make a positive impact on the future of the commercial insurance broking industry by identifying dean's list-level risk management and insurance students who demonstrated financial need and who wanted to work in the industry. Now in its twentieth year, FAME has made a difference in the lives of Robertson, Fuller and dozens like them.

'Receiving a FAME scholarship led to industry exposure I wouldn't have experienced elsewhere', said Brian Wingfield, a past FAME scholar, who saw his athletic scholarships rescinded after suffering a freak injury weeks before his freshman year was to begin. Wingfield said his FAME scholarship helped defer the college tuition expenses he never planned on having, and put him on a path to excel in the business after graduation. 'FAME helped me distinguish myself as a top candidate for the positions I was applying for.'

Stories such as these kept coming – and thanks to strong CIAB member support – so did the funds.

The FAME scholarship programme has awarded nearly 180 scholarships totalling $885,000, and has partnerships with 21 universities in the United States and one in France.

These are hardworking students who have everything it takes to excel in our industry except the funds to get through school.

'Insurance was a field I knew nothing about, but once I was introduced to professionals in the business and heard their success stories, I knew it was the major for me', said Latwanna Singleton, a past FAME scholar at the CIAB's 2012 Insurance Leadership Forum, the world's premier commercial property/casualty meeting. 'The FAME Scholarship helped take my focus off financial matters and concentrate on my academic goals.'

FAME has opened doors to new opportunities for many students while helping address one of the industry's most critical issues: recruiting talent. Today, about two-thirds of FAME scholars go on to work in the insurance industry and in 2013, 25 FAME scholars were hired at insurance broking firms following graduation.

These are hardworking students who have everything it takes to excel in our industry except the funds to get through school. FAME gives them the peace of mind to concentrate on what's important and allows them to pursue their career goals with less financial worry. It's a programme that breeds a "pay it forward" attitude and we're excited for what's in store.

Following graduation, Robertson became an assistant account manager, while Fuller landed a job as an employee benefits adviser. They are among a distinguished group of FAME scholars that the CIAB is proud to call 'family'.

Founded in 1913, the Council of Insurance Agents & Brokers is an association of top regional, national and international commercial insurance and employee benefits intermediaries worldwide. Council members are market leaders that place 85% of US commercial property/casualty insurance premiums and administer billions of dollars in employee benefits accounts. With expansive international reach, the Council fosters industry-wide relationships by engaging lawmakers, regulators and stakeholders to promote the interests of its members and the valuable role they play in the mitigation of risk for their clients.

Benjamin Baker, Cert CII

Head of LMA Academy
Lloyd's Market Association

The LMA Academy's approach to technical education in the Lloyd's Market

Experience shows that there is demand for continuous, interactive and properly planned education linked with effective mentoring.

Ask people in the Lloyd's Market for their criticisms of technical training, and you'll probably hear that it tends to be focused in silos, lacks a clear progression and should not come to a halt after the achievement of a degree or ACII qualification. The desire for a mentor is also expressed fairly regularly.

The good news is that help is on the way as many experienced insurance professionals at Lloyd's are actively engaged in working towards addressing the needs of their colleagues in the shape of the Lloyd's Market Association's LMA Academy. The LMA Academy believes that education is a continuous process. In June 2012, it structured its activities to recognise that individuals want to make the best of every opportunity, whatever level they may be in their career, to enhance their prospects through further technical insurance education. By working at the heart of the LMA, the Academy identifies key areas where additional knowledge is required. Where there is a gap, the Academy seeks to fill it.

Three key areas

The Academy's new structure concentrates on three key areas: foundation, technical/practical and advanced. Each programme is designed to have a clear learning outcome and link to other events run by the Academy and the LMA. In 2013, the LMA Academy ran 43 events attended by over 3,000 people.

In order to ensure that programmes are recognised at a professional level, the Academy has become fully accredited by the Chartered Insurance Institute (CII) and attendees receive CPD hours.

Foundation programmes are individually assessed by the CII and are submitted for the CII kite mark for technical quality. The LMA Academy syndicate business plan programme was the first to be accredited. Further programmes covering risk management, the role of the actuary, claims foundation and insurance contract wordings will follow this year and next, and will be delivered on the same basis.

Masterclasses and workshops cover key, immediate issues that affect the market. These have included wordings, cyber risks and weather issues.

Inspirational leaders

Advanced level programmes are for senior managers. The Inspirational Leadership Programme, run in partnership with Saïd Business School, University of Oxford, addresses leadership in the context of the individual. A new programme on sustainability leadership, being developed with the University of Cambridge, will examine the role of insurance leaders by developing and testing strategic views in the context of global challenges. Practical programmes at this level include a claims transformation programme with EY and a week in New York looking at the practicalities of living with US litigation.

At the beginning of the year, the LMA surveyed young professionals in the Lloyd's and London markets to find out what support they would like. Of the 440 respondents, almost 70% said they would like more networking and mentoring opportunities in addition to the programmes already run by the LMA Academy. Lloyd's began piloting a mentoring scheme for the market in mid-2013 involving over forty market practitioners which has so far proved to be very beneficial and it is hoped that this will be an ongoing scheme in the market. This is an issue also being addressed by a number of young professional groups and highlights how important these networks are for young professionals in the market.

Experience shows that there is demand for continuous, interactive and properly planned education linked with effective mentoring. The philosophy of the Academy is quality over quantity with a desire to deliver professional and integrated educational programmes for LMA members.

In 2013, the LMA Academy ran 43 events attended by over 3,000 people.

Hot topics 2014–2015

London Institute lecture committee leaders highlight some key issues in their sectors.

Aviation Committee
David Sales, FCII, Cooper Gay

The airline industry as a whole remains on track to deliver a second consecutive year of improved profitability in 2014 and, for the first time for a while, airlines all over the world seem to be building for growth.

The industry does, however, still continue to face significant challenges. In an immensely competitive environment, airlines have to try to both satisfy demand and operate profitably. Aircraft manufacturers face difficulties meeting order backlogs. Fuel charges represent a significant element of an airlines costs and, with the political turmoil in the Middle East region, any hope of obtaining cheaper aviation fuel in the near future seems to be unrealistic.

Security is an ever present issue, with cyber attacks against critical infrastructure becoming a growing threat.

Environmental matters are also a continued challenge. It is not just biofuel development and the impact on the environment – airlines will have to cope with legislation that would tax them on carbon emissions.

In the next aviation lecture programme, we hope to include, as speakers, senior executives and experts from across the sector to give us their thoughts on some of these issues, which we hope will both entertain and educate our audiences.

We also intend to include a lecture on space exploration technologies and Alan Beacock, Head of Aviation Reinsurance, Swiss Re will discuss the issues facing the aviation insurance market itself, as overcapacity continues to threaten profitability.

Claims Committee
Jonathan Clark, ACII, SCOR

In the year that Lloyd's implements the new market approach to handling claims with the latest step of the Claims Transformation programme, it is clear that effective claims handling is the name of the game. For brokers and risk managers there is an increased focus on benchmarking claims performance and on speed of response.

But it is not just about speed of response – the claims teams in London must deliver high-quality decisions and stay up to date with a wide variety of claims case law and practice. The 2014 claims programme of the IIL is directed towards this objective.

The Lloyd's Vision 2025 is about providing world-class claims management to a subscription market focusing on specialist property and casualty business. The claims community will play a key role in developing the trust that underpins this strategy. Distribution through brokers, coverholders and service companies requires us to continue to embrace the wide range of technology tools that can assist the claims operation. We will need to be ever more imaginative in the use of mobile technology, satellites and drones, for example, to review claims in far flung or inaccessible locations.

But we need to continue to develop and encourage a new generation of claims adjusters and external claims service providers to keep London at the forefront of top quality claims handling. As others have remarked, 'claims' is one of two things you need to do well to succeed in insurance, the other is underwriting.

Financial Services Committee
Roger Sanders, OBE, Cert PFS, Lighthouse Group Employee Benefits

Eighteen months after the implementation of the Retail Distribution Review (RDR), providers and intermediaries are battling with another 'perfect storm' of more intrusive and costly regulation, legislative surprises, margin pressure and structural challenges to business models; in other words, constant and growing disruptive change.

The Mortgage Market Review (MMR) is adding three hours to the time taken to transact mortgage applications; fund managers are struggling to achieve acceptable levels of transparency of charges; ditto for platform providers; the overnight ending of UK life insurers' reliance on the pensions annuity market and the total liberalisation of DC pension pots at retirement proposed from April 2015; the accelerating roll-out of automatic enrolment for workplace pensions and the impending capacity crunch.

The good news is that all sectors are in a period of rapid innovation, with new routes to market being explored and new products in development; the background context is of innovation marginalising established products and businesses and challenging entrenched market positions – what Schumpeter called 'creative destruction'. All of this, in the long term, should be good for customers, clients and consumers, not to mention those businesses that embrace change, by increasing competition, reducing barriers to entry for new businesses and enabling new ways of doing business. The phrase 'a paradigm shift', for once, is entirely apposite.

International Committee
Alastair Evans, ACII, Lloyd's

There is no sign of the pace of regulatory change slowing up. In the next year, the final elements of the Solvency II regime will be put into place, with the adoption of delegated acts and implementing regulatory and technical standards, prior to the regime's entry into force in 2016.

At the same time, the IAIS will continue to intensify its work on the development of global capital standards (the basic capital requirement and the insurance capital standard), the Common Framework for Internationally Active Insurance Groups (ComFrame), the identification of Globally Systemically Important Insurers, higher loss absorbency standards for such GSIIs and other issues. Regulatory and supervisory regimes in the major and emerging markets will also continue to evolve as they grapple with their new responsibilities on macro-prudential and ongoing micro-prudential duties, including conduct issues, shaped by the lessons of the financial crisis. Hopefully, these various emerging rules will evolve coherently and consistently, although that cannot be taken for granted and the industry will need to continue to lobby vigorously to secure such an outcome.

These and other interesting and important topics, including global underinsurance, the fight against protectionism worldwide, the referendum on UK membership of the EU, the Singapore and Asean markets and the UK's efforts to promote inward investment, will be among the various international themes, which will be addressed by senior speakers in the IIL's next lecture programme series.

Lloyd's and Market Issues Committee
David Gittings, LMA

At its best the London Market provides a unique and unrivalled service to its customers. We provide solutions to their problems in a way that no other insurance centre or capital market can. We provide help when they most need it. But there is increasing evidence that London's position in the global industry is slipping. So the London Market Group (LMG) want to use the unique cross-market vehicle that is LMG to understand why that is, to understand our customers' needs better and then do something about the issues we have.

While we must not lose our focus on operational reform, we need to accept that, although this is very important, it cannot be the whole solution. We need to be talking about the major influences that can sustain or even grow London's position in the global marketplace. To do that we need to understand what it is that makes a successful financial centre capable of delivering high quality customer service. And then we need to determine which of those elements we need to improve upon if we are to retain our position. As a result of this, LMG is to expand its remit to ensure it provides this service to the market. It has agreed with the association boards enhanced terms of reference to enshrine this and has identified a series of initiatives to take this forward.

These market-wide initiatives will include work to:

- develop talent and promote diversity;
- co-ordinate a common voice for the market in its dealings with government and regulators; and
- commission research to better understand our customer base and identify ways to make the London Market more attractive to them.

Property Committee
Andy Brooks, FCII, Allied World

The recent winter flooding in parts of the UK, mainly in Somerset and the Thames Valley, highlights how important insurance is to the life of the nation. Insurers are now in the spotlight, both as claims handlers and as they get to grips with the challenges of providing future cover in vulnerable flood-prone areas.

Flood on a worldwide scale is not always provided by private sector insurers. A systemic risk with high frequency and massive aggregate exposure, is, in some countries provided via a government scheme (for example, in the United States) or is simply not widely available (for example, in The Netherlands).

Much of the focus of attention in the UK is on the recently announced government-sponsored Flood Re, a mechanism for insurers to recover residential flood losses from a pool funded by general taxation, thus encouraging continued availability of this cover. This is inevitably a complex structure with much debate about the boundaries of the scheme, but it also prompts some questions as to the future of general flood defence. Recent flooding in Somerset, and previously Hull in 2007, may at least in part be attributed to man-made factors – principally failure to maintain culverts and ditches, to dredge rivers and to operate pumping stations. So far the government believes the market for commercial flood insurance operates properly, but as information and modelling tools become more sophisticated, insurers of commercial property are likely to re-evaluate the cover and price of their UK natural perils exposure.

Hot topics 2014–2015

London Institute lecture committee leaders highlight some key issues in their sectors.

Property Investors Committee
Anna Whitfield, ACII, AXA

The hot topics for the property investors segment of the London Market continue to be influenced by the economy and legislation.

Losses emanating from vacant properties and recycling risks continue to present an issue for both insurer and client loss ratios. Recycling risks also continue to pose a challenge from an underwriting perspective and capacity is limited. Pressure on rate influenced by an increased focus on profit by insurers is expected to continue; demand for office space and residential accommodation continues to grow as reflected by an ever-changing and already crowded cityscape in central London.

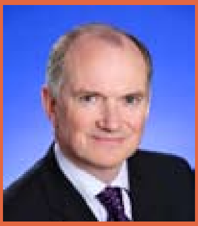
European investment remains an area of interest with investment remaining strong in western and northern Europe with signs of recovery in parts of southern Europe. Bank finance agreements are a corollary of capital-raising and the provisos of these continue to challenge all stakeholders within the market place.

Finally, provision of residential property insurance is expected to continue the trend of the past 12 months, with insurers having a reduced appetite for residentially biased portfolios.

Reinsurance Committee
Adrian Clark, ACII, formerly Aon Benfield

The key issue in today's industry is how we utilise capital. Over the past few years, a large amount of new capital has entered the reinsurance space, because when investors examine possibilities in the insurance sector as a whole, reinsurance is often seen as one of the easier entry points.

It is estimated that at the end of 2013, global reinsurance capital had reached record levels of around USD 540 billion – a 7% increase over 2012, and a 19% increase over 2011. When considering that capital levels have risen so sharply during a period of relatively low loss experience and lower-than-average investment returns, it can be readily seen that achieving profitable growth in today's environment is more of a challenge for insurers and reinsurers than was perhaps the case five years ago.



So, what is the solution? With the utilisation of data and analytical tools, we can identify areas where capital can be put to use, whether it be at the insurance or reinsurance level, or even the corporate level. In most major sectors there are exposures that the insurance industry has some reluctance to cover, either through negative past experiences, or through a perceived lack of modelling. These risks are often retained by the original client, or are dealt with by governments. Our skills as reinsurance intermediaries extend to match capital supply with capital demand, and in this context we are making moves to increase the insurability of certain key risks, through innovative product development and through using our global insight into the insurance and reinsurance markets to identify areas where capital can be put to use.

For a preview of the new programme see inside the back cover or go to www.iilondon.co.uk

Jonathan Mudd, ACII

USPI Class Underwriter, Brit Global Specialty

The value of relationships in the digital age

We must work to ensure technology and relationships sit in harmony alongside one another.

In today's cyber- and tech-savvy world, you could live through an entire week or even month and have no immediate need to interact face to face with another human being. Most banking, shopping and meter reading submissions can be done online, purchase petrol at the pump, top up your Oyster card at a machine – the list goes on and on. In the work place people also can all too easily hide behind computer screens with minimal personal interaction. Smart phones now sit on bedside tables as simple alarm clocks, act as office extensions for remote working and are one of the few essentials required to conduct day-to-day business activities.

Some clients see a personal relationship with their underwriters as a true value add and something not commonly found outside of London

Improved technology has transformed the way our business operates and continues to be essential to our success. It has assisted tremendously with information flow, communication, expense management, research, pricing techniques and has served to stabilise volatility and improve results.

However, while technology is important we must remain cautious of the seemingly limited requirements of true face-to-face human interaction. Sitting down with the broker and client adds tremendous colour to assessment of risks and assists and brings to life an underwriting proposal to help with risk analysis. In certain business lines, getting a thorough and true understanding of exposures is still only possible by personal interactions or a site visit. Internally, also in today's working office culture, two colleagues can too easily choose to email one another rather than walking to one another's desks to have a conversation. The simple investment of time to form a personal and social working relationship with a client, broker or co-worker will pay long-term dividends and ultimately lead to better scenarios and results for all parties. How many market 'snippets' and opportunities are picked up from friendly discussions that would otherwise never be raised in email exchanges? In essence, ensuring that there is a personal side and partnership to any transaction or contract will time and time again prove to be beneficial.

Win-win

Partnerships promote goodwill, cultivate better negotiation, assist with mutual understanding and ultimately might ease a difficult or uncomfortable situation. They engender a win-win atmosphere. Further, as our industry becomes naturally more transactional with automation, it is important that for certain business classes retaining our personal relationships really is a differentiator for a sophisticated client base. Some clients see a personal relationship with their underwriters as a true value add and something not commonly found outside of London. A sophisticated client will acknowledge that we are underpinning their business risk and allowing them to more freely conduct their day-to-day activities.

Clients wish to understand more about our industry's inner workings. We can talk about how we view their business risk, feed back lessons learned to assist them with their own risk mitigation, discuss insurance industry challenges and discuss how London claims handling operates and continues to outperform its peers. Such information exchange is from experience much better relayed face to face, in which the forum allows an open exchange with each party having true eye-to-eye contact.

Reliance on essential technology can be damaging. Desks are cluttered with I-phones or Blackberrys (quite often both!) pinging email and texts, some desktop monitors now have instant messaging, desk phones are ringing – not to mention the general office hum in open plan work space. It is still vital that on occasion one gets way from these daily distractions and invests regular and worthwhile time with brokers and/or clients face to face in order to focus solely on the job/risk in hand.

Building relationships

We must work to ensure technology and relationships sit in harmony alongside one another. London market underwriting is not about making a 'quick buck' but rather ensuring strong, consistent and stable results year after year and to achieve this we must know and understand the faces, personalities and behaviour patterns of whoever we are dealing with. Insurance in its rawest form is a transaction but building and fostering a relationship around these transactions creates a type of longevity unparalleled in many other industries.

Ronnie Tyler, Cert CII

Broker, Willis

Inspiration and aspiration in Lime Street

Ronnie Tyler, who joined the Willis graduate scheme in 2013, describes his first year at work.

When I was growing up, I always wanted a job in the City, but like many people, I never initially considered a career in insurance. With aspirations to get a job in London, I studied a business management degree at the University of Nottingham, graduating with a 2.1.

While at university, I was fortunate enough to undertake three weeks work experience at the Lloyd's Market Association. I spent time learning about the fundamentals of insurance, about the London Market and about the importance of Lloyd's and its history. I also enjoyed several days on various underwriting boxes – Kiln, Pembroke, MAP and Advent – as well as meeting a Willis Re broker, Christopher Hayday. This experience gave me a real flavour of the uniqueness of the Lloyd's Market and the importance of relationships between brokers and underwriters. It was also hinted to me that there would be the occasional lunch and drink involved, which didn't seem too bad at all!

After my work experience, I decided that I wanted to pursue a career in insurance and that the broking side appealed to me most. I applied to Willis and successfully got through the application process, choosing reinsurance as my favoured option. I subsequently joined Willis, in September 2013, on its graduate training programme and became part of the Marine and Energy Reinsurance team.

My time at Willis started with a three week induction programme with my fellow graduates, learning all about various different business units and basic compliance matters. Following this, I joined my team and began learning about reinsurance and the market – with all members of my team, no matter how senior, being very helpful and spending time with me to ensure that I understood what I was doing. I have begun some market work, having been initially taken round with some of the young brokers in my team who introduced me to underwriters in the market. Since then, I have actually been 'broking' with various slips and endorsements; constantly learning and picking things up. I have also started working on several important accounts – making presentations, benchmarking and analysing data – all of which has been very valuable. In a short space of time, I have gained a lot from this hands-on learning.

I am currently studying towards my ACII qualification, which I am aiming to complete within the next year. I have just finished my insurance law studies and sat the CII examination in April. Because I have a business management degree, I was awarded several credit exemptions by the CII, which has certainly accelerated my ability to acquire a professional qualification relatively quickly. I am also continuing with my employer's internal learning and development programme.

Willis has been a fantastic place for me to begin my career. Everyone in my department and the organisation as a whole has been very friendly and welcoming. The graduate team programme has been very good with regard to its structured two-year scheme that includes an assigned mentor and access to the Willis Re Academy.

I have thoroughly enjoyed the social side to insurance – having attended recent Under 35s events and a few Graduate Insurance Network lectures and networking sessions. It has been very good to get to know people of a similar age in the market, as we are all in the same boat.

My first year in insurance has been fantastic and has exceeded my expectations. I am now looking forward to the next year and the rest of my career in the London insurance market.

The graduate team programme has been very good with regard to its structured two-year scheme that includes an assigned mentor and access to the Willis Re Academy.

Rolf Tolle

Non-executive director

Effective non-executive directors

NEDs have the responsibility to work for the long-term success of the company.

'The UK Corporate Governance Code' as developed by the Financial Reporting Council and published in September 2012, gives an indication of the expected role of non-executive directors (NEDs): 'As part of their role as unitary board members, non-executive directors should constructively challenge and help develop proposals on strategy.' It then states, among other things, that NEDs should scrutinise performance management; satisfy themselves of the integrity of financial information, and talks about robust and defensible financial controls and risk management systems.

Ensuring long-term success

In my view, NEDs have the responsibility to work for the long-term success of the company and do this through control, challenge and support. However, in order to do this, an understanding of the matter that is to be controlled, challenged and supported is of utmost importance. This demands that NEDs have the respective knowledge and/or background in order to discharge their duties.

While in no way in an executive function, it is still necessary that a NED, when requested, takes an appropriately firm position as part of their remit and it might be one of the biggest challenges to develop the trust necessary in order to create a well-functioning board in the relationship between NEDs and executives. Audit and risk committees – or for smaller organisations a combined audit and risk committee – and a nominations and remunerations committee, would do much of the preparatory work so that NEDs on the board can act on solid, well-prepared information. Good management information (MI) is a prerequisite of providing NEDs with the necessary understanding of the business they are supposed to control, challenge and support.

In the world of Solvency II (S II), regulators expect that such committees operate at an acceptable level and that the MI produced for these, and for board presentation, is of high quality, timely and relevant. Let me again stress that this in no way replaces the work of the executive and information it needs in order to run the business on a day-to-day basis. In S II, it is 'Own Risk and Solvency Assessment' (ORSA) that should cover all of the important topics and should give a proper exhaustive overview of where the company stands. It is by far the most important document enabling NEDs to do their job.

Trust

Besides having the necessary background information it is also important for the NED to have a good relationship with executives, not only at board meetings but also through regular meetings on a one-to-one basis. This would help develop a sufficient understanding of the matters at hand and fostering the necessary trust between executives and NEDs in order to efficiently fulfil their role.

They should also embrace contact with the regulator in order to create an open and constructive relationship, which hopefully can reassure that a NED is striving to achieve the goals set by the PRA and the FCA when regulating our business. In particular, the requirement by the FCA to strive to have an impeccable culture in organisations and an ethical behaviour of excellent standing can be supported through regular contact between NEDs and regulator if wished for by the latter.

Effectiveness in the context of NED's work for insurance/reinsurance entities in the widest sense demands that there is an optimal composition of the group of NEDs on the board, in which everyone has particular strength covering respectively the areas of risk management, audit, governance, finance and all aspects of underwriting.

This collegium of experts is not in any way another layer of executives! It should, however, have a good, open and, if necessary, critical and challenging relationship with the executive, because only together can the right ethics and culture be nurtured and developed.

> *In S II, it is 'Own Risk and Solvency Assessment' (ORSA) that should cover all of the important topics and should give a proper exhaustive overview of where the company stands. It is by far the most important document enabling NEDs to do their job.*

Sean McGovern

Chief Risk Officer and General Counsel, Lloyd's

UK exit from the EU – possible implications for the UK insurance industry

The voice of business will be a powerful influence on public opinion.

The political context

The debate on whether the United Kingdom should remain within the European Union and on what terms is intensifying. The most significant trigger for the current debate was the Prime Minister's January 2013 announcement promising British citizens an 'in/out' referendum if the Conservative Party wins next year's General Election. This referendum would fall during the second half of 2017 – all the more interesting given that the UK is scheduled to hold the EU presidency at that time.

The Prime Minister's initiative has prompted the UK's other major political parties to set out their views on whether, and in what circumstances, they might support a referendum on EU membership. It has also led to more public discussion of the issue through the newspapers, public statements by business organisations (generally strongly in favour of continued EU membership), a series of surveys on public opinion and recent television debates.

The single market

The EU is not without its flaws and many valid criticisms can be directed against it. It has become cumbersome and its enthusiasm to legislate and regulate in pursuit of the single market means that it risks allowing perfection to be the enemy of the good.

The Prime Minister's and others' wish to see substantial improvements in aspects of the EU's operation is entirely understandable. It is particularly important that in future its agenda shifts to focus on supporting and encouraging economic growth and ensuring that it gives EU-based businesses the best possible chance to compete in the global market.

It is, however, too easy to focus on the imperfections – there are material advantages to remaining in the EU. Membership of the EU gives UK-headquartered insurers and reinsurers efficient access to a single insurance market in 28 countries with over 500 million people.

Access to this single market occurs on the basis of the 'single passport', an agreed regulatory system founded on the principle of Home State exclusive prudential supervision of (re) insurers and the right of such firms to trade freely through the whole EU, both by way of freedom of services and establishment.

This single market has brought unquestionable benefits to firms in the UK insurance market, and London in particular. Customers have also benefited through increased choice.

Lloyd's, like many London Market firms, writes business from all EU Member States by way of freedom of services and is established in many Member States, which enables local underwriting through coverholders and service companies.

The London Market premium income from other European markets exceeds £6 billion and covers a wide range of commercial non-life risks including property, liability, marine, aviation and transport and reinsurance, intermediated by London Market brokers.

Europe's largest economies (notably France, Germany, Italy and Poland), represent important sources of insurance and reinsurance of business to London. It follows that any loss or reduced access to those markets would be damaging to London Market commercial interests. Indeed, the period of uncertainty leading up to any referendum could itself do damage to the flow of business.

Membership of the EU gives UK-headquartered insurers and reinsurers efficient access to a single insurance market in 28 countries with over 500 million people.

Implications of a possible exit from the EU

There is much speculation regarding possible scenarios associated with an exit but the truth is that nobody really knows what would happen.

It is possible that the UK could choose to leave the European Union and yet maintain access to the EU's single insurance market under a negotiated settlement with other Member States. However, such a settlement is far from a certainty and may be a concession that other Member States are reluctant to grant if the UK decides to go its own way.

If no such settlement is achieved, the UK would become, in EU parlance, a 'third country' without automatic rights of access under EU law to EU Member States' insurance and reinsurance markets. The UK's access to such markets would then depend on the extent to which individual European national markets are willing to allow business to be written by non-EU insurers and reinsurers: several European countries do not have fully open markets in this regard and adopt a restrictive approach.

Being a 'third country' will impact UK insurance firms differently depending on how they organise their business operations. Some UK insurers already have one or more subsidiaries established in other EU Member States and may be relatively unaffected by a UK outside of the EU. However, firms without such subsidiaries may find business opportunities materially reduced unless they take steps to locate business operations within the EU.

Exit from the EU would reduce significantly, if not eliminate altogether, UK influence over EU rules that impact our industry. The extraterritorial nature of some of these rules means that we could not escape their reach but would have no real say in influencing their contents. Nor would we be able to shape the EU's agenda in seeking liberalising free-trade agreements, such as the current Transatlantic Trade and Investment Partnership with the United States, or the faster-growing economies of the world in which Lloyd's is looking for growth.

> *Exit from the EU would reduce significantly, if not eliminate altogether, UK influence over EU rules that impact our industry.*

Would an exit rid us of onerous EU insurance regulation? The short answer is 'no'. The EU has for many years been the primary source of UK insurance rules. This might tempt some to believe that, being outside of the EU would 'liberate' UK insurers from the need to comply with the requirements of Solvency II and other EU rules affecting our sector. Such a proposition assumes that UK regulatory authorities would be minded to lessen the rigour and intensity of national oversight of insurers' operations if the UK left the EU. The PRA has shown itself willing to go further than EU rules when it feels it is necessary and the current FCA agenda of robust oversight of customer outcomes is an entirely domestically driven initiative – not something driven from Brussels.

Lloyd's view on these issues

We strongly believe that it is in our market's and the London Market's commercial interests for the UK to remain within the EU for all of the reasons stated above.

Exit will diminish and undermine London's position as a global insurance and reinsurance centre. Many international firms see London as a platform for trading into the EU's single market and will inevitably review their commitment to London if that access is denied or made significantly more difficult. In turn, this may affect not only inward investment and the size of the insurance and reinsurance industry located here, but also impact the broking sector and associated professional services providers in London.

The ongoing debate

The debate will continue. The government's ongoing examination of the legal competences balance between the UK and the EU has been underway for a couple of years and has already afforded industry an opportunity to comment on the impact of EU law making in areas such as financial services and trade. Following surveys of members' views, TheCityUK, the CBI and other business organisations have been particularly vocal on the benefits seen in continuing EU membership. The voice of business will be a powerful influence on public opinion and I would encourage UK and London Market insurers to contribute to the unfolding debate on membership so that the views of our sector are heard.

Alastair Evans, ACII

Head of Government Policy and Affairs, Lloyd's
Chairman, IIL International Committee

The growing power of the International Association of Insurance Supervisors in shaping insurance regulations and rules

The financial crisis has brought about far-reaching change in the regulatory architecture and substance of rules affecting the insurance and reinsurance sector

Understandably, UK industry attention has focused in recent years on domestic changes and debates (with the abolition of the FSA and its replacement by the PRA and FCA) and by the seemingly ceaseless flow of rules emerging from Brussels, spearheaded by Solvency II. While there is little prospect of immediate respite in the EU production line of new rules, we seem to be entering the final phase of Solvency II rule making as the Commission and EIOPA complete their legislative and supervisory arrangements for the regime, due to enter into force in 2016.

The aim of this work is to address the 'too big to fail' problem identified by the financial crisis with the global economy seen as being too vulnerable to severe damage by the possible failure of certain key financial firms.

Global standards

The above picture of rule making is, however, partial and incomplete. Radical changes have been occurring in other jurisdictions outside the EU. Perhaps the most significant change has been the emergence of the IAIS on the international regulatory landscape as the author of several new, major global rules. Its recent activity has been largely a response to the lessons drawn from the financial crisis and the expectations placed on it by the Financial Stability Board (FSB) to step up to the plate, fulfil its role as the global standard-setting body for the insurance sector and promote globally consistent supervision of the insurance industry.

This has been a challenging task for the IAIS. It is still a relatively young body. It was established in 1994 and in October 2014 celebrates its coming of age with its 21st annual conference.

From humble beginnings, it has grown into an organisation representing jurisdictions in nearly 140 countries and over 130 observers, including many insurance sector representatives.

Its objectives are straightforward:

- To promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit of policyholders; and
- To contribute to global financial stability.

During its early years, it sought to achieve its objectives by progressive preparation of a set of high-level, principles-based supervisory material, comprising Insurance Core Principles, Standards and Guidance.

That work continues but it has been supplemented in recent years by intense activity in a number of new areas, notably global capital standards, systemic risk and the preparation of a group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs). This work, still ongoing, is being undertaken under the direction of the FSB, under an agenda largely determined by the G20.

Capital standards

Each of these three areas merits comment. The project to develop global insurance capital standards is very ambitious, both in terms of content and timetable. The IAIS wishes to develop a Basic Capital Standard (BCR) before the end of this year, higher loss absorbency (HLA) rules by the end of 2015, and an Insurance Capital Standard (ICS) by the end of 2016. The BCR will apply to Globally Systemically Important Insurers (GSIIs) and the ICS will apply to GSIIs and IAIGs. HLA is one of the measures that may apply to GSIIs. To complete all this global work by 2016 will require consent and support from many parties. It is a formidable challenge especially when it is recalled how long it has taken to develop Solvency II's rules for EU insurers. As you will have gathered, the IAIS's work is adding significantly to the lexicon of insurance acronyms.

System risk

The second area of IAIS work worth highlighting relates to systemic risk. The industry has been highly active for several years in contributing thoughts on this issue to the IAIS via bodies such as the Geneva Association.

The IAIS developed last year a methodology for the identification of GSIIs (and promptly identified nine firms under this methodology) and published a list of possible measures for supervisors to apply to GSIIs, including more intensive supervision, requiring such firms to prepare recovery and resolution plans and in due course the possible imposition of the aforementioned HLA. The aim of this work is to address the 'too big to fail' problem identified by the financial crisis, with the global economy seen as being too vulnerable to severe damage by the possible failure of certain key financial firms.

ComFrame

The third area of major IAIS activity relates to the development of a Common Framework for Internationally Active Insurance Groups (ComFrame). ComFrame is intended to promote globally consistent regulation and supervision of insurance groups by laying down common capital standards, corporate governance rules and reporting obligations for insurance groups. It also stipulates the standards of supervision to be exercised in relation to these groups.

The above highlights the IAIS's main current areas of activities. It is by no means a comprehensive list. For those minded to delve deeper, the IAIS Annual Report for 2012–13, available on its website, gives more detail.

The IAIS rules are not legally binding on member supervisors, but they are hugely influential, particularly where they give effect to the G20 and FSB's agreed agenda of remedial measures to be taken in light of the financial crisis. It is clear that no self-respecting insurance supervisor can simply disregard IAIS standards. Indeed, national supervisors are periodically assessed for the extent of their compliance with such standards by the World Bank and the IMF under their Financial Services Assessment Programme.

The reach of some of these IAIS rules in the industry may appear restricted, to the extent that they only apply to GSIIs and IAIGs. But who is to say that, in the fullness of time, these rules may not also apply, for competitive playing field or other reasons, to a broader community of insurers or reinsurers? The IAIS's activities also raise other questions, particularly for EU insurers. What happens if, say, the IAIS develops rules which are inconsistent or contradict those of Solvency II? Is it possible that, just as the industry appears to be on the verge of finally having a settled set of rules under Solvency II, some of these may be 'trumped' by the work of the IAIS? And could these emerging IAIS rules lead to higher levels of regulatory capital, further significant transition costs for EU insurers from Solvency II to these international standards, and disruption of current patterns of institutional investment? Such outcomes must be avoided.

There are many lessons to be learned from the emergence of the IAIS as a critical standard-setter on the global stage. Perhaps the principal one is that the industry needs to continue to monitor closely and seek to influence both the direction of travel and the growing and important output of this increasingly self-confident body.

Is it possible that, just as the industry appears to be on the verge of finally having a settled set of rules under Solvency II, some of these may be 'trumped' by the work of the IAIS?

Dr Ina Ebert

Expert on Liability and Insurance Law, Munich Re

Cyber liability

Cyber liability is not only here to stay, it is also bound to increase in importance.

The Internet has a central position in the private and working life of many people. It is a source of information, a way to purchase goods and services, to communicate and to pursue social relations. This comes at a price. It requires us to give away sensitive information and to depend on a system we can hardly control. This not only opens the door for cyber crime but also to many new forms of negligently caused losses and thus to cyber liability.

A new dimension for old risks

Not all varieties of cyber liability concern risks that are really new. Loss and abuse of data, copyright infringements, libel, bullying and invasion of personal privacy all happen in the real world as well. However, through the Internet, such torts can assume completely different proportions. Data posted on the Internet are instantly accessible throughout the world. It is impossible to completely delete data once these are posted. Legal disputes are therefore increasingly concerned with cyber liability. At the same time, traditional tort law does not always seem to be an appropriate way to cope with such litigation.

Cyberworld and national law

As the name indicates, the World Wide Web can be accessed globally. National boundaries do not exist in cyberspace. Companies are frequently transferring the processing of data, including highly-sensitive customer data, to countries with lower income levels. Cloud computing complicates

It is impossible to completely delete data once these are posted. Legal disputes are therefore increasingly concerned with cyber liability.

matters even more. Questions of liability, however, are governed by national law. Which law applies? Which courts have jurisdiction? How can verdicts be enforced? Courts will look for connections between the case and their national legal systems, such as language, target group or the data content. National legal systems often differ considerably. Sometimes they are even contradictory. It is possible that under one jurisdiction employers have the duty to monitor their employees' use of the Internet, while others would treat this as an invasion of the employees´ privacy rights that could trigger claims for damages. This is particularly common when United States law clashes with continental European law. There is little hope for any worldwide standardisation of the law to be applied in the cyber liability context anytime soon. Even on the European level, any attempts in this direction in the foreseeable future will be very limited.

Causality and cloud computing

In the cyberworld, it is difficult to attribute certain actions to a specific originator. The content of web pages can easily be changed. This makes it almost impossible to establish who knew of the content of a web page at a particular time. Authors regularly use virtual identities to prevent identification. Cloud computing and the increasingly widespread mobile use of the Internet (WLAN, smartphones) complicate matters further.

Safety standards

The technical options of Internet use are developing quickly and new types of risks are constantly emerging. The means by which users can protect themselves against such risks are also improving. However, firewalls, passwords and virus scanners must be updated regularly. This is expensive and time-consuming. Large companies can be expected to do this. For private users, this would be asking too much. But where should the line be drawn? When negligence is at stake, it has to be established whether someone did what could be reasonably expected of him at that time. How well should he have protected his data and his passwords? How often should he have checked the content of a linked page? How quickly should he have deleted it?

Security breach information

The loss or abuse of sensitive data is the most obvious cyber risk. The focus is usually on customer data of banks, credit card data or confidential healthcare data. Claims are mostly based on invasion of privacy rights, as well as pure economic loss due to employment- or insurance-related disadvantages. Companies must inform their customers immediately if third parties acquire knowledge of customer data as a result of data breaches ('security breach information'). This is now a statutory requirement in many legal systems. Compliance is not only expensive, but also is connected with reputational risks. Further breaches of duty can arise if the possibility of abusing data is only brought to the attention of third parties by the published warnings or if the required warnings are issued too late. Hundreds of thousands of customers worldwide can easily be affected.

Violation of privacy rights

Liability for the violation of privacy rights is always complicated. However, it gets worse when traditional tort law has to deal with the liability for links to web pages with offensive content. Decisive here is whether the party linking to the offensive page has sufficiently disclaimed responsibility for it or gives the impression that it identifies with its content. Even if the provider disclaimed responsibility, he might be held liable if he fails to delete the link within a reasonable time after acquiring knowledge of the unlawful content or if he could have been aware of the unlawful content. This liability risk is increased considerably by the fact that the content of the linked page can change anytime. Similar problems arise for the providers of blogs and other platforms.

The use of electronically stored data as evidence in court, has become a major element in liability litigation, especially in the United States.

Cyber bullying

The more important online social contacts become, the more are people vulnerable to cyber bullying. In addition to psychological damage, this can result in substantial economic loss, e.g. if the victim is subsequently unable to work or if business people suffer a loss of income due to being boycotted.

Liability risks for employers

Liability risks for employers usually arise out of four scenarios: An employer uses the Internet for unlawful supervision of his employees or screening of job applicants, he does not adequately protect his employees' personal data, he does not sufficiently control employees' use of the Internet, or he does not adequately train employees to minimise the risk of physically losing mobile data media.

Social networks and liability

Still not everyone who uses social networks such as Facebook is sufficiently aware of the associated risk. User data might be inadequately protected or unlawfully disclosed by the provider of the social network, employers might use the information available to screen job applicants and employees and activities such as flash mobs or parties organised through social networks, can go out of control, causing substantial damage in the real world.

E-discovery

E-discovery, the use of electronically stored data as evidence in court, has become a major element in liability litigation, especially in the United States. This can directly result in liability, for example if the outcome of a compensation claim depends on the availability of certain data that have been deleted – or not deleted – by third parties.

Summary and outlook

By using the Internet, it is easy to cause considerable damage, very quickly and worldwide. The potential consequences resulting from a breach of duty are more difficult to foresee when acting online than when acting in the real world. The legal framework for coping with cyber risks, however, is still in an early stage of development. This has caused considerable legal uncertainty, giving the term 'risk of change' a whole new dimension.

Cyber liability is not only here to stay, it is also bound to increase in importance.

Robert Reid, ACII, APFS

Director, Syndaxi Chartered Financial Planners

The million dollar round table

Caroline Banks, APFS, is a former director of the Personal Finance Society and a member of the Insurance Institute of London. She was installed as President of the Million Dollar Round Table (MDRT) in June and takes office in September. She is the first woman from outside of North America to hold this office. She tells Robert Reid how she got there and why MDRT has been such a benefit to her and her company.

We all need to build consumer trust and their appreciation by better educating and inspiring both new and experienced advisers.

RR: When did you join MDRT?

CB: I joined in 1990. I had only been in our profession for a little over three years and with the 1987 stock market crash happening so early in my career it provided the perfect impetus to absorb as much knowledge as I could to support my objective of providing holistic solutions.

RR: So what first attracted you to the Million Dollar Round Table?

CB: I had joined the Life Insurance Association (LIA), which was a body that owed its very existence to MDRT because those attending from the UK included individuals who set up the LIA on their return. Those early pioneers told me of the networking opportunities available to MDRT members and I was keen to try it for myself.

It was its seemingly unlimited access to career-shaping resources such as informative articles, talks on practice management, client servicing tips, and not forgetting those networking opportunities. Most importantly at MDRT, I found people that were willing to help me learn and grow.

RR: If you could sum up one particular thing that kept you coming back to those meetings, what was it?

CB: The knowledge sharing within MDRT is invaluable. The willingness among members worldwide to share cutting-edge ideas with one another, particularly during the annual meeting, has had a profound impact on my career. Every year that I attend, I take away tips and insights from bright professionals in our business and which I can readily apply to my own practice, enabling and supporting me to consistently deliver the exceptional service my clients have come to expect.

RR: What made you decide to get more involved with the actual running of the organisation?

CB: One of MDRT's unique features is the leadership opportunities it gives its members from an early stage of their membership. From the time when I first got involved with MDRT in the UK, it provided me with the experience of working in a team environment and it enabled me to better manage my time. Subsequently I was asked to serve on a committee, which consists of groups of members that come together to develop opportunities to broaden other members' expertise. Through this process fellow members are educated to better serve their clients. My involvement helped me grow both personally and professionally, which was the catalyst to get more involved. It is these leadership experiences that have allowed my business and me personally to benefit.

RR: When did you first realise that you had the opportunity to be the first UK female President of MDRT worldwide?

CB: It was only when I was phoned to determine if I would accept the nomination that I realised that the opportunity was open to me. It had simply never been in my thoughts that I would be asked to take on such a huge responsibility. The fact that we are chosen by fellow members is what makes it so very special. When I reflected that all members who serve on committees are assessed, I was even more honoured given the number of talented professionals that were considered.

RR: If you had to sum up MDRT in 40 words or less in a format that would make the deepest cynic consider an application for membership, what would you say?

CB: MDRT brings great minds in the global financial service profession together and provides access to the vital cutting-edge resources we all need if we are to take our businesses to the next level.

RR: Of all the speakers you have seen perform at a variety of MDRT meetings, which speaker has had the biggest impact on you and why?

CB: The speaker that had the biggest impact on me would have to be De Witt Jones, who was a National Geographic photographer. He talked about when you use an alternative lens and change the focus, there will always be another right answer – which left a lasting impression on me personally and professionally. With this approach, I feel that I have been a better leader and a better team player in any situation that at first glance seems insurmountable. I know there has to be another right answer – I just need to find it!

MDRT recognise the importance of ethics being central to how professionals are developed and remains committed to work with all associations that share that view.

RR: How do you envisage MDRT can work alongside the PFS and the CII in building consumer trust and an appreciation of the value the adviser currently delivers to clients in the UK?

CB: Financial associations are well positioned to motivate and positively shape professionals by continuing to deliver exceptional resources across all aspects of our business and lives. We all need to build consumer trust and their appreciation by better educating and inspiring both new and experienced advisers. The public is under-served, so I feel it is MDRTs duty to inspire as well as inform through our events that help us develop improved skills utilising a variety of resources, while at the same time, the PFS/CII can continue to shape professionals with its educational programme underpinned by its ethical code. MDRT recognise the importance of ethics being central to how professionals are developed and remains committed to work with all associations that share that view.

RR: Having served on the PFS and MDRT boards, how would you compare and contrast them?

CB: I don't believe there is a significant difference serving on different association boards. On any board, it's always important to run a structured well-rounded team that delivers great results for its members. Serving on any board takes dedication, commitment and passion.

Working as a non-executive helps one to think strategically and act decisively and quickly, which has lent itself well in the variety of board positions that I have held.

RR: If someone was asked to write a short paragraph on your contribution to MDRT following your presidency, what would you like them to say?

CB: I would want them to acknowledge the team effort that goes into an MDRT presidency. The executive committee strives to create a succession of global leaders through offering opportunities for its members to broaden their expertise and grow their businesses. We are supported by a great CEO and staff. The great collaboration and the knowledge share among leaders through to members helps ensure MDRT remains a thriving association, and its members passionate, successful professionals.

Lord Deben

Chairman, Association of Professional Financial Advisers (APFA)

RDR – The story so far

While professional standards and transparency have increased, it is harder for those with more modest incomes to find affordable financial advice.

The Retail Distribution Review (RDR) has been in force for 18 months and we're now seeing a picture emerging of its effect on the profession and its clients.

Fewer advisers

First, it is well documented that adviser numbers fell in the run up to RDR (from about 26,000 to 21,000) as those that chose not to take the new qualification left the market. There has been a recovery since the RDR started as some passed their final examinations or staff from the banks joined advice firms.

There is a challenge to develop the talent for the next generation of advisers and to develop new ways of delivering advice at a lower cost.

Profits improving

Second, it seems that those that stayed in the market have done well. Turnover in financial advice firms was slightly up (by 1%) in 2013 compared to 2012, but profits improved (from a relatively low level). I believe that this is driven by a combination of factors. The costs of preparing for RDR have now passed. Also, advisers have looked more closely at the costs of serving their clients and focused resources on more profitable activities. Over the past couple of years, many firms have overhauled their business and their working practices, and this has left many of them in a much better shape to deliver a good service to their clients. However, aggregate figures conceal as much as they reveal. There is a polarisation between those doing well and those that are struggling. The impact on the businesses of those who haven't got their model right will become more apparent over the next year or so and we are likely to see a second wave of exits from the industry.

Advice gap

Last, there is the question of access to advice, or 'the advice gap'. Now, it's not the case that prior to RDR the whole population had a financial adviser. But, with fewer advisers the supply of advice is less than it was.

A further impact comes from the increased focus of advisers on the type of clients that are of interest to them. This means that some will be unprofitable or that advisers will feel they can't justify a fee that covers their costs in respect of the service sought. This is highlighted by the 60,000 clients APFA has estimated were turned away by financial advisers in 2013. This is especially relevant in the context of government policies on choice at retirement and long-term care, for which the government is looking to financial advisers to provide help to people to make good financial decisions.

So, what next? We've not seen the end of the changes driven by the RDR. Firms will be under pressure from clients to continue to demonstrate value and some will struggle to make their business model work. I expect more mergers and acquisition of firms, leading to more consolidation in the sector. There is a challenge to develop the talent for the next generation of advisers and to develop new ways of delivering advice at a lower cost.

While professional standards and transparency have increased, it is harder for those with more modest incomes to find affordable financial advice. This shows the need for the regulator to look at the cost of regulation and to reduce it. APFA has called for action on reducing reporting requirements, fees, the introduction of a longstop on adviser liability and a reduction in the volume of the handbook. We have seen some movement from the FCA, but more needs to be done if they are going to meet the challenge government has set them in the pensions reform of reducing the cost of regulation to make financial advice more affordable to more consumers.

Kim North

Head of Marketing, Syndaxi Chartered Financial Planners

Pensions 101

More than 1,700 British people reach age 65 every day, and demand for professional financial advice will increase.

Following radical changes to the treatment of pension funds as announced in the 2014 Budget, we are now in a place where those taking pension benefits may fear to tread. Pensions legislation has a raft of changes that need to be understood.

From April 2015, an individual can choose what they want to do with their defined contribution pension fund. If they want to take their entire pension fund as cash they can – 25% will be free of tax, with the balance taxed as income for that tax year. This has not been allowed before and care needs to be taken that anyone with a pension pot of more than £40,000 would be most unwise to draw all the money at once because they face the possibility that some of this will be taxed at the highest income tax rate. At the very least, by phasing the crystallisation points, people can ensure they stay in the lower tax rate bands.

There are benefits in using part of a pension fund to buy an annuity and having the balance in a drawdown solution, for which there will be no minimum income level limit. Currently, there is cap on the maximum amount that can be taken to ensure the fund is not drawn down too quickly. The cap no longer applies from April 2015 because drawdown can be as simple as investing in funds, or in cash with banks or building societies.

Free, impartial guidance

In order to offer assistance, pension providers and pension trustees will be required to provide free and impartial guidance to everyone approaching retirement so they can make an informed choice of the options available. This is expected to be telephone based and will be basic guidance. There will be benefits in delaying the purchase of annuities because rates increase as we get older and underwritten annuities will be become popular to secure impaired life higher annuity income rates. It needs to be monitored if pension providers tell people to delay buying an annuity or not to buy one at all.

Standard of guidance

The general guidance provided will not be at the level of advice provided by a whole-of-market independent financial adviser, who is best positioned to give retirement advice. Why is this so? On average people change jobs 11 times during their working life and accrue different pension pots from each employer. Pension income is taxable and it makes sense to arrange personal financial affairs so that the least amount of tax is paid in retirement.

Before anyone can take his or her pension, they obviously need to build a pension fund. Over 30,000 companies, many of which are without an existing employee pension scheme, need to put in place a qualifying auto enrolment pension scheme during 2014. Although in principle a good idea, many in the pensions industry are far from optimistic that auto enrolment alongside a flat-rate state pension will give workers sufficient on which to retire.

The average retirement annual income is £8,774 and is almost 25% less than the minimum wage.

The average retirement annual income is £8,774 and is almost 25% less than the minimum wage. Average life expectancy for a healthy 65-year-old woman is 21 years and 18 for a man. This is a long time to live off pension income.

More than 1,700 British people reach age 65 every day, and the demand for professional financial advice will increase. Next April's pension changes may result in some people burning through their pension fund, but this would not be sensible because the average pension fund is around £37,000.

This is the time for financial services companies to make the topic of pensions a dinner table conversation and not left on the back of the shelf.

Keith Robertson, FPFS

Managing Director, Armstrong Financial Ltd
Chairman, London Region, Personal Finance Society

The curse of short-termism

Markets now resemble an arena filled with professional bookies fighting to make money off each other.

Investment is about hitching a free ride on the back of global economic growth by providing the capital to fuel economically productive activities. Establishing and growing businesses takes time, and this suggests investing would be a long-term activity. From the earliest merchant venturers to the monolithic insurance companies of the twentieth century this has been the case. Good businesses typically continue to grow and consolidate over decades, even centuries, and investors can reasonably expect to receive increasing future dividend flows and capital growth if they are patient. However, investment selection, economic and market cycles, and investor behaviour can frustrate this paradigm.

Investment selection risk can be covered by manager skill, if such a persistent phenomenon exists, or by diversification, up to buying the entire market. Economic and market cycles are largely ignored by the sell-side because under their business model and in the absence of any public interest test, for the final investor every day is a good day to buy (although clients should not believe this). This also explains why, on average, most investors underperform the market over the long term. That leaves the psychological and technical aspects of market dealing.

In the late 1950s the average holding period of a stock on the LSE was over four years; today it is under 20 seconds. Why has it shrunk to one six-millionth of the time seen as sensible a couple of generations ago while, curiously, the long-term holders such as insurers and pension funds still buy the blue chips to hold for ever?

The answer is that the function and functioning of markets have changed, as has usage by market operators.

High frequency trading

Market operators have always run house books, as well as their commission-earning intermediation activities, but this was historically just an add-on based on inter-dealer speculative trading, such as the traditional front-running against their clients. With the advent of computing power, expansion of derivatives and emergence of hedge funds, the scale of these activities has exploded and has reached its current zenith in the guise of high-frequency (low-duration) trading (HFT). It typically involves proprietary computer algorithms setting simultaneous (often small) buy-and-sell orders across many shares, to be automatically filled when any bid/offer price is triggered. All remaining orders are usually automatically cancelled and reset at new levels, influenced by information gained from the trade. Orders across the market can last for just milliseconds before being withdrawn. The lengths to which operators will go to gain a couple of millionths-of-a-second advantage, and their appalling treatment of clients, are entertainingly described in Michael Lewis's new book, *Flash Boys*.

In the late 1950s the average holding period of a stock on the LSE was over four years; today it is under 20 seconds.

Flash crashes

Since 'Big Bang', the stock and bond markets have been utterly dominated by the dealing of banks, insurance companies, investment houses and hedge funds – the sell-side. Most of their activities have been purely speculative, reflected in massive profits and bonuses. Private investors, our clients, have not benefited. Proponents of HFT and sell-side speculative activities claim that liquidity is improved for private investors. However, the nature of HFT means that the apparently ubiquitous liquidity is so transient as to be a false market by any other name. It is hard to see how these ultra-short-term behaviours can do other than add to risk for retail investors; there have already been several extreme 'flash crashes'. Markets now resemble an arena filled with professional bookies fighting to make money off each other, and where any punter stupid enough to place an order will be ripped off.

By definition, long-term investors cannot avoid short-term market volatility but, if they select their entry point into asset price cycles rationally and hold their positions, they can still generate above-average returns. Ask Warren Buffett.

The London Institute Programme Preview

Here is just a taster of some of the events coming up in our 2014-15 programme. More lectures 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	Chairman
2014					
Mon 08 Sep	Revision	How to study and increase your chances of passing the CII exams	Chris Paine, Dip CII and Len Wilkins, FCII	Lloyd's	Michael Howard, FCII, Chairman, IIL Representatives Group
Mon 29 Sep	AGM	Notice is hereby given that the Annual General Meeting of the Insurance Institute of London will be held at 5.45pm	Graham Clarke, President, IIL and Stephen Riley, President-elect	Insurance Hall	Graham Clarke, President, IIL
Thu 02 Oct	Financial Services	London vs the rest: How to win the battle for inward investment and what the Financial Services Trade and Investment Organisation can do to help	Sue Langley, CEO, Financial Services Investment Organisation	Lloyd's	Roger Sanders, OBE, Cert PFS, MD, Lighthouse
Fri 03 Oct	Marine	Issues and challenges for the International Group	Grantley Berkeley, Group Chairman, IGA	Lloyd's	Graham Clarke, CEO, Miller Insurance Services
Tue 07 Oct	Accident	PPOs: the dynamics of the financials	Peter Gilbert, Claims Executive, Gen Re	Lloyd's	TBA
Wed 08 Oct	Lloyd's & Market Issues	Selecting Risk	Charles Mathias, CRO, Lancashire	Lloyd's	Francis de Zulueta, Chairman, Endeavour Insurance Services Ltd
Thu 09 Oct	Accident	3D printing: What lines of insurance does it impact?	Ingrid Hobbs, Partner, Mayer Brown	Lloyd's	Andrew Keefe, ACII, Casualty Broker, Marsh UK
Tue 14 Oct	Lloyd's & Market Issues	Lloyd's and Market Issues Lecture	Andrew Kendrick, Chairman & CEO, ACE	Lloyd's	Malcolm Rutter, ACII, London Market Development Manager, ACE
Mon 20 Oct	Marine	Marine Lecture	The Rt Hon The Lord Phillips of Worth Matravers	Lloyd's	TBA
Thu 23 Oct	International	EU Referendum: In or out what's best for the City and the Insurance Industry	Mark Boleat, Chairman of the Policy & Resources Committee, Corporation of London	Lloyd's	Stephen Riley, Executive Director, Global Aerospace
Mon 03 Nov	Lloyd's & Market Issues	Lloyd's and Market Issues Lecture	Branko Bjelobaba, FCII, Regulation & Compliance Consultant	Insurance Hall	TBA
Tue 04 Nov	Financial Services	Alternative Investments – financing the creative industries	Edward Grant, FPFS, Investment Director, Ingenious	Lloyd's	TBA
Wed 05 Nov	Lloyd's & Market Issues	Recovering sums from fraudsters for insurers	Marko Stamenkovic, Member, Subrogation and Recovery, Cozen O'Connor	Lloyd's	Andrew Tobin, Member, Cozen O'Connor
Thu 06 Nov	Reinsurance	How do you model un-modelled risk?	Trevor Maynard, Head, Exposure Management and Reinsurance team, Lloyd's	Lloyd's	Dougal Goodman, OBE, CEO, Foundation for Science & Technology
Mon 10 Nov	Aviation	Can the aviation insurance market survive in its current form?	Alan Beacock, Head of Aviation Reinsurance, Swiss Re	Lloyd's	TBA
Tue 11 Nov	Fin. Services & PFS	Crowd-funding Seminar	TBA	Insurance Hall	TBA
Wed 12 Nov	Lloyd's & Market Issues	Data Breach – why should you care?	Paul Bantick, Head of Media, Technology & Business Services, Beazley	Lloyd's	TBA
Thu 13 Nov	Lloyd's & Market Issues	The competitiveness of London	Steve Hearn, Chair, London Market Group	Lloyd's	David Gittings, Chief Executive, LMA
Tue 18 Nov	Lloyd's & Market Issues	Political Risk – Recoveries against Sovereigns	Martin Gusy, Chair, International Arbitration Practice Group, Cozen O'Connor	Lloyd's	Charles Berry, FCII, Chairman, BPL
Wed 19 Nov	Accident	Contractual Risk: follow up to IUA Financial Loss Report	Stuart White, Partner, RPC	Lloyd's	Roger Nash, ACII, Underwriter, Faraday
Thu 20 Nov	Fin. Services	Helping consumers understand risk	Sue Lewis, Chair, Consumer Panel	Lloyd's	David Thomson, Director of Policy and Public Affairs, CII
Wed 26 Nov	Lloyd's & Market Issues	Diversity and inclusion (with reference to issues such as quotas of female board members, etc.)	Karen Green, CEO, Aspen UK	Lloyd's	Steve Hearn, Deputy CEO, Willis Group
Fri 28 Nov	Young Members	Winter Ball	N/A	Old Billingsgate	N/A
Mon 01 Dec	Property	Homeowner contract works	Bill Wilson, Head of Private Clients, Cunningham Lindsey	Lloyd's	Sian Williams, ACII, Regional Manager, London & SE, HSB Engineering Insurance
Tue 02 Dec	Reinsurance	Reinsurance Lecture	Christian Mumenthaler, CEO, Swiss Re	Lloyd's	Dominic Christian, CEO, Aon UK
Wed 03 Dec	Lloyd's & Market Issues	MGAs - Not just another bite of the cherry	Peter Staddon, Managing Director, Managing General Agents' Association	Insurance Hall	TBA
Thu 04 Dec	Claims	What is world class in claims?	Jonathan Clark ACII, Head of Business Solutions and Syndicate Claims Management, SCOR	Lloyd's	David Lang, Head of Claims, Lloyd's

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