The Insurance Institute of London

PFS | CII

The London Journal

inside this issue

Stephen Riley

President
Insurance Institute of London

Welcome

As many of you will know, I have taken as my presidential theme the key issue of 'Talent Management' – how we recruit, train and develop the human capital coming into the insurance business, particularly in London.

A number of the articles in this year's *London Journal* touch on this. It is an issue also being taken up at the highest levels in the market by the London Market Group.

In the London Institute we have always sought to provide our members with a wide variety of activities designed to support their training in reaching qualified professional status. We also seek to support the wider membership of the CII by making available all of our lectures and other technical publications, both in print and increasingly through digital means. It is a testament to the success of these initiatives and to the work of our volunteer army who contribute their expertise that the membership of this Institute continues to grow and is now heading towards 23,000.

To enhance our focus on providing an improved service to our members, the Institute has been reviewing its governance and strategy under the able leadership of our Hon Treasurer, Jonathan Clark. The results of this work will become visible over the next 12 months. Of course we continue to welcome input, ideas and comment from all of our members.

I hope you enjoy reading this edition of the *London Journal* and that it provides some food not only for thought but also for action in improving the quality and professionalism of all that we do.

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LONDON MATTERS

MUCH OF LONDON'S INTERNATIONAL REPUTATION IS DERIVED FROM ITS CONCENTRATION OF EXPERTISE. THE LONDON INSTITUTE MAKES A MAJOR CONTRIBUTION TO UPHOLDING THAT STATUS

Standing out for the right reasons

The financial crisis prompted firms to think about how they could reassure their clients and set themselves apart from the competition. Lockton, Marsh, Willis, Catlin, Miller, Amlin, Hiscox and others decided that gaining Chartered Broker, Chartered Insurer or Chartered Financial Planner status was the way to achieve those aims. In London, 83 firms distinguished themselves by reaching Chartered standard. As a result, they can hold themselves out as being dedicated to the highest levels of customer service through a commitment to standards of technical and ethical excellence.

Chartered status for firms has pushed professionalism to the forefront and in the past six years membership of the Insurance Institute of London has soared by 44.5%, to over 22,400. In the year to April 2015, membership grew 6.3% (5.6% in the financial services sector). More than one third of all members are under 35. And they are intelligent too – 74% of the CII's national examination prizes went to Londoners.

Other articles in this edition of the *London Journal* discuss the London Market Group's research on the competitive position of the London insurance market. To maintain and enhance its reputation London needs to 'encourage product innovation, entrepreneurialism and the talent required to deliver' it and the Insurance Institute of London makes a major contribution in all three of those areas. Here are some examples.

Innovation

In our programme of more than ninety CPD events, the risks associated with advances in technology were among the hottest topics. Cloud computing and 3D printers and the implications for insurance plus the rise of cyber risks were addressed while Trevor Maynard, Head of Exposure Management, Lloyd's, looked at new methods for modelling emerging risks.

In financial services, Professor Andrew Leyshon, University of Nottingham, led a series of seven presentations on the emergence of crowd-funding and peer-to-peer finance and looked at the legal pitfalls and the regulatory perspective.

Entrepreneurialism

For those aspiring to become a chief executive, Steve Hearn, Deputy CEO, Willis Group Holdings, teamed up with Stephen Hester, Group Chief Executive, RSA, to outline what it takes to get to the top.

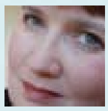
Meanwhile, business owner members of the Personal Finance Society in London held a full day conference on 'Enhancing and extracting value from your business'.

Talent and diversity

Appreciating the CII and the Insurance Institute of London's central position in finding and nurturing new talent, the London Market Group invited us both to participate in its talent and diversity group. The aim is to co-ordinate initiatives promoting careers in insurance in London in schools and universities, and among those seeking a second career.

Targeting people with the specific talents needed in this business, candidates will be pointed towards sources of summer placements, internships, apprenticeships and graduate schemes. The London Institute is also developing a mentoring scheme to support students working towards the Advanced Diploma. Lloyd's Vision 2025 and the LMG's *London Matters* both highlight the need for the workforce to reflect the diversity of its clients. The London Institute has established its first Diversity and Inclusion Committee, and surveyed members to gauge understanding. We plan to host lectures on subjects such as working with inter-generational teams and skill-matching. The group was also featured in major articles in *The Times*, *Post* magazine and *Money Marketing*. It was also pleased to sponsor a hustings in association with the City Hindu Network, featured on *London Live* TV and in *Asian Voice* magazine.

PROFILE



Allison Potts
Institute Secretary
Insurance Institute of London

The search for talent

we can all benefit from an increased flow of high-quality entrants to the London insurance world

Last summer I began thinking about my Presidential theme and what really mattered in the insurance marketplace. It became obvious to me that who we recruit, how we recruit and what we do with this human resource once it joins 'planet insurance' were the really important issues on which I should focus and see what I could do to stimulate thinking and action. I have now spent 38 years in the world of insurance and recently retired from a full-time executive role to pursue a number of part-time roles as well as being your President. Inevitably, I look back on how things have changed over my career.

Starting work in the late 1970s as a graduate in the London insurance market, I soon realised I was in a very small minority. Of my school and university contemporaries only a handful (literally) considered insurance as a career. Some had family connections with this world. I did not, but that was certainly one of the main gateways into the London market dominated as it then was by many relatively small private family-owned businesses in underwriting and broking. Of course there were large businesses but they mainly recruited, even then, school leavers, although some did graduate recruitment on a more or less regular basis and I joined one of those – Swiss Re. There is no doubt in my mind that the market suffered a significant capability deficit at this time and although there were many talented people around, there were not enough to successfully negotiate a path through the life-threatening market difficulties of the next fifteen or so years. In particular, market skills were lacking in the technical disciplines of pricing, reserving and claims litigation.

If we roll forward 20 years, can we say we are any better at doing these things? My answer to that question is 'Yes'. I think we can say the gene pool has significantly improved. The quality of people in our businesses is much better than it was and that at all levels they are better trained and developed. However, in many areas we can do much better and we need to if we are to maintain our market's position at the crossroads of the world Insurance marketplace. This is a challenge very clearly identified in the London Market Group (LMG) paper *London Matters*, published earlier this year and based on research undertaken by Boston Consulting Group.

More specific research conducted by LMG and by Lloyd's and Lloyd's Market Association under the banner of 'Inclusion@Lloyd's', makes it clear that we are misfiring in our attempt to recruit graduates and apprentices – many of whom do not understand what we do or even who we are! In this research, there are frequent references to the difficulties experienced by 'outsiders' in finding information on job opportunities – unless they know someone on the inside. This reinforces the perhaps insular and to some extent exclusive view that potential entrants have of the world of insurance. This needs to change.

One of the most significant changes that has taken place in this country over the past 15 years is in the proportion of school leavers going to university. At the same time governments have sought to improve the overall quality of secondary education through the establishment of academy and free schools and by changes to the schools examination system. Clearly, not all of these initiatives have produced the results wished for. But they have made the recruitment landscape more complicated and require employers to think more carefully about how they access talent.

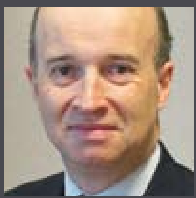
The 'accidental' recruitment policy to which I referred in my inaugural Presidential address and which was one of the main ways young people arrived in insurance needs to be consigned to history. We also need to take into account the changing costs of education. The provision of free university tuition in a world of severely constrained public spending is clearly over. Most students emerging into the world of work are saddled with significant debts and employers need to be aware of that in considering starting salaries and also expectations for development. For all of these reasons we have a more demanding workforce to which to sell ourselves and we need to improve the way we do that so that we attract the best possible quality of entrant and the most diverse. This last aim is important, not only to reflect the society in which we live, but also the geography of the business we deal with – a point now firmly established as a key aspiration in the current Lloyd's strategy. In this respect we are fortunate that London has become even more of a global city in recent years, with a significant proportion of its inhabitants born overseas. In several ways diversity is sitting on our doorstep.

> The IIL has over 22,400 members, half of the people who work in insurance in London.

What we can do to address some of these challenges and what might be the role of the IIL in support of these activities? I think there is now recognition that a more coordinated approach in selling the benefits of insurance as a career and specifically the London market is appropriate. The LMG, the body that encompasses both the carrier and intermediary trade associations, is well placed to act as the overall coordinator and promoter of this. However, it is the associations and this institute that can provide some of the input and stimulus for this initiative. The IIL has over 22,400 members, comprising at least half of the people who work in insurance in London. It has a thriving young members group that clearly knows something about what insurance is all about and why it represents an interesting and dynamic career path. However, there is something we can all do to talk up the benefits of what we do in any interaction we have with those looking for career guidance.

There is a wonderful organisation, Brokerage Citylink (BCL), based in the City and also serving the surrounding boroughs. Its purpose is to 'sell' a City career to students who might not normally consider that such opportunities exist on their doorstep. They do this through workshops in schools, through mentoring and by partnering with organisations in the City that want to encourage a wide range of entrants to their businesses. Several insurers, headed by the insurers' livery company, support BCL to help provide internships and ultimately jobs for these students. It is a great example of how perceived barriers can be overcome on both sides by coordinated effort, enthusiasm and commitment in terms of money and time and demonstrates how we could as a profession reach out to a wider audience to attract some of those new employee candidates that we seek.

Several other initiatives are underway to improve the marketing material that seeks to explain what we are and what we do, to ensure that insurance is much better represented at university career forums and through social media. I believe that through a combination of better coordinated market-level activity and individual effort by our members and others we can all benefit from an increased flow of high-quality entrants to the London insurance world. In a rapidly changing and globalised world, this would help us provide a challenging and rewarding career path for future generations.



Stephen Riley

President, Insurance Institute of London

THE BUSINESS CASE FOR DIVERSITY

DIVERSITY CAN ONLY BE ACHIEVED IF YOU ARE TRULY INCLUSIVE AND TO IGNORE THIS WILL GRADUALLY LEAD TO FIRMS BECOMING OUT OF SYNC WITH CURRENT AND PROSPECTIVE CLIENTS

As an investment adviser, I believe that to achieve the best investment result, without being in a constant state of tension, you need to be diversified and the client needs to be included in that discussion.

‘Integrating people with different characteristics into teams brings new perspectives, ideas and challenges to accepted practice, adding value and leading to improvements in how we conduct business’

Let me define what I mean by diversity and inclusion (D&I). Diversity is about encouraging and supporting the people mix that exists in the real world and recognising that differences can be strengths. Inclusion is getting that mix to work well together. It is not about positive discrimination, lowering standards, or promoting one group at the expense of another. Workplaces and industries that foster respect for, and appreciation of, differences are places where people can be authentic and achieve their full potential, leading to better outcomes for businesses and individuals alike.

Diversity can only be achieved if you are truly inclusive and to ignore this will, in my opinion, gradually lead to firms becoming out of sync with current and prospective clients.

Many firms have taken the first step and created a D&I policy and while this is progress it’s not the end of the discussion – it’s just the beginning.

Some have seen D&I restricted to areas that are more commonly in the public eye, such as gender and sexual orientation discrimination. However, discrimination has a much wider reach and other areas are just as important to focus on. For example, age discrimination is increasing at both ends of working lives, and, is one area that IIL will concentrate upon.

Current focus areas are gender, race/ethnicity/nationality, religion, language, sexual orientation, disability and age discrimination. However, while these areas have been identified, we are not limited to these, because other issues will surely emerge as the work begins to take effect. The project plan has four main elements.

First, at the D&I page of the IIL website[1], independent groups that also work on D&I are encouraged to share information and experiences. The website is a focal point, already garnering interest and aiding with press contacts.

Second, we are keen to increase the profile of D&I, both in the trade and national media. Press coverage for a recent survey led to more activity and we see this increasing with added interest in our aims.

Regrettably, the media is often guilty of not considering either diversity or inclusion when reporting on key issues and/or events. When Rona Fairhead was made Chair of Governors at the BBC, one newspaper ran the headline ‘Mother of three poised to lead the BBC’. When I saw this I was, for once, speechless.

When I was made PFS President, I don’t recall the headline ‘Father of two leads PFS’. Recent coverage of FTSE250 companies bringing women onto their boards led to press releases from which we learned more about personal lives than career and work achievements. This needs to change.

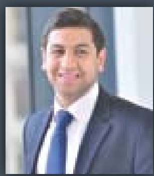
The third area is workshops, which will deliver practical assistance to the sector's smaller firms that lack the resource and help develop detailed D&I programmes. These workshops will be run with the use of role models and the analysis of other groups' achievements and provide an action list and sample policies to take away so that participants can go back and sell it to their own board. The reality is to show that without a diversity strategy they are losing out.

The fourth and final element is making the business case for D&I in the workplace. In many ways, this will be the definitive element – the part essential to convert the most cynical people in the sector.

People may have a variety of 'wrappers' – supposed defining qualities that may obscure the person within – but when hiring we are only interested in their core skills and whether they can deliver. Individuals' ethics, talent and effort are the three focal points to which we should pay attention.

For firms to gain D&I dividends, we need to see widespread talent development by the encouragement of job applications from a wider range of people. This also needs to be applied at the other end of the spectrum, by engagement with clients that want to know that they have got it right where D&I is concerned.

Several leading bodies have already begun to acknowledge this, and are putting plans in place. A recent report by the London Market Group indicates that the capital needs to rise to several challenges if it wants to hold its position as the largest global hub for commercial and special risks insurance. These include a better understanding of the business case for D&I. Lloyd's has recognised this and written it into its strategy document, Vision 2025: 'Integrating people with different characteristics into teams brings new perspectives, ideas and challenges to accepted practice, adding value and leading to improvements in how we conduct business.'



Those differences may be any one of those in our list, but they are equally important. Prinal Nathwani, a tax litigation professional and City Hindus Network chairman, says his members are more likely to apply to a company with a sound diversity policy. 'It is important for any profession to bring together the views of the best people within that sector, regardless of their faith and background', he says. 'A good diversity and inclusion policy provides the comfort that they are truly welcome and appreciated.' He goes on to say that 'in an industry that employs people of all ages, we believe that the young can learn from more senior staff, and vice versa. For younger employees who have grown up in and around London, diversity is already part of their life.'

Following a newspaper article in which I quoted the City Hindu Network as a good example of organisations we've helped, we were approached to host a Hustings event that not only filled the hall at the CII, but also had the then Culture Secretary Sajid Javid and Shadow Cabinet member Sadiq Khan involved. This event underlined our achievements in a short time frame and how much we can do if we all do our bit.

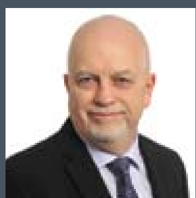
We will continue our quest to make the business case overwhelming and are considering inaugurating an award for the firm/individual who does the most for D&I, thereby raising the profile of this essential project.

So what's next? The push towards more press and PR continues, as will more workshops and liaisons – it's endless, and so it should be.

With the recent issue of a major study into the progress towards a more diverse and inclusive marketplace, the results have provided both the route map and the milestones we must reach if we are to benefit from diversity and prosper through inclusion.

Overall, we need action and progress policy statements, to be alive and not on a shelf. The business case will be clear and those who delay could damage the culture in their business and find recruitment of both talent and clients that bit harder, both now and in the future.

[1] http://www.iilondon.co.uk/AboutUs/DiversityInclusion/tabid/5469/Default.aspx



Robert Reid, ACII, APFS

Vice President and Diversity & Inclusion Champion IIL

Why talent matters to Miller

...everyone at Miller is encouraged to develop their area of expertise and is given support to achieve career and development goals

Since its formation in 1902, Miller's strategy has been to grow the business in areas where it is, or has the potential to become, a leader in its field. Today, through its alliance with Willis and move to 70 Mark Lane, it remains true to its strategy. Its people make the difference. Their professionalism and expertise has made Miller's success possible and it understands how important it is to attract, engage, develop and retain the best.

In May 2012, the group expanded its partnership and its talent development journey began. It started by introducing a new competency model and a new employee value proposition – the 'pathway to partnership'. These structures provided an opportunity to build new processes that would give people equal opportunities to grow and develop at Miller, and leverage the strengths as a partnership. It introduced a new annual promotion process and criteria for all partnership levels and bi-annual competency-based performance reviews using unambiguous narrative performance ratings.

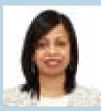
In January 2013, a rigorous six-stage recruitment and selection process was introduced. This ensures that it is consistent, fair and commercial in its decisions. All recruiting managers attend a comprehensive workshop in which the programme explains how to clearly specify the role, builds awareness of why unconscious bias can be a risk, details the business benefits of developing a diverse talent pool, and trains participants to conduct a thorough competency-based interview. Once recruited, new entrants embark on a six-month induction and probation programme that aims to help them settle into their role as quickly as possible. People will often remember their first experience at an organisation for many years after. With this in mind, Miller pays close attention to ensuring that new joiners have a sense of belonging early on and invites them to network with senior leaders and understand the full spectrum of products and services.

In August 2013, the Miller Academy was launched and this brings together in one place the entire learning and development offering. With the CII, it also developed a portal in which people could plan, participate, record and track their development activities. In the same year, Miller attained CII Corporate Chartered Insurance Broker status across all operations. It is very proud to hold this status because it is aware that chartered titles are closely guarded by professional bodies and are not given lightly. For Miller, the title is much more than a form-filling exercise or membership fee payment. It feels that this status is testament to its commitment to professionalism, client-focused approach, and commitment to the highest standards of business conduct. It values its people and everyone at Miller is encouraged to develop their area of expertise and is given support to achieve career and development goals.

The Miller Academy has developed 'Miller Manager' – a programme targeted at new, experienced and future leaders. Succession is a key priority and attention is focused on development of future leaders. Miller partnered with Sheridan Resolutions to design a new leadership development centre that aims to measure the ability, aspiration, and potential of its future leaders. Participants would use the data to develop the leadership factors necessary for future success. The 18-month programme includes an emphasis on self-driven development, mentoring, coaching and feedback, and peer learning.

So what's next for talent at Miller? It's clear it has made good progress, but there is much more to do. Miller is operating in increasingly competitive markets and the next five years or so will present many challenges and opportunities for the partnership. It is determined to be the leading London specialist wholesaler broker and to do this it needs all of its people to be at their very best, improving their skills and keeping their professional knowledge up to date.

PROFILE



Sanchia Moraes
Learning and Development Manager
Miller Insurance Services LLP

POOLING OUR KNOWLEDGE

...terrorism remains a high-profile issue

Over the past forty years, terrorism in one form or another has rarely been absent from the headlines. The IRA bombing campaign from the 1970s through to the 1990s, the transnational threat posed by al Qaeda in the 2000s, and now, the challenge governments face from radicalised fighters returning from Syria and the Islamic State, have each ensured that terrorism remains a high-profile issue.

In stark contrast to the consistent media focus on evolving threats, one of the country's integral tools for providing economic resilience and market stability has operated successfully for over two decades without a substantial public profile. As the UK's government-backed terrorism reinsurance programme, Pool Reinsurance Co Ltd (Pool Re) has made reinsurance available to the commercial insurance market and, as a result, since it was established by a 1993 Act of Parliament has provided protection for UK plc.

In over twenty years of operation, Pool Re has settled claims arising from 14 separate terrorism incidents and covered losses of over £600 million. The scheme effectively operated unaltered for a decade until the attacks in the United States on 11 September 2001 prompted the insurance market, and government, to agree to extend coverage to all risks (excluding war and cyber) in 2002.

Over a decade on from its last revision, Pool Re has again undertaken a review of its mission in consultation with HM Treasury and its membership. Eager to modernise in order to ensure cover for terrorism remains both available and accessible throughout the UK, Pool Re has commenced an evaluation of its zones and rating system. The company has also initiated discussions regarding regional take-up rates in order to ensure that its proposition is efficiently aligned with today's market.

In tandem with a revision of the percentage of premiums paid to HM Treasury, Pool Re has secured the freedom to purchase a layer of reinsurance from the commercial market and completed a placement of £1.8 billion earlier in 2015. Not only will this further distance HM Treasury and the UK taxpayer from liability, but also it has the added benefit of encouraging commercial participation, which is the best way to ensure a normalised market over time. The purchase also brings Pool Re in line with other terrorism risk insurance schemes, such as the Australian Reinsurance Pool Corporation, which currently incorporates commercial retrocession as part of its four funding layers.

Despite the prominence of international terrorism on the agendas of politicians and civil agencies, the need for continued government backing for the terrorism (re)insurance market has not been without its critics. However, strong support for these mechanisms as the best means for managing unpredictable risk was voiced in a report produced by the OECD as a result of its Conference on Terrorism Risk Insurance in September 2014 and reaffirmed in 2015 when the US Congress voted to extend the Terrorism Risk Insurance Act (TRIA) for an additional six years. Furthermore, as a testament to the success and longevity of the Pool Re model, the new US legislation also requests further research into the potential benefits of collecting premiums upfront and establishing a fund similar to the arrangement maintained in the United Kingdom.

Pool Re's efforts to modernise and adapt to changing markets, as well as the evolving domestic and geopolitical landscape, ensures that it will remain at the forefront of knowledge and understanding of this complex and persistent issue. Through a combination of its historical success and contemporary expertise, the company is determined to continue serving as the best solution to the unique challenges posed by terrorism risk (re)insurance.

Julian will be delivering a lecture to the IIL on 10 November at Lloyd's.

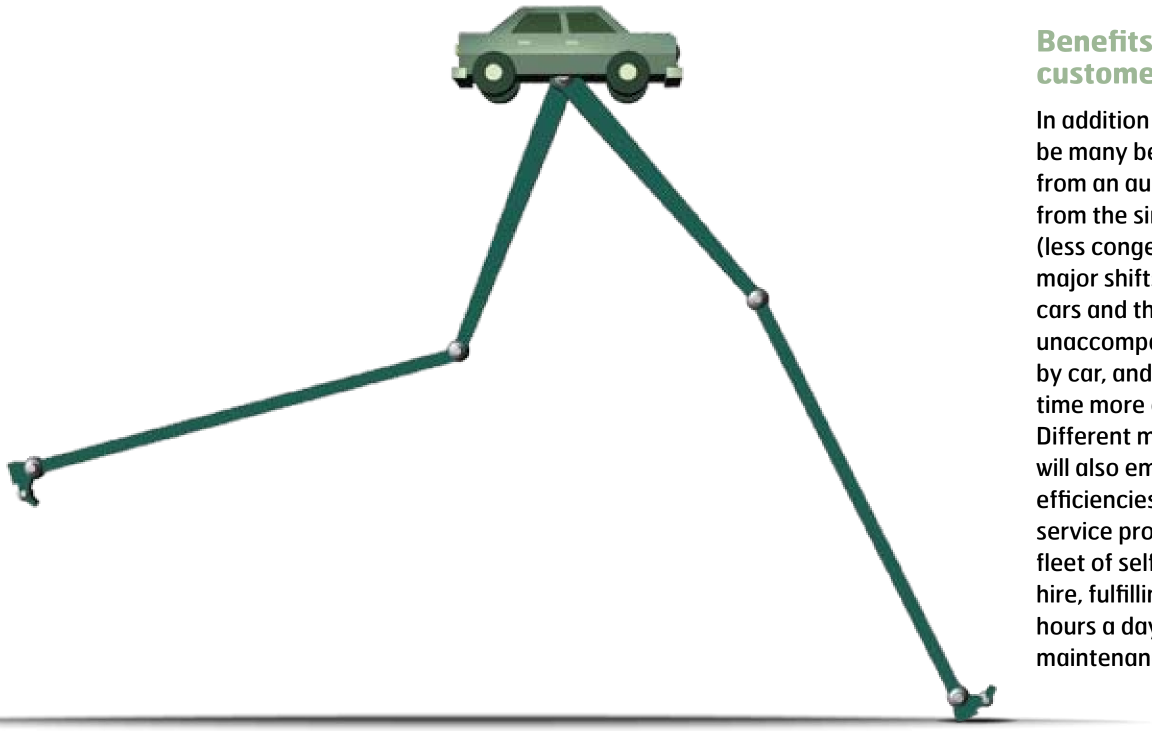
PROFILE

Julian Enoizi
Chief Executive Officer
Pool Re

REMOVING ROAD RISKS: THE INSURANCE IMPLICATIONS OF DRIVERLESS CARS

Crashes won't be caused by driver negligence because there won't be a driver

The media generally regards the advent of autonomous (self-driving) cars as either something analogous to Armageddon, or a utopian fantasy that will never arrive. As usual, the reality will be somewhere in the middle, and the insurance market is now gearing up for some major, and permanent, changes to the nature of motor insurance that will be brought about by advances in vehicle technology. In fact, driverless cars are rapidly becoming the most important subject on the car insurance industry's agenda.



Others are better placed to describe the incoming technology, and to project how quickly it will become available, but it is widely believed that autonomous vehicles will become commonplace within the next twenty years. When considering autonomous cars, it is helpful to think about two different models, emerging in tandem. First, the fully autonomous, self-driving, box-on-wheels, as per the 'Google car', which has already undergone extensive testing in the United States. Second, in parallel, the steady increase in the fitment of advanced driver assistance systems (ADAS) to 'normal' cars, which will ultimately render manual driving unnecessary. By way of whichever model, the march towards high-tech, self-driving vehicles is raising a host of issues for insurers.

Benefits for insurance customers?

In addition to improved safety there will be many benefits for road users arising from an autonomous fleet, ranging from the simple effects of fewer crashes (less congestion, lower fuel usage), to major shifts in the way in which we use cars and the road network. For example, unaccompanied non-drivers could travel by car, and occupants could use their time more efficiently while travelling. Different models of vehicle ownership will also emerge, with massive potential efficiencies available to passengers and service providers; imagine a roaming fleet of self-driving cars available for hire, fulfilling journeys on demand, 24 hours a day (subject to refuelling and maintenance downtime). Single-journey hire is an especially prescient model to explore considering that the average car spends 96% of its life parked.[1]

What will be the effect on road safety (and therefore on claims)?

The economic dynamics of road transport, and the associated insurance model, will be permanently changed by the advent of self-driving vehicles. The combined effects of the various sensors, cameras etc, and the immense processing power fitted to future vehicles will drastically reduce collisions. Autonomous cars won't be flawless, but because vehicle defects contributed to only 2% of accidents in 2013,[2] it is clear that taking human driving error out of the equation will reduce accidents – perhaps by 90%+ eventually. And since theft claims now account for only about 3% of frequency,[3] the number and severity of collisions (and especially the resulting third-party injury claims) are the primary drivers of premiums. If collisions reduce by 90%+, costs will follow suit, as will premiums. However, this is a long-term consideration, and there is a complicated transition period to manage over the medium term.

Who will be liable in the event an autonomous vehicle causes an accident?

Insurers anticipate that as long as the 'driver' of the vehicle is expected to be in control (or to take control back from an automated system), they will remain liable in the event of an accident, as in existing law of tort. This is likely to remain the case, even as more and more ADAS become available, and insureds start to do less and less driving.

However, in the fully autonomous model, crashes won't be caused by driver negligence because there won't be a driver. Many are predicting that liability will then shift to the vehicle manufacturer, given that accidents will be caused by errors in software, coding or processing, or malfunctions of hardware. This dynamic creates something of a dilemma for manufacturers – should they seek to limit these liabilities, and focus on making vehicles? Or should they embrace the (perhaps inevitable) transfer of road-risk liabilities, and move into the insurance space, perhaps with new propositions for distribution and customer service, or partnership opportunities with established insurers? It is not just insurers that are considering major changes to business models. It should also be remembered that the vast majority of third-party risks will be eliminated by collision avoidance technology.

What changes will be needed to the law?

Vehicle testing will need to change to ensure that there is sufficient scrutiny over software and hardware performance, and the driving test will become less and less relevant over time. The Road Traffic Act 1988[4] (RTA) requires that liabilities arising out of use of vehicles must be insured. While there is a rich body of case law on the subject of use (some judgments widen the concept, and others narrow it), it could be argued that, with a minor tweak to adopt strict liability, the existing framework could cope with self-driving cars, given the passenger is still using the vehicle. The benefits would include preserving the existing RTA liability regime, which makes it very easy for injured third parties to make claims (and difficult for defendants to get out of paying). The alternative does not seem a very attractive concept – referring an innocent, injured claimant, to pursue the manufacturer or software provider down the product liability route, instead of bringing a simple RTA claim against the person using the car that knocked them down. Also, under an RTA liability model, the insurer can still subrogate against a negligent manufacturer while the claimant gets compensated directly.

How will insurance policies and practices need to change?

Even in the fully autonomous model, ultimately there will still be a market for insurers, albeit contracted. With the removal of driving behaviour-based risk factors, the underwriting model will simplify, focusing on vehicle characteristics, mileage, postcode, use, and level of cover required. Price will continue to be the main differentiator, but in a low-frequency claims environment it could be hard to demonstrate value via service.

The 'classic fleet' will still need insurance, and some customers will probably still want to own their own vehicles, even if they are self-driving, and may want to access traditional first-party insurance cover for protection against theft (if still relevant), fire, losses caused by weather perils, and malicious damage.

Cyber security

Not every change to the vehicle fleet will create downwards pressure on premiums. Insurers will need to consider the issue of cyber security in their motor book as they are already doing in other areas of practice. The risk arising from connected vehicles is minimal at present, but soon most vehicles will have connective capability. With this functionality comes risk, and those with malicious intent could seek to hack vehicles and traffic networks, and cause accidents, or steal vehicles. This presents a challenge to insurers (and reinsurers) because of the large aggregations inherent in systemic risks. The obvious mitigation, other than carefully worded cyber exclusions (!), is ensuring that very high standards of data encryption are maintained.

[1] RAC Foundation, Spaced Out: Perspectives on parking policy (2012).

[2] Department for Transport, Reported Road Casualties Great Britain: Contributory factors in reported accidents by severity (2013).

[3] ABI Motor statistics (2012).

[4] Road Traffic Act 1988, Section 145 (3) (a).

David Powell, Cert CII

Underwriting Manager
Lloyd's Market Association

MATTERS OF FACT

London is a £60 billion premium market

Part of the charm of the London insurance market is the abundance of stories it generates. There are tales of legendary underwriters and brokers, of brave decisions that changed the course of business and history and of the lives and careers that have underpinned our 327 years of history. But lately we have seen the growth of a new type of anecdote. People have started to tell of a threat to the market's preeminent position – the rise of rival hubs challenging London's role as the global centre of excellence for specialty insurance. Sometimes the accounts have been graphic in detailing the potential catastrophe awaiting us. But in almost every instance they lacked one thing – facts. And so, to a greater or lesser extent, we have had a tendency to ignore the warnings and carry on as if nothing was happening.

In November 2014, London Market Group (LMG) published the report *London Matters*: the competitive position of the London Insurance Market.[1] This has brought an end to the anecdote-based doom mongering. What it provides are those absolute facts about where the challenges facing the market lie and where there are opportunities to develop. The report was commissioned because LMG wanted to understand the totality of activity that goes to make up 'London market business' and what that contributed to the UK economy so that government and regulators would see us as a vibrant financial services sector in our own right. It wanted the truth about its share of global business and whether it really is declining and it wanted to know what customers thought.

The results are remarkable and the impact has been even more so. London is a £60 billion premium market, made up of £45 billion that is written here and £15 billion that is marketed or managed through London but is written elsewhere. This latter tranche of business is interesting for two reasons. First, it employs people and helps towards our economic contribution. Second, it shows the power of the London cluster – that there are aspects of the insurance transaction that can only get done here even if much of it happens in other places.

And what of that economic contribution? The London insurance market employs 48,000 people and overall it generates £30 billion towards UK GDP – 21% of the total contribution of the City. These are impressive numbers and these are at the heart of the heightened interest that the government has taken in our market.

In terms of share of global business the news is more mixed. London has held its share of commercial insurance at around 10% of the total. But this was built around modest growth in the traditional markets of the United States, the United Kingdom and Europe. In emerging markets, in which the insurance demand of the future will develop, London lost share from 3.2% to 2.5% between 2010 and 2013. In reinsurance, while the market grew at 1%, its global share fell from 15% to 13%.

Our conversations with our customers showed why this might be happening. Increasingly clients want to place insurance in local markets where they believe there is a better understanding of business nuances. Customers understand risks better and can retain more of it themselves. London struggles when the major priority for the client is the lowest price.

Customers did criticise the market's infrastructure – London remains difficult to access and difficult to deal with once business does get here. But it was in the other two areas of customer feedback where the report has probably had the biggest impact.

Many participants focused on the effect of regulation on our market. Respondents questioned whether the balance between the cost and the value a well regulated market brings to the customer was being struck. And while most accepted that the UK corporation tax regime was more favourable, the lack of predictability of government tax policy generally was cited as a disadvantage. These comments, along with the data demonstrating our economic impact, have resonated with HM Treasury (HMT). In autumn 2014, LMG was invited to suggest improvements to the tax and regulatory environment that the market might like to see. This led to a commitment in the Autumn Statement to investigate these areas.

In February 2015, LMG made a submission to the Treasury setting out its proposals in more detail. These included the concept of a working group to investigate ways that more insurance linked securities (ILS) business might be attracted to the UK. This became a policy announcement in the Budget in March 2015 and LMG is working with the Treasury to take this forward. The market and government are working together more closely now than at any point in recent memory. And the discussions do not stop with HMT. Both the Prudential Regulation Authority and the Financial Conduct Authority have been involved and LMG continues to consider the other suggestions in the submission.

Why ILS business? In part because this is the innovative end of our business. Already in this article I have referred to London as a global centre of excellence and a cluster. That has always been its role in the international industry. Our unique collection of brokers, underwriters and all the expert and support services within walking distance allows us to deliver products that nowhere else can. It allows us to specialise in complexity, finding ways to cover risks that other insurance centres won't. But it is this ability to invent new products to meet evolving risks that our research called into question. Customers felt that London had slipped in this regard. If that is the case then we need to respond. We must rediscover the entrepreneurial, creative spirit at the heart of so many of those market anecdotes and put it to work to reinvigorate our reputation for innovation.

The work with the government is not the only activity that *London Matters* has generated. It is one of five initiatives that LMG is pursuing to react to the findings. We will be developing a campaign to promote the market to those customers, particularly in emerging markets, who have not tended to seek out our product. We will examine what LMG can achieve through central coordination to improve the market's ability to attract a high quality and diverse talent base. We continue in our efforts to modernise our infrastructure – recognising this as a vital foundation for our future. And we are looking at how all of these efforts should be funded and resourced to ensure that we deliver.

London Matters has demonstrated its title. We are a significant part of UK Plc. Our findings have helped focus government attention on what it can do to support us. This, and the rest of our agenda, is squarely concentrated on the opportunities that the report highlights. We live in a globalised economy where demand for specialty insurance is only going to grow. Reasserting ourselves as the predominant centre for this business will ensure we remain at the forefront of the international insurance business. We have replaced the stories with the facts. London does matter and now we have the chance to make sure it continues to do so.

You can download *London Matters* from the LMG website at www.londonmarketgroup.co.uk

[1] Commissioned from Boston Consulting Group.

Christopher Croft

Head of Secretariat
London Market Group

HOW CLAIMS ASSISTS INSURANCE BUSINESSES IN WINNING AND RETAINING CLIENTS

An insurer's entire reputation can be built on its claims offering

I often ask myself what it is that I am buying when I purchase an insurance policy. To be honest, I do not enjoy paying the premium, but I like to know that if I suffer a loss my policy will respond and that the claims service will be faultless.

The same is true of a commercial policy holder who understands the value of a quality insurance product and an exceptional claims service. As evidence of this, despite current market conditions, many customers are willing to buck the trend by paying a higher price for a premium service.

The existing soft market presents a challenge for insurers to differentiate themselves on price and product, I believe that the key differentiator, therefore, is service, and when it comes to service, claims is king. It is unquestionable that a market leading claims service, in which relationships are built and trust is forged, will differentiate an insurance company from its competition and is aligned to the high retention and attraction of new customers.

What is a premium claims service? It is relatively easy for the claims team to demonstrate its value after a customer has suffered a loss. Zurich has launched its claims 'New Way of Working' initiative with four basic core principles. It aims to make the claims process personal, effortless, clear and collaborative. Linking all of these principles is the need for effective, regular communication between all parties, following a bespoke timeline with agreed stages. This, coupled with the provision of quality, meaningful, claims data to the customer, ensures that in the event of a loss the customers' expectations can be managed.

However, it is the activities that top and tail the real life claims experience which provide the true differentiator and the biggest challenge.

How can the claims team of an insurance company assist in the retention of a customer if that customer has not suffered a loss? The historical approach of claims teams being 'out of sight, out of mind' until a loss is suffered is no longer relevant. Instead, claims professionals should accompany underwriters at renewal meetings and be involved in the new business tender process.

Supporting this proposition by hosting loss scenario workshops with customers serves to stress test policy wordings, as well as having the benefit of discussing the claims process from first notification through to settlement and recovery. Such events give the customer, specifically risk and insurance managers (and in turn executive board members), the comfort that their policy is fit for purpose, and is vital to ensure that they are prepared in the event of a loss. It is such collaboration that builds relationships and an understanding of each customer's needs.

It is also necessary that the collaboration continues and relationships are maintained even after a claim has been settled. Post-loss evaluation meetings involving the insurer, the customer, and where appropriate, the broker, help identify any lessons and improvements that could have been made, as well as claims successes. Lessons from one claim will often inform the approach to managing those losses under the wider portfolio. Such lessons learned are often equally as applicable to both the insurer and the customer. Expanding the customer relationship beyond the underwriting function helps to better communicate and deliver the value of the entire insurance product.

An insurer's entire reputation can be built on its claims offering, not only in terms of its ability to handle claims, but also provision of a comprehensive pre- and post-loss claims commitment. There is no doubt that a positive and complete claims experience assists in retaining and winning customers.

PROFILE

Charles Bush, FCII
Claims Team Manager –
Energy & Marine & FAS
Zurich Global Corporate UK

NOT JUST AN ECONOMIC ACTOR: THE POLITICAL VIOLENCE INSURER IN MODERN ARMED CONFLICT

THERE ARE WORDINGS COVERING EVERYTHING FROM 'PURE' TERRORISM TO… THE FULL SPECTRUM OF VIOLENCE UP TO WAR AND CIVIL WAR

Late on 10 April 1992, a white lorry attempted to park outside the Lloyd's building. It was moved on by security staff, and parked outside the offices of the Baltic Exchange in St Mary Axe.

At 9.20 pm the one-ton bomb inside the truck detonated, killing three people and injuring 91. The bomb also caused £800 million worth of damage.

A year later, a similar device exploded in Bishopsgate, at a cost of some £350 million.

In the aftermath of these bombings, most UK insurers moved to exclude terrorism from commercial policies. A conversation ensued between the insurance market and the British government and as a result, in 1993, Pool Re* was established as a reinsurer of last resort. More entrepreneurial insurers also spotted an opportunity – 1994 saw the first UK terrorism facility; this author drafted the wording.

This was not the beginning or end of the stand-alone political violence market. Underwriters had covered riots and terrorism in emerging markets for years before that and do so today. Lloyd's permitted war on land cover from 1997; post-9/11 there followed a thriving market in terrorism insurance in the developed world. Today there are political violence wordings covering everything from 'pure' terrorism to policies including the full spectrum of violence up to war and civil war.

The IRA attacks on the City of London were intended to damage their adversary's economy, like many terrorist atrocities around the world both before and since.

These two examples are of interest:

- In his history of the Malayan Emergency, *The War of the Running Dogs*, Noel Barber quoted a Malayan civil servant, John Gullick: 'It was a war – though out of regard for the London insurance market, on which the Malayan economy relied for cover, no one ever used the word.'
- In Bangkok in 2010, the head of the Department of Special Investigation branded protestors' actions as 'terrorism'. All risks insurers denied cover under the terrorism exclusions contained in Thai property policies. Only 20% of Thai businesses purchased standalone terrorism cover then; available limits were also restricted.

By offering cover that mainstream markets exclude, political violence insurers become not just economic but political actors, intervening in the insured conflict on the side of the forces of law and order. The political violence insurer becomes a 'financial combatant'.

This introduces a different ethical calculus. If the insurance policies perform, broken businesses are restored, employees put back into gainful employment, and communities rebuilt. Conversely, if the policies fail to perform, is the insurer 'aiding and abetting the enemy'?

Policy forms must be clear, which is not always the case – the definition of terrorism includes the state of mind and intent of the perpetrator, which is not always clear.

Finally, the response to an atrocity such as the attack on the Westgate shopping mall must be clear, coordinated and consistent. We are fortunate to have a community of professionals who understand this. However, I remain concerned that in the event of an incident on the spectrum between Westgate and 9/11, the market may not have the response plan to ensure that the clarity, coordination and consistency that is required will be there.

Shortly before terrorism and political violence were included as a class of business in CTP, my team developed an initiative to achieve this (we even had discussions with the Association of Chief Police Officers and the ABI to ensure insurers would be represented at all command levels). Unfortunately, that initiative became a collateral casualty of CTP. I am not aware of any market-wide initiative since then that replicates this.

I hope that when the inevitable happens we have the appropriate structures in place and that I will be proved wrong.

*See page 9 for article on Pool Re

PROFILE

George Johnston
Chief Adjuster, Xchanging

LONDON – A MAGNET FOR TOP TALENT

There is no other city in the world with a higher concentration of highly-skilled professionals in the risk management business

Dominic Christian asked Greg Case, President and CEO of Aon plc, a series of questions ranging from his career background to his tips for future generations of CEOs and his thoughts on the future of the London and UK insurance markets

Dominic Christian

Executive Chairman, Aon Benfield International and Chief Executive Officer, Aon UK Ltd. President-elect, Insurance Institute of London

How did you come to this market and has your career followed the path you expected?

GC: I began my career on the advisory side of the financial services industry and feel lucky to have gained experiences across a really broad set of sectors and services from the very beginning, including everything from life insurers to credit card companies. Along the way, I was exposed to asset management and investment banking operations, as well as property and casualty. That diverse background provided me with a great foundation for my transition into risk management and fuelled my interest in helping clients measure and mitigate risk. As for my career path, I never had specific expectations about where that would take me, just the hope that I would land in a place where I could have impact every day.

What are the key changes you forecast for the insurance market?

GC: The one universal truth in our business is that we must evolve faster than our clients on the topic of risk. In that context, we need to focus on achieving greater efficiency through the use of data and analytics, and technology in general. Traditional players risk becoming less competitive if they are slow to adopt some of the new analytical tools, particularly as other forms of capital enter the marketplace. We strive to be a business leader on that front, both in our retail and reinsurance operations, and we are highly supportive of technological innovation both within our firm and across the business.

Have you any tips for the next generation of insurance CEOs?

GC: We all need to remain client-focused. If we do not listen to and understand the needs of our clients, if we do not analyse and predict what they will need, we will not earn their trust and provide compelling and valuable service. As risk advisers, we must provide a long-term perspective for clients. As you know, we continue to invest in data and analytics; at Aon, we invest over $500 million a year in analytical expertise. When we combine that investment with insights from our interactions with clients, it broadens our scope and gives us a depth of experience that leads to better outcomes.

What are the business issues you think the next generation of CEOs will have to tackle?

GC: When I talk to our clients about what they see on the horizon, I hear variations on three key themes: risk, retirement and health.

I think we would all agree that the speed and complexity of risk is greater than ever before. Think about the macro risk issues the next generation will face; increasingly interdependent supply chains, accelerating climate change, greater population density, scarcity of precious energy resources. That is potentially overwhelming, and it doesn't even include emerging issues such as cyber risk and the actual liability and perceived reputational damage that come from data breaches.

On the retirement challenge: our society is massively unprepared – and I'm talking countries and companies around the world – to meet the needs of future retirees. Pension obligations are putting leading companies and large economies at risk. We advise clients on over $5 trillion in pension assets – that is almost 20% of the total market, so we are having these conversations every day. Future business leaders are going to increasingly find their access to capital and, as a result, their ability to realise their growth goals hampered by these obligations.

Health is another issue that is consistently raised. The global population is becoming less healthy and the cost of care is outstripping innovation. The question for business leaders is twofold. First, how do you engage with your employees in a way that changes the wellness trend at your company? Second, how do you predict the growing cost and try to bend the cost curve? We are right in the middle of these conversations and are working with clients to deliver innovative solutions such as private healthcare exchanges that empower their employees and drive great predictability around cost.

To what degree do you believe training and talent are critical to business success, and how does London play its part?

GC: Hugely – indeed, our talent agenda is critical to the overall strategy at Aon – and we see London as a magnet city for top talent. In 2013, Aon's People and Risk Index ranked the City as one of the top five in the world for talent. There is no other city in the world with a higher concentration of highly-skilled professionals in the risk management business than London, but we can still do more. The insurance sector alone employs about 48,000 professionals in the City and is the home for roughly 200 nationalities with as many as 300 different languages spoken here every day, yet only 3% of college students see the market as sufficiently interested in diversity to make it their professional home.

To that end, I was pleased with the sector-wide announcement in March 2014 of a UK apprenticeships scheme that includes brokers, carriers, and a host of professional organisations. This programme demonstrates a desire to bring new people and talent into the market. We are extremely supportive of this effort as well as the government's insurance growth action plan. Dominic, I know that you have been a leading advocate of apprenticeships and have been instrumental in driving our efforts in the UK. We are proud of the leadership position you have helped us take on this issue in London, but acknowledge that the issue is not unique to this market. As a result, we have established similar programmes in our other key operational hubs around the world – Chicago and Singapore – and are committed to building the right local approach to this global challenge.

How do you see the future of the London and the wider UK insurance market?

GC: We see the UK marketplace as compelling. Lloyd's and the London market are more important than ever with a resilience and strength that comes from its deep history, its unparalleled level of expertise, and the connectivity that exists between brokers, underwriters and clients.

I'm aware that recent reports have rekindled the debate over the future of the London market and what its leaders must do to maintain the preeminent position that it enjoys today. As I alluded to earlier, we should be mindful of the impact that new technologies are having on our market and continue to explore how they can supplement the strong relationships and long-standing structures that have made London such a vibrant and critical part of our industry for well over 300 years. I'm confident that the London marketplace can and will evolve to meet the needs of our profession in the 21st century.

Aon moved its headquarters to London in 2012. Could you tell us about the impact this has had on its business?

GC: There is no doubt in the mind of Aon – and the minds of our clients – that Lloyd's and London is a critical hub of the global risk management business and a major reason why Aon moved its headquarters here. It was important that we be in London, closer to this leading global insurance market and closer to our clients in EMEA and Asia, key areas in which we are experiencing substantial client growth. Our regional hub structure – with global headquarters in London and complementary regional capabilities in Chicago and Singapore – allows us to maintain our presence in critical markets and best serve our clients in over 120 countries.

The move has helped to reinforce our position as a leader in the global risk and insurance landscape, and we are working hard to be a good partner with the City of London. We are also very excited to be moving into our new headquarters at the Leadenhall building.

ADAPT OR DIE: TODAY'S REINSURANCE MARKET IS NO PLACE TO STAND STILL

FOR THE SO-CALLED 'TRADITIONAL' REINSURERS TO SURVIVE IN THIS FAST EVOLVING MARKET, THE CHOICE IS DARWINIAN – ADAPT THEIR BUSINESS OR FACE EXTINCTION AT THE HANDS OF THE NIMBLE

Talk to even the most long lived reinsurance practitioners around the market and they'll agree that the past five years have brought an unprecedented level of change to the reinsurance world. Falling premium rates, bucketfuls of new capital, a battalion of hungry investors, widespread mergers and acquisitions, and buyers seeking efficiencies, have all had their impact on the reinsurance landscape.

Traditional reinsurers no longer have the market to themselves and buyers have taken advantage of fierce price warfare to drive down rates.

All markets are built and shaped on factors of supply and demand. Tweak the supply lever and demand will inevitably be influenced and vice versa. Pull hard on both levers at the same time, however, and that's when real, structural change takes place.

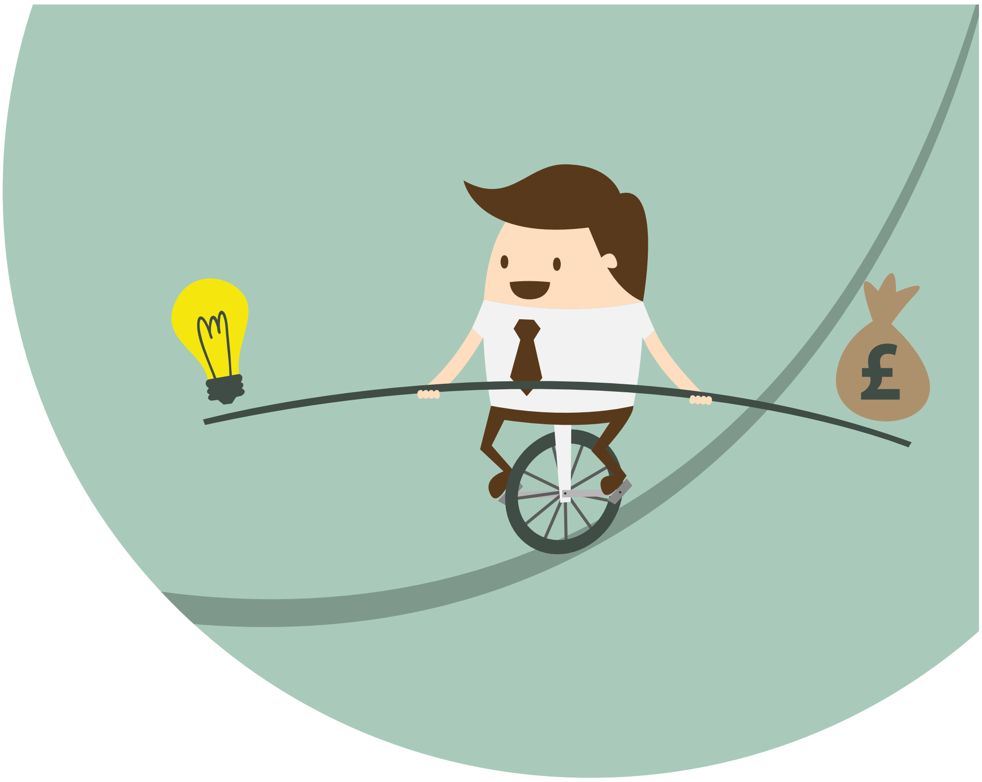
IT'S ALL ABOUT SUPPLY AND DEMAND

In the reinsurance world, the supply side has been turned upside down by the influx of capacity from investors seeking alternative uses for capital given poor returns elsewhere and working with a broader definition of risk and diversification. Reinsurance broker Aon Benfield estimates that reinsurer capital grew to US$575 billion as of January 2015, and included US$62 billion of alternative capacity (both records according to the broker), while Guy Carpenter estimates 18% of property catastrophe limits worldwide are now provided by investor-backed capacity. Traditional reinsurers no longer have the market to themselves and buyers have taken advantage of fierce price warfare to drive down rates.

DEMAND SHIFTS

Look at the changes in demand from buyers. These have been no less significant as insurers respond to their strong balance sheets and their ability to retain more risk by simply buying less reinsurance protection. And when they do decide to buy, they look for much greater efficiencies, leading to consolidated reinsurance panels and a real threat to the existence of those reinsurers that are unable to compete with sufficient line size or useful insights.

Add to all of this a decade of low levels of losses from natural and man-made catastrophes and it's not hard to see how these factors have combined to make the reinsurance market a very different one from the more stable and predictable environment of five years ago. And the market is not going to revert back to the 'good old days'; even a succession of large losses, once the catalyst for a sharp uptick in rates and a reversal of the cycle, are unlikely to have much of an impact given the sheer volume of capital now at play.



HOW TO ADAPT?

Change such as this presents several challenges to the 'traditional' reinsurer. How to adapt the business model to succeed in this changed environment? How to engage with the alternative capital coming into the business? What new skills will the underwriter need to master? How to succeed in the emerging markets of Asia and Latin America? How to achieve profitable growth while maintaining underwriting discipline? These are all questions that the market is wrestling with and in the market now there are reinsurers trying a range of different options.

First, most businesses will try to cut costs. When healthy rates are delivering double-digit returns, expense ratios appear less significant. But lower volumes of premium underwritten at reducing rates will have a magnifying effect on expense ratios and demand reinsurers take a look at streamlining expenses whether in their back office, through claims, or any other part of the transactional process. It's unlikely, however, that cutting costs alone will help a reinsurer survive in this cut-throat, Darwinian world. It might stave off extinction for a while, but the market will eventually demand more than simply the ability to do more of the same with less.

SAFETY IN NUMBERS

Second, mergers and acquisitions (M&A) is often touted as the best approach to quickly acquire scale and relevance – buy another reinsurer and quickly grow material relevance and also underwriting resources and expertise. There is also the opportunity for a business with little brand presence in a particular market to find a complementary partner that achieves greater awareness in areas where it wants to grow. Of course, M&A bring risks in terms of how well two different organisations merge culturally and whether the promised cost savings materialise to deliver the results promised to shareholders.

UNDERWRITE YOUR WAY THROUGH

The third option is to adapt business through your own underwriting strategy. A mono-line approach, faithful to one area of reinsurance such as property catastrophe is no longer sustainable. Looking at other new areas of risk in the specialty and casualty arenas will help reduce the dependence on one particular class. Careful examination of new emerging geographies in which to underwrite could also be an option.

Innovation is also an important area of growth: why keep selling the same product when there are opportunities to respond to evolving client needs – whether it's an emerging peril such as cyber or by the creation of new product solutions that tackle frequency and severity in a more tailored fashion. Reinsurers have for too long relied on the products they want to sell rather than listening to the products clients want to buy.

Why compete against the incoming capital tide? Why not, as a traditional reinsurer, work with alternative capital to provide greater options for clients?

IT'S AN OPPORTUNITY TO GRASP

Some may see this unprecedented change as simply a threat to the old order. And they would be right. It will be a terminal threat if they refuse to respond. It's surely better to see the change as an opportunity to grasp. Why shouldn't reinsurers, rather than adhering to yesteryear's approach of simply waiting to quote on risks for clients, proactively work with insurers to help them grow their own book? Reinsurers have huge underwriting expertise that they could make available to their insurance clients to assist them in offering new products; by helping to grow the insurance pie, reinsurers have the opportunity to cement relationships with their clients and provide additional reinsurance protection.

STANDING STILL IS NOT AN OPTION

If reinsurers can reinvent themselves to compete effectively with both their peers and the alternative markets, there is no reason why they shouldn't see this period of change as an opportunity to transform how they do business. As Darwin wrote, 'It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change'. For every reinsurer, standing still is no longer an option.

Mike Krefta

Chief Underwriting Officer
Hiscox Re

INDUSTRY TO PROFESSION

I am totally confident in a positive future for the profession that has truly emerged from an industry

Professional Advice

Professional advice has emerged stronger post Retail Distribution Review and continues to evolve with increasing recognition of its role and importance in society. You could be forgiven for believing that I might be a little biased, especially as the Personal Finance Society (PFS) has seen further growth in membership to over 35,500 individuals, an increase in the number of Chartered Financial Planners and a significant percentage of members that continue the professional journey.

What do others think?

Peers and MPs Referral to impartial professional advice became a key lobbying point for peers and Members of Parliament during the recent Care Bill reforms. Since April it has been mandatory for local authorities to refer the public to regulated advisers when at the point of considering care requirements.

Government The government has acknowledged the importance of professional advice for effective retirement planning and long-term savings, especially for those people with more substantial amounts of money or more complex areas such as transferring out of a defined benefit (DB) pension scheme. The government is concerned, however, that professional advice is limited to the wealthy and this is an area in which we are working with some firms to propose appropriate solutions. While many advisers do have models that attract a smaller affluent pool of clients, there are others who do offer more affordable solutions to the mass affluent sector. As a professional body, and on behalf of a profession more broadly, the PFS needs to assist the government with important issues and challenges to ensure professional advice continues to be seen as part of the solution.

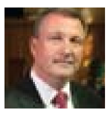
Financial Conduct Authority (FCA)
The FCA is definitely more engaged with the profession and the Personal Finance Society more specifically. We have regular meetings and are involved in a number of key working groups. The Personal Finance Society was invited by the FCA to contribute further to its thinking on capital adequacy rules, ahead of the recent announcement and is also engaged in other key policy considerations. Members who attend PFS regional events will be familiar with the regulator's delivery of 'good practice' and the opportunity to interact directly with key members of the supervisory team.

The FCA's post-Retail Distribution Review (RDR) thematic review issued in December 2014 was one of the most positive I can remember reading, with constructive and encouraging observations of the firms reviewed stating 'there is further evidence of the increasing professionalism of financial advice and there has been a material improvement in the way firms disclose the cost of their advice, their scope of service, and the nature of their services to clients'. FCA chief executive Martin Wheatley said, 'The RDR aimed to create a truly professional financial advice sector; one that provides advice based solely on investors' best interests. It is still early days but the indications are that the sector has responded positively to the reforms.'

Financial Ombudsman Service (FOS)
The FOS acknowledges increasing quality and recently-published statistics show that adviser-related complaints account for less than 1% of the total and less than one half of these are upheld. We are engaged with the FOS and it will be joining the Q3 regional conferences along with the FCA.

I am proud to be the CEO of the Personal Finance Society at such a key stage of further evolution and I am proud of members' achievements. There will always be scope for progress and improvement, but I am totally confident in a positive future for the profession that has truly emerged from an industry and remains committed to playing its part in influencing the future.

PROFILE



Keith Richards, Cert PFS
Chief Executive Officer,
Personal Finance Society

EVOLUTION OF THE FINANCIAL SERVICES PROFESSION

…we expect that within five years over 40% of all regulated financial planners will be Chartered

One third of Chartered Insurance Institute members are financial services professionals. As a group, we have been on a rapid journey embracing regulatory and economic change. Over 4,500 members have achieved Chartered Financial Planner status, which had only been launched in 2007, and another 7,500 have taken at least the first step towards Chartered status.

Chartered Financial Planner[1]

Independent Financial Advice[1]

It is likely that the Retail Distribution Review was a catalyst to this march towards higher-than-benchmark qualifications and we expect that within five years over 40% of all regulated financial planners will be Chartered. This is a significant change from an industry at certificate level not so long ago.

The Personal Finance Society, which has over 35,500 members, is celebrating its tenth anniversary. While on the Personal Society Board we debated much about the future of the profession and in 2011 NMG Group produced research that predicted Chartered status would be the new Independent Financial Adviser by 2016. At the time this raised some eyebrows.

After four years, Google searches are supporting NMG's research with Chartered Financial Planner at a near high compared to the last nine years and Independent Financial Advice at a low. Consumers attach a value to and trust the Chartered brand.

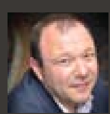
Chartered status has also helped move perception in our relationships with other professions and the Personal Finance Society has developed across the country a network of Chartered groups that share best practice with accountants and solicitors.

Is there a learning point for others within the CII group? The Retail Distribution Review and economic change were without doubt the stimulus. However, the rest has been a desire to embrace change by the vast majority of members. Whether it is commission disclosure, higher qualifications, or the removal of commission, the Financial Services members have adapted and this time they are going beyond.

It is only when you go beyond benchmark qualification or benchmark service that results in strong sustainable business models with embedded value.

[1] Source Google UK

PROFILE



Edward Grant, FPFS
Vice President, Chartered Insurance Institute

OUT WITH THE OLD, IN WITH THE NEW

...a fund that can be dipped into throughout life and not used only for retirement, is worth further consideration

With the new Conservative government, we have a new Pensions Minister in the (fairly well-known) shape of Dr Ros Altmann.

Steve Webb, 'made the role his own' throughout the last parliament and can take much credit for overseeing one of the most incredible 'shake ups' to retirement provision for many years.

What are the views of the new Pensions Minister on the proposed pension reforms already announced by the government and in its manifesto? It's early days, but knowing what the new Pensions Minister thinks on some of the key pension-related journeys already embarked upon (or at least aspired to) will be quite important, assuming, of course, that she will exert some influence over what emerges as pensions policy and legislation.

From what has been reported to date, the following is what Dr Altmann appears to think on some of the key issues:

DRAWDOWN FREEDOMS AND FLEXIBILITY PROVISIONS

Dr Altmann appears to be largely in favour of all of these. This should mean that we will not expect to see any fundamental change to or reversal. She has said that she will work closely with the profession to encourage new product development and innovation, while having a watchful eye to ensure that pension providers do not disadvantage their clients.

CHARGES

A big issue, Dr Altmann is well known for being forcefully and consistently vocal in support of the need for greater clarity, simplicity and, of course, 'fairness' (for which read 'lower') in relation to charges.

LIFETIME ALLOWANCE

With a reduction from £1.25m to £1m from 6 April 2016, we have a Minister who is relatively vocal for scrapping it altogether.

SECONDARY ANNUITY MARKET

The Pensions Minister seems to be very much in favour of this proposal, so we can expect this to progress, although there much to consider before it becomes reality. The consultation document identifies many issues to address and it is not surprising that consumer protection comes high on the list.

FINANCIAL ADVICE

The Minister appears to be a fan and a promoter of the importance and potential value for money of good financial advice – especially for pensions and retirement planning.

LONG-TERM CARE

Dr Altmann is a strong supporter of more funding (and enthusiasm) for this difficult problem.

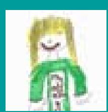
STRUCTURE OF PENSIONS AND SAVINGS

The Minister has spoken out in favour of simplifying savings and seems in favour of limiting any further 'tinkering' with the taxation of pensions. She has suggested that a lifetime savings account, a fund that can be dipped into throughout life and not used only for retirement, is worth further consideration.

The 'lifetime ISA', a similar idea, was put forward by the think-tank Centre for Policy Studies (CPS). In 2014, CPS research fellow Michael Johnson said that he wants the government to take advantage of the popularity of individual savings accounts (ISA) by transforming it into a lifetime savings product – the 'Lifetime ISA' (LISA). He believes this product would simplify and boost savings of those in their 20s and 30s.

It will be interesting to see if anything comes of these proposals. The CPS is not without influence and there is some, although by no means complete, alignment with ideas put forward by past Pensions Minister, Steve Webb, in relation to pure pensions savings. Dr Altmann does not seem a million miles away from this idea too.

PROFILE



Samantha Kaye
Head of Pensions
Technical Connection

"Mummy" (Samantha Kaye)
By Alex, age 9 years and
Sophie, age 5 years.

PROPOSED ADDITIONAL 'MAIN RESIDENCE NIL RATE BAND'

... to benefit from a 'main residence nil rate band' the property must qualify as the individual's only or main home

Prior to the 2015 General Election there were suggestions in the press that the Conservatives were considering an additional 'main residence nil rate band' which made it into the Conservative election manifesto

Understandably, there is currently little detail but from what we know an additional main residence nil rate band of £175,000 will be available in addition to the existing ('any assets') inheritance tax nil rate band of £325,000 in circumstances in which a family home or other main residence is transferred to a direct descendant of the deceased (presumably including stepchildren and adopted children). Depending on the circumstances, this could mean that the overall inheritance tax threshold would be increased to a total of £1million for married couples and civil partners – that is, £500,000 each. It is, however, proposed that the 'main residence nil rate band' would be reduced by £1 for every £2 if the value of the property exceeds £2m.

The cost of the additional nil rate band will, it seems, be funded by gradual reduction of the annual allowance for those earning over £150,000 annually. It is proposed that the allowance would reduce by £1 for every £2 of income over £150,000 until it reaches a 'floor' of £10,000 at £210,000 of taxable income.

The additional main residence nil rate band is expected to only apply to transfers on death and would be transferable between married couples and civil partners to the extent that it is not used on first death. The main residence nil rate band of £175,000 (or £350,000 for married couples) would not be available to use in relation to assets other than the family or main home, nor would it be available if the home is left to other family members (that is, those who are not direct descendants of the deceased).

Therefore in order to benefit from a 'main residence nil rate band' the property must qualify as the individual's only or main home. One would expect that this would have the same meaning as the principal private residence for the purposes of capital gains tax (CGT). It will be interesting also to see if, where two properties are owned, an election of the main residence can be made for inheritance tax (IHT) as well as for CGT purposes.

Interestingly, the press estimated that the measures would reduce the number of estates liable to inheritance tax to 6.2% of total deaths by the end of the next Parliament (contrasted with just over 10% if the proposals were not adopted).

It is difficult to comment on whether or not this proposal will go ahead and if so what the detail will be. There are several unanswered questions, some of which I have addressed in this article. There has been some negative comment concerning the economic impact of this relief – as well as dismay at the proposed reduction of the annual allowance.

As for any tax incentive linked to a specific asset class, it is possible that it (the tax incentive) could encourage greater investment in relation to the main residence and subject to the need to drive an income from any capital used, some may be encouraged to 'up-size' on tax grounds. Either way, an up-to-date main residence valuation will prove to be useful prior to making any decisions.

While only at proposal stage, it will nonetheless be interesting to see how this evolves.

An example as to how this may work in practice is beyond the scope of this article. However subscribers to the Techlink website will be able to see a fuller version of this article which includes an example. A free trial is available at www.techlink.co.uk

PROFILE

Niki Patel
Tax and Trusts Consultant
Technical Connection

"Mummy" (Niki Patel)
By Kai, age 3 years.

EDUCATIONAL ACTIVITY REPORT, LONDON REGION, PERSONAL FINANCE SOCIETY

The support from central PFS and the IIL team is invaluable, and we all benefit from this closer cooperation

The London Regional Committee of the Personal Finance Society (PFS) has been responsible for the delivery of central content to its regional members through quarterly conferences at Aldermanbury. It has also laid on specific events to meet member demand and activity has ramped up in recent years – coinciding with a committee desire to deliver more.

It was decided in 2014 that the London region should lead the way in arranging two quarterly conferences, rather than one, to serve its 6,000 members – events are still comfortably oversubscribed. By design, the quarterly conferences are very broad because the aim is to directly meet CPD requirements for a wide audience and to provide greater focus in specific areas, the committee sought feedback on what was needed. It started with the most popular requests and then filtered, according to the provisions of the conference diary over the subsequent 12 months. The main areas of interest were:

- understanding investment risk;
- new 'competitors', notably online services such as crowd-funding and peer-to-peer lending;
- growing a successful practice; and
- succession planning.

Armed with the information and a desire to meet these needs, the then London Chair, Keith Robertson, set about the task. For the first topic, a selective group met over a period of five weeks, with sessions to 'examine the tyranny of averages and the cyclical nature of financial markets'; this proved to be a huge success.

Next on the programme was an afternoon event, bringing together luminaries from the worlds of crowd-funding and peer-to-peer lending*. At first sight, the disintermediation of Direct to Consumer platforms seems at odds with the face-to-face proposition of the traditional financial planner, but to understand the client-led demand and the evolving regulatory backdrop proved to be invaluable. Delegate feedback listed the event as useful as any other PFS event. The FCA was also represented and offered an insight into regulation of highly-complex financial instruments, essentially bought online via execution only arrangements.

More recently, Education Officer Ian Hart arranged a full-day programme, covering how to grow a scalable financial planning practice with succession planning 'Enhancing and Extracting Value'*. Following on from previous experience in earlier sessions in the wider promotion of the events, full use was made of Martin Wells' (central PFS) background knowledge and we received fabulous support from Allison Potts and Tina Thoms at the IIL.

Eighty-two PFS members attended and there were no less than 14 speakers. These included accountants, specialist consultants and lawyers (structuring, tax and contract drafting from a buyer's and seller's perspective); the press, outsourcing specialists and the CII's Caspar Bartington (growing business and nurturing talent); IFA consolidator Sheriar Bradbury (clear guidance, based on his experiences) and Caroline Mitchell from FOS and Harriett Quinney from the PI insurance sector, who offered insight on legacy pitfalls.

With the aim to use it to launch a new (and hopefully vibrant) regional association, the London committee will hold an event on 16 October for the 'next generation' of financial planners – with more social edge. Specifically this comes from observations that conference attendees currently have very similar characteristics, demographics and ethnicity.

The London committee wishes to bring together three main objectives, to:

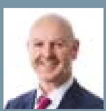
- support the central PFS activity in attracting younger members in to the growing profession;
- offer greater options and guidance for newly-qualified members on the scope of future roles available to them; and
- reach out to and cater for a broader London region audience.

Beyond this, it is planning for November 2015 a seminar that will focus on Budget changes to tax-incentivised investments as these changes become adopted.

Overall, I believe that the London Region of the Personal Finance Society is closing in on its objectives but could not do so without dedicated committee members. The support from central PFS and the IIL team is invaluable, and we all – especially our membership – benefit from this closer cooperation.

*PFS and CII members can download podcasts of those seminars from www.cii.co.uk/knowledge/insurance-institute-of-london/articles/crowdfunding-and-peer-to-peer-lending/32764 and www.cii.co.uk/knowledge/insurance-institute-of-london/articles/enhancing-and-extracting-value-from-your-business/35931

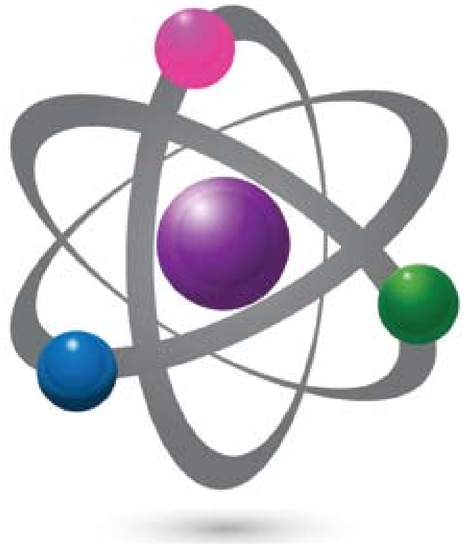
PROFILE



Chris Holmes, APFS
Director, Almus Wealth Management
Chairman, London region
Personal Finance Society

AN INTRODUCTION TO NANOTECHNOLOGY FOR THE INSURER – AN EMERGING LIABILITY RISK

For insurers, nanotech will bring opportunity and risk in broadly equal measure



The emerging 'nanotechnology' ('nanotech') market carries with it potential long-term risks as well as huge possibilities. Put simply, nanotech is the study and manipulation of matter far smaller than the human eye can see – a nanometre is one billionth of a metre, which is about one hundred thousandth of the width of a human hair.[1]

Developments in nanotech have possible applications for a vast range of products across all industries.

Uses and applications of nanotech

Nanotech already has many commercial applications, in products as diverse as beer, cosmetics, clothing and smartphones. Other examples include plasters with a nano-coating of silver to help wounds heal more quickly and a diet milk shake that contains nanoclusters of cocoa, which have greater surface area and give a more intense flavour. Inevitably there are risks associated with these new technologies.

What are the risks?

The risks of nanotech are largely unknown and are subject to debate, but there are indications that certain nanomaterials are a potential health hazard. Several cases have been reported in the United States of acute reactions to exposure to nanomaterial containing nickel, a known sensitiser, and concerns have been raised about ultra-fine carbon particles and silica.

The properties of nanoparticles can be very different to the larger forms of the material from which these are made. One of the benefits of nanotech is that with decreasing particle size, the ratio between mass and surface area changes; chemical reactivity is related to its surface area, so nanoparticles are more chemically reactive than their larger relatives. This may have enormous benefits, but some of the very features that make nanoparticles a useful tool may also greatly increase their toxicity. The effect of ingestion or absorption of nanoparticles is as yet unknown, but because nanoparticles present such opportunities, are relatively cheap, and can be manufactured in large quantities, industry is embracing them. These are already used in many consumer products, but nanotech remains largely unregulated and governmental bodies across the globe are struggling to keep pace with developments.

Comparison with asbestos

Of concern to insurers and to the public alike, is the possibility that free nanoparticles of a specific length scale may pose health threats if inhaled, particularly at the manufacturing stage. Carbon nanotubes are the main area of concern, because these are a similar shape to asbestos fibres. Scientific research has indicated that 'Carbon nanotubes are potentially toxic to humans' and recommended strict hygiene measures for those handling them.[2] Studies indicate that lungs can become inflamed and that scarring can occur.

How can insurers protect themselves? If a product (or any of its components) is defective its manufacturer may be liable for damage under the Consumer Protection Act 1987 or in negligence. Should adverse effects of nanotech products start to emerge years from now, insurers might be on the receiving end of many, potentially high, claims.

Because the extent of the risk is virtually unknown, it is very difficult to plan against it. Insurers can still, however, take steps to protect their position. The first step is to seek to understand the processes involved in nanotech, and then inform themselves as to how, and to what extent, nanotech applications are used by their own insureds. In addition, relevant policy wordings should be reviewed with this type of risk in mind. Consideration might be given, among other things, to claims series clauses, greater use of claims made policies, careful use of policy limits and exclusions.

[1] According to the Institute of Nanotechnology.

[2] 'Respiratory Toxicity of Multi-Wall Carbon Nanotubes', Toxicology and Applied Pharmacology (2015).

PROFILE

Jason Bright
Partner, Simmons & Simmons

HOT TOPICS

London Institute lecture committee members highlight key issues in their sectors.

Accident Committee
Neville White, Tokio Marine Kiln Insurance Ltd

With evolving science and technology, the liability insurance market continues to face new challenges. The development of autonomous (self-driving) cars will herald a new era for motor insurers.

Accidents arising from driver error will all but disappear, dramatically affecting motor public liability claims. This will have the effect of releasing capital in motor insurers, leaving it available for other parts of the business. Any motor accidents that do happen will potentially be due to faults with car navigation systems, and thus move the onus of liability on motor manufacturers and their product liability insurers. See page 10.

The cyber insurance market continues to evolve, and the risks of transmitting computer viruses and the risks of hacking of data show no sign of abating. This is prompting property and liability insurers to realise that the same common malware or virus can result in claims affecting multiple insureds, and leading to recognition of accumulation issues from the same common cause.

In sport, insurers of football, rugby and hockey are considering the long-term effects of multiple concussive impacts to sports players that are being linked by some parties to chronic traumatic encephalopathy (CTE), with consequential memory and psychiatric problems. The subject has had a high profile following recent litigation in the United States by former American football players.

The new prevalence of drones is prompting household and commercial insurers to consider the liability implications. This is not just restricted to risk of collisions with aircraft, but also privacy issues arising from drone-mounted cameras.

The widespread use of 3D printers is raising questions about intellectual property right infringement (copying another person's registered design) and product liability issues regarding the suitability of 3D printers to reproduce items with the same strength, and thus suitability, as a traditionally made item.

Other subjects on the radar include diesel fumes (a recognised carcinogen), night-shift working (possible link with breast cancer), the consequences of nanotechnology (products that incorporate nano-chemicals in their composition and risks to employees handling nano-chemicals), and electronic cigarettes (side effects of inhaled chemicals).

Aviation Committee
Simon Abbott, ACII, Global Aerospace Underwriting

Last year was difficult for many aviation and hull war insurers and 2015 has not got off to a good start. We are all very familiar with the two tragic losses last year, MH370 and MH17, and the large number of aircraft damaged on the ground in Libya. All three events costing aviation insurers and the hull war market well over $1bn. By mid-April 2015, we had already experienced tragic accidents in both Taiwan and in the French Alps affecting both markets.

Yet 2014, excluding hull war, was not an aberration. Analysis of airline sector losses over $100m, shows four losses to date last year, over the past 15 years losses track on average 2.5 times per year and over 20 years it is 2.75 times per year. Add to this the growth in the exposure, that is, the number of passengers flown since 2004 has increased by just under 50%, we have seen a dramatic improvement in the number of fatalities per 10 million landings, five-year rate is tracking at 1.3, although the 21-year rate is 2.7.

This probably goes some way to explain why aviation and hull war markets still suffer from overcapacity and the markets are still both highly competitive. As a result of this competition and over supply, we have seen the comeback of airline line slips, not seen for many a year.

Market consolidation in such an environment is inevitable. The lecture programme for next season will attempt to shed light on some of the challenges facing the aviation market such as Unmanned Aerial Vehicles, airline accidents, terrorism, a stakeholder's views on the Davies Commission and current issues in space.

Claims Committee
Mark Graves, ACII, Mitsui Sumitomo Insurance Underwriting at Lloyd's Ltd

We have specifically put our customers at the heart of our thoughts in shaping the 2015 claims lecture programme.

With the introduction of the Insurance Act there will be some important changes to insurance contract law as a result. This will bring added comfort to all of our customers and is very much welcomed, and it will be interesting to see this develop – not least in the international or subscription market context.

But London is also striving to do much more to put our customers right at the heart of its culture. In fact providing a top flight claims service and responding to our clients' needs in the most effective way and through the most appropriate forum has never been so important. See article on page 14.

The wide range of technologies, including disruptive technologies, will enable us to provide improved claims service, and it will be important that we embrace these. But equally important is doing more to understand the modern day business environment and understanding some of the lessons arising from claims so that our products and our approaches remain truly relevant and world class.

We also need to continue to encourage new talent in London. This will be a key focus for our Committee in the coming years and we will be encouraging younger members to help our Committee with that goal.

International Committee
Alastair Evans, ACII, Head, Government Policy and Affairs, General Counsel's Division, Lloyd's

The speakers and variety of themes chosen by the International Committee for the lecture programme for 2014–15 reflected some of the most important current and upcoming issues that would impact the UK and international (re)insurance community.

An in–out referendum on UK membership of the EU could have a significant impact on the UK insurance market's continued access to the EU single market. Mark Boleat, Chairman of the Policy and Resources Committee of the Corporation of London provided a City perspective on this issue.

The strong relationship between Bermuda and the UK insurance business was explored by Bradley Kading, CEO of the Association of Bermuda Insurers and Reinsurers. The lecture proved particularly timely given the EU's evaluation of Bermuda's application for equivalence under Solvency II.

Broader and emerging global regulatory developments were explored in a lecture by John Maroney of the International Association of Insurance Supervisors who spoke about that organisation's efforts to develop global insurance capital standards over the coming years, applicable to globally systemically important insurers and internationally active insurance groups.

The many current and commercial policy challenges faced by non-life insurers and reinsurers were eloquently outlined by Mike McGavick, Chairman of the Geneva Association.

Last and not least, a broker's overview of settlement of large claims in Russia over the past ten years was provided by Andrey Runov of Malakut.

You can download podcasts of all these lectures from www.cii.co.uk/knowledge/insurance-institute-of-london/ then searching for the speaker's name.

Lloyd's and Market Issues Committee
David Gittings, Lloyd's Market Association

The most significant change for many decades in the way our market will operate in future years will come from the single electronic trading platform. This is driven by the adoption by the major brokers of similar strategies around delivery of business to markets and a collaborative approach between these firms creating a strong case for change.

The recent London Market Group *London Matters** report emphasised the need for the London market to be more accessible, particularly in emerging and high growth markets, and to reduce its cost base. Business interactions across all sectors are increasingly becoming digitised and these factors, together with current technology capabilities, align to present the market with the opportunity to make real progress.

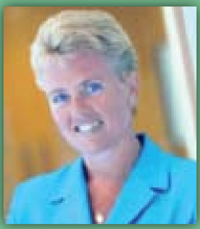
Placing Platform Ltd (PPL) was formed by the market associations in 2013 to explore adoption of a platform as a market utility that could deliver better value through collective purchase and through coordinated service management. The concept includes helping facilitate a common development roadmap across the market and develop a pricing model that would be mutually acceptable to all parties.

Exchanging data and documents and concluding the insurance contract electronically adds efficiency to the relationship-based trading predominant in the London market. The ability to discuss a client's case face to face is seen as a unique advantage and it will be important to introduce this change without detracting from that advantage. For simpler business, where the agreement of terms is less protracted, an electronic process opens up the market's distribution channels to receive business not previously viable for London. And, of course, the large volume of administrative or relatively minor contract changes that require underwriter agreement can be concluded with much reduced cost.

*See page 12

HOT TOPICS

London Institute lecture committee members highlight key issues in their sectors.



Marine Committee
Judy Knights, ACII, J K Knights Review Ltd

The largest marine loss ever, Costa Concordia, has had a huge impact on marine and reinsurance markets. We have addressed the complexities of the wreck removal with a lecture by Titan Salvors and are planning a lecture on the wreck removal of Rena – a relatively small container ship, which despite its size, has cost $425m. In the same vein (salvage /wreck removal) there have been presentations on the increasing size of container ships, aggregation of valuable cargo in containers and aggregation in the context of a new marine realistic disaster scenario. The matter of accumulation is becoming all the more important with some very high values in the deep-water energy industry.

The price of oil, as well as general commodity price fluctuations is of concern to energy and cargo markets. The oil price is impacting the energy industry, reducing activity and leading to premium reduction, over and above rate reduction in this very competitive market. We plan an oil price seminar to cover the concerns surrounding the loss of production income (LOPI) form and the basis of indemnity with the steep decline in oil price.

A 'Lessons Learned following Macondo' lecture is also planned now that the Supreme Court of Texas has issued judgment.

Two more areas of interest are cyber risk and sanctions. The focus on cyber risks impacting insurers has intensified during 2014–15 and cyber exposure is being debated across all market sectors. Insurance coverage for physical loss or damage as a result of cyber-attack is still in its infancy and is excluded by virtually all marine and energy insurance markets. We are planning to address cyber concerns for energy insurers and also the implications of the exclusion and the possible unintended consequences to marine.

Further developments in sanctions legislation and regulation, in particular targeted against Russian and Ukrainian individuals and entities, has resulted in increasing complexity for the marine and energy industry and insurers.

The Insurance Act 2015, which replaces the Marine Insurance Act of 1906, deserves a mention and will lead to changes to insurance contract law, when it comes into force in 2016.

Property Committee
Andy Brooks, FCII, Allied World

In the UK property market there are fewer hotter topics than what to do about waste. Insurers rarely see their claims hit the main national news but recent years have seen a succession of major fires which have attracted national attention.

In response to this, the IIL has recently delivered a lecture by Chris Jones of Cory Environmental and Chairman of the Waste Industry Safety and Health (WISH) forum, a joint body with support from government and other stakeholders, including insurers. We heard of the developing risk management initiatives for the waste industry being worked on by WISH, including contributions from insurer-funded technical resources of the FPA and Risk Authority.

Our profession has a significant contribution to make to the reduction of fire loss in the waste management business, but it has been a tough few years for underwriters in this class with even the 'risk managed' insureds suffering large fires.

Storage and materials handling of society's waste are ready for significant investment; work is underway in examining the most effective means of protecting assets and preventing loss in these businesses. Technical risk management innovation in difficult sectors, such as food manufacturing during the early 2000s, led to a massive reduction in fire loss and we should support the initiatives of WISH, making the fine words of our various 'sustainability' statements a reality, for the waste business.

Property Investors Committee
Anna Whitfield, ACII, AXA

The property investment sector continues to provide growth opportunities, particularly for the specialist broking and insurer teams in London.

Following a successful 2014 for many insurers, driven in part by benign weather, 2015 to date continues this trend. Competition remains strong and additional capacity in the form of new entrants, both insurers and brokers, continues to be a feature. Impending Pool Re changes will impact the market in October 2015 and the Insurance Act implications are being assessed. On a longer-term basis, commission disclosure is predicted to increasingly influence programme structures.

While the prime London market is expected to continue to grow in 2015, confidence and investor interest appears to be returning to prime regional markets. Although London remains the starting pointing for overseas investors with key sovereign wealth funds investing in some of London's iconic buildings, many are increasingly looking for opportunities to invest across the UK.

Commentators believe that 2015 will be a better year for retail, receiving a boost from a buoyant labour market, lower inflation and cheaper fuel. Positive house price growth will continue to support consumer confidence. Prime retail destinations will remain a safe bet, particularly for global investors. As consumers continue to purchase goods digitally, logistics warehousing with be a growth area.

There remains strong interest in the residential sector from an investor perspective, with some having a focus on conversion of redundant offices into retail under the permitted development rights legislation. Insurers welcome this trend because it reduces exposures to vacant properties. Technology is playing its part to reduce the cost of escape of water losses here, with a number of solutions now available to mitigate the often devastating impact of this peril.

Europe continues to present opportunities for investors and prime assets are expensive and hard to source. In turn they have looked to find new opportunities in recovering secondary cities, assets and development opportunities. Recovery has been seen particularly in Dublin, Madrid and Athens.

Reinsurance Committee
Peter Sydenham, Swiss Re Services Ltd

Capital invested in the reinsurance market continues to grow with current estimates putting it at $500bn (see page 18). With reinsurance terms softening, one should ask how long this capital will remain in our space. This alternative capital and cat bonds have negatively reduced the high returns available from property natural catastrophe reinsurance.

Much of this new capital is operating a low cost model which does not provide clients with benefits other than price. Reinsurers should focus on the huge opportunity out there that's not reinsured. Only 33% of total economic losses of $140bn in 2013 were (re)insured. The urbanisation of population where we see a growing middle class who all require more insurance products is a great example. Another example is that over 33% of people born in 2014 will live to over 100. Medical innovation will guarantee this but chronic diseases will also mean more insurance cover is required.

Reinsurers are also investing in big data. Technology is changing fast. Phones are already monitoring driving behaviour and automated cars will be on our streets very soon (see page 10). Frequency of loss will reduce but volatility will be higher. A larger claims environment increases reinsurance demands.

Another example of big data can be seen with store cards that will provide insurers with more detailed customer data than ever before. For example, insurers will know how healthy their customers are from goods bought.

Reinsurers must focus on finding new opportunities rather than waiting for interest rates to rise and seeing whether the end of a low yield environment sees the new capital exit the market.

FOMO – THE FEAR OF MISSING OUT!

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

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

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

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

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

MORE POWER TO APPRENTICESHIPS

Now is the time to recognise the opportunities for apprenticeships in high-growth areas of our economy, including financial services

The story of post-war Britain began with a generation of workers who were unlikely to have attended university. Rather, they learned their trades on the job. What they missed in the classroom, they made up for with experience. And in doing so, fuelled a period of transformational social mobility and economic growth unlike any we have witnessed since.

Two generations removed from this era, we again need a workforce-training approach that is attuned to market needs and can prepare the next generation of talent.

The UK government has made no bones about its commitment to apprenticeships. In 2014, it was announced that the government had reached its target of starting two million apprenticeships and it scrapped national insurance contributions for young apprentices.

Some believe that apprenticeships and vocational qualifications are secondary to university degrees. The challenge is to ensure more parents, teachers and young people appreciate the opportunities apprenticeships can offer and the success stories they inspire. I hear such stories frequently at Aon, where our apprenticeship programme provides an empowering alternative to university education and is responsible for some of our most exciting talent.

Tomorrow's leaders will be made up of those with both vocational and academic backgrounds – but only if we challenge misconceptions and educate young people, parents and schools to engender a long-term change in attitudes. There is encouraging news. A recent Aon study of 1,000 16–19 year olds found nearly two-thirds would consider apprenticeships as a way to advance their careers. Among the young people surveyed, 22% cited 'faster career progression' as the primary motivation for their interest, a further 19% believed apprenticeships would help get a foot in the door, while 18% were driven by the opportunity to earn while they learned. Yet, the key reason young people did not pursue an apprenticeship, according to our research, was the lack of opportunities in the sector they desired.

Now is the time to recognise the opportunities for apprenticeships in high-growth areas of our economy, including financial services. While 45% of the respondents surveyed said they would consider pursuing a financial services career, awareness of opportunities for apprenticeships within the sector ranked among the lowest identified. Instead, as expected, awareness of apprenticeships was highest for manual trades, the traditional source of apprenticeships. With services representing more than 75% of the UK economy, there is clearly misalignment.

Challenged by the government to double the number of apprenticeships by 2019, the insurance industry has responded with gusto. Companies from across the insurance sector joined together in 2014 to launch an apprenticeship collaboration programme and grow the number of apprentices at firms across the country. The programme's next phase is the government's 'trailblazer' training curriculum scheme, designed to raise standards and align apprenticeships to business needs.

For our sector, there will be a systematic framework of skills so that insurance apprentices can expect the same rigorous training and qualifications wherever they work. This is a good foundation, upon which we are determined to build.

The subject of apprenticeships touches to the very heart of the Insurance Institute of London. It reminds us of our past and points to our future.

Could your firm create an apprenticeship scheme? Download an employer's guide to apprenticeships from www.cii.co.uk/media/5985726/coh_j010055_-_apprenticeship_guide_2015_web.pdf

PROFILE

Dominic Christian
Executive Chairman, Aon Benfield International and Chief Executive Officer, Aon UK Ltd
President-elect, Insurance Institute of London

THE LONDON INSTITUTE PROGRAMME PREVIEW

Here is just a taster of some of the events coming up in our 2015-16 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
2015					
Mon 7 Sept	Revision	How to study and revise for the CII exams	Chris Paine, Dip CII Independent Training Consultant & Advisor & Len Wilkins, FCII	Xchanging	tbc
Mon 28 Sept	AGM	AGM of The Insurance Institute of London	Notice is hereby given that the Annual General Meeting of the Insurance Institute of London will be held at 6.15pm	Insurance Hall	Stephen Riley, President
Tue 6 Oct	International	Brazil and Latin America	Margo Black, Head of Reinsurance – Latin America South & President, Swiss Re, Brazil	Lloyd's	tbc
Mon 12 Oct	Claims	Use of modern media and social media in a large loss or Cat environment (1 of 2 lectures)	Phil Churchman, Chief Information Officer, EMEA AP region, Crawford	Lloyd's	Paul Handy, Director, Crawford Global Technical Services
Tue 13 Oct	Marine	Violation of sanctions – penalties mitigating issues, avoidance	Miriam Gonzalez Durantez, Lawyer and Partner, Dechert	Lloyd's	Inga Beale, CEO, Lloyd's
Wed 14 Oct	Financial Services	Social impact investment	Gavin Francis, Founder, Worthstone	Insurance Hall	David Ingram, Aim Two Three
Fri 16 Oct	Financial Services	The next generation of financial planners	tbc	Insurance Hall	tbc
Tue 20 Oct	Financial Services	FCA Update and Conduct Risk (Advance ticket purchase required for this seminar)	Branko Bjelobaba, FCII, Regulation & Compliance Consultant, Branko Ltd	Insurance Hall	
Mon 2 Nov	L & M Issues	Economic crime	Commissioner Adrian Leppard, City of London Police	Lloyd's	Henry Pollard, Chairman, City Police Committee
Tue 3 Nov	Aviation	Unmanned Aerial Systems	Raymond Mariani, Attorney, Murray Morin & Herman	Lloyd's	tbc
Fri 6 Nov	Reinsurance	Data analytics	Robert Reville, CEO, Praedicat Inc	Lloyd's	tbc
Mon 9 Nov	L & M Issues	Perspectives on the London Market	Dan Glaser, President & CEO, Marsh McLennan	Lloyd's	Charles Franks, ACII, Group CEO, Kiln
Tue 10 Nov	Property	Pool Re – The future	Julian Enoizi, CEO & Steve Coates, CUO, Pool Re	Lloyd's	Martin Eyres, Underwriting Mgr, Property, Mitsui Sumitomo
Mon 16 Nov	Claims	Use of modern media and social media in large loss or Cat environment (2 of 2 lectures)	Mike Reeves, SVP, Crawford, Mike East, Head of Claims, Canopius	Lloyd's	Paul Handy, Director, Crawford Global Technical Services
Tue 17 Nov	Aviation	Satellite technology – what can it bring?	Ruy Pinto, COO, inmarsat	Lloyd's	Roger Bathurst, CEO, Willis Inspace
Fri 20 Nov	Young Members	Winter Ball		HAC	
Mon 23 Nov	Accident	What is cyber insurance?	Graeme Newman, Marketing Director, CFC Underwriting	Lloyd's	tbc
Fri 27 Nov	Property Investors	Find the gap	Simon Child, Director, Child Graddon Lewis	Lloyd's	Anna Whitfield, ACII, Branch Underwriting Manager, Commercial Insurance, AXA
Mon 30 Nov	Aviation	Heathrow expansion	John Holland-Kaye, CEO, Heathrow Airport Holdings Limited	Lloyd's	Stephen Riley, Immediate Past President, IIL
Mon 7 Dec	International	How to manage aggregation of international cyber risks	Tom Bolt, Director, Performance Management, Lloyd's	Lloyd's	tbc
Wed 16 Dec	IIL & WCI	Carol Service	Dominic Christian, President	St Katharine Cree Church	
Thu 7 Jan	Property	The perils of dust – small particles, big bang	Andrew Dickens, Director, Phoenix Loss Prevention Ltd	Lloyd's	Andy Brooks FCII, Manager, International Property, Allied World Assurance Co.
Mon 11 Jan	Revision	How to study for your CII exams	Chris Paine, Dip CII Independent Training Consultant & Advisor & Len Wilkins, FCII	Lloyd's	tbc
Tue 12 Jan	L & M Issues	The ABI's priorities	Huw Evans, Director General ABI	Lloyd's	David Gittings, Chief Executive, LMA
Wed 13 Jan	Property	Transport infrastructure /Tfl rail and Underground	Gareth Powell, Director of Strategy & Service Development, London Rail & Underground	Lloyd's	Chris Sutton, ACII, Head, ARS Property & Strategic Account Manager, Aon
Thu 14 Jan	Accident	The principal factors impacting on catastrophic injury claims	Elaine Chapman, Partner, Weightmans	Lloyd's	tbc
Mon 18 Jan	Reinsurance	Subject of his choice	V J Dowling, Managing Partner, Dowling & Partners	Lloyd's	tbc
Tue 19 Jan	Claims	Management of Contingent Business Interruption	Jonathan Clark, ACII, SCOR SE – Global Head of Business Solution & Michel Krenzer, Onshore Energy Manager, SCOR	Lloyd's	James Miller, Partner & Head of Insurance, RPC
Thu 21 Jan	Property Investors	The evolution of landed estates	Chris Hoad, Insurance & Gardens Manager, Cadogan Estates	Lloyd's	tbc
Tue 26 Jan	Property	Turbines & power generation	Andy Bryce, Director & Forensic Investigator, Hawkins	Lloyd's	David Corrigan, ACII, Property Director, RSA
Tue 26 Jan	Revision	Assignment techniques	Mark Butterworth, FCII, MD, Condie Risk Consultancy Ltd	Insurance Hall	tbc
Thu 28 Jan	Accident	How the Insurance Fraud Bureau is using cutting edge technology to identify fraud	Ben Fletcher, Director, Insurance Fraud Bureau	Lloyd's	tbc
Mon 8 Feb	Revision	How to improve your chances of passing the CII exams	Chris Paine, Dip CII Independent Training Consultant & Advisor & Len Wilkins FCII	Lloyd's	tbc
Tue 9 Feb	Aviation	Aircraft accident investigations	Keith Conradi, Chief Inspector, Air Accident Investigation Branch (AAIB)	Lloyd's	Simon Abbott, ACII, Underwriting Executive, Global Aerospace
Wed 10 Feb	Reinsurance	What will the EU referendum, followed by a potential exit from the EU mean to London as a reinsurance centre?	Sean McGovern, Director & General Lloyd's Council	Lloyd's	tbc
Wed 24 Feb	Property Investors	Insurance requirements of UK funding agreements	Madeleine Clark, Real Estate Partner, Head of Real Estate Lenders, Osborne Clarke	Lloyd's	Paul Chetwynd-Talbot MD, Real Estate Practice, Willis GB
Mon 7 Mar	Revision	Accelerated Learning and Memory Techniques	Rob Murray, ACII, Partner, Lane Clark & Peacock	Lloyd's	tbc
Tue 22 Mar	Marine	Portfolio management (tbc)	Nick Gooding, FCII, IUMI, Representative at IMO	Lloyd's	tbc
Thu 28 April	L & M Issues	Subject of his choice	John Nelson, Chairman, Lloyd's	Lloyd's	Dominic Christian, Aon Benfield, CEO, Aon UK Ltd. Aon Benfield – Executive Chairman, International

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