ID Comment: The Lloyd’s subscription evolution must be carefully managed

Nexus has ‘substantial momentum’ towards £20m earnings goal

Analysis: Insurers test IoT potential
ID Comment: The Lloyd’s subscription evolution must be carefully managed

There are fears Lloyd’s will lose some of the unique benefits of the subscription underwriting in its desire for reform

Toby Esser, chairman of AFL Insurance Brokers, says at Lloyd’s, experts are constantly moving around the room, testing ideas and finding solutions. “Two, three, four or more minds working together to assess and price a risk are better than one. I don’t believe there is a more innovative market anywhere else in the world,” he says.

Historically, the subscription model has also been great for training brokers as it enables them to learn, quite literally, how to navigate the market, how to engage in face-to-face interaction and how to hone negotiation and relationship skills, Esser says.

Essex, who in principle supports the use of insurance-linked securities (ILS) capital in the Lloyd’s market, is also concerned the influx of such capital could further contribute to the erosion of the unique benefits provided by the subscription model. “In some instances it makes sense to deploy capital in this way – as part of an automatic follow market – but there would need to be central oversight from Lloyd’s,” he adds.

The comments reflect a broader concern in the market about how ILS-funded cover would respond to the different contracts, triggers and approaches to claims that are often encountered in the subscription market.

While many risks lend themselves to “blind” following, many of the more challenging risks – such as those lines of business targeted by Lloyd’s, at present, – often do not attract sufficient capacity by “ticking enough boxes” for blind followers.

For Esser, the Lloyd’s market has an exciting future ahead of it but its evolution must be carefully managed.

For example, in response to suggestions Lloyd’s is exploring ways of being more of an admitted or a direct writer in certain territories for certain lines of business, Esser says this is a step too far. “Lloyd’s is by its very nature a market for excess and surplus lines business comes here from all over the world for a reason,” he adds.

There is security, innovation and unparalleled underwriting expertise in the subscription model that is unavailable elsewhere, Esser says. “I urge the leadership at Lloyd’s not to sacrifice these unique benefits in their desire to cut costs and make things more simple,” he adds.
TMK says independent investigation under way amid sexual harassment allegations

Tokio Marine Kiln (TMK) said a formal and independent investigation is under way, following a report two executives had resigned from the company in the wake of allegations of sexual harassment, writes Scott Vincent.

The Bloomberg report said one executive had been accused of groping colleagues at a party hosted by the company for its employees, while another was accused of stalking a junior employee.

The report said several existing and former employees had approached a senior lawyer at the firm, Ifeanyi Okoh, to complain about abuse they said they had endured or witnessed at TMK.

Bloomberg News said employees reported bullying, intimidation, harassment, victimisation, unwanted attention, sexual harassment and racial abuse to the lawyer.

A spokesperson for TMK told Insurance Day: “TMK has clear standards and policies for workplace conduct, any breach of these will be taken extremely seriously and would not reflect our company values.

“A formal and independent investigation is already under way and we are working with external HR advisers to identify areas where we can drive further progress.”

The working culture at Lloyd’s has been under heightened scrutiny since an earlier Bloomberg article alleged “endemic sexual misconduct” at Lloyd’s. Lloyd’s subsequently commissioned the Banking Standards Board (BSB) to conduct an independent survey – the first time such a survey had been done – to help put in place measures to “build a diverse and inclusive market in which everyone is respected and valued”.

The original deadline for the survey was May 31. Following a slow response that saw only 7% of staff respond, this was extended to June 14.

Nexus has ‘substantial momentum’ towards £20m earnings goal

Investor BP Marsh says Nexus will continue to grow after increasing stake to 18.5% last year

‘Colin Thompson’s near-term goal is to get [Nexus] to an Ebitda of £20m by 2020, which, with a fair wind, is eminently achievable’

Dan Topping
BP Marsh & Partners

S pecialty managing general agent (MGA) Nexus has “substantial momentum” to continue its growth towards targeted earnings of £20m (£25.4m) by 2020, according to equity investor BP Marsh & Partners, which holds an 18.5% stake in the firm.

Dan Topping, chief investment officer at BP Marsh, said Nexus had demonstrated its ability to grow exponentially, with the MGA expecting to achieve gross written premiums of £131m in 2019.

This compares with gross written premiums of £52m at the time of BP Marsh’s first investment in Nexus in 2014.

The private equity investor now holds an 18.5% stake in Nexus, having purchased an additional 1.9% for £2.6m in October last year.

“Our initial 5% stake in Nexus cost us £1.5m, which shows how much it has grown in the past five years,” Topping said.

During this period, Nexus has grown its earnings before interest, tax, depreciation and amortisation (Ebitda) from £2.6m to an estimated £15.2m in 2019.

“The provision of this additional E14m loan facility from funds managed by HPS Investment Partners LLC.

“The provision of this additional E14m loan facility will continue to allow Nexus to further develop its position as the pre-eminent specialist underwriting agency. BP Marsh continues to believe Nexus will continue to grow and has substantial momentum for the future,” Topping said.

Nexus previously secured £30m of funding from BP Marsh and HPS in July 2017.

These funds were partially deployed in April this year through the acquisitions of Credit & Business Finance (CBF), a specialist trade credit broker, and Capital Risks MGA, a warrant and indemnity specialist.

The CBF deal has positioned Nexus as the leading independent UK trade credit broker with a share of more than 10% of the market’s £350m in gross written premium in the UK, BP Marsh said.

Nexus had explored plans for a sale of the business through a strategic review in 2018, but instead decided to continue with its existing growth strategy.

BP Marsh targets Lloyd’s opportunities amid consolidation fallout

Private equity investor BP Marsh & Partners will, potentially, close four new investments this year amid a continued flow of opportunities in its core Lloyd’s and London market intermediary space, writes Scott Vincent.

The company’s chief investment officer, Dan Topping, told Insurance Day the investment firm is working on four deals, three of which are Lloyd’s-focused.

Two of these are Lloyd’s underwriting agencies, with the third being a Lloyd’s broking operation. Although this is a result of consolidation, Topping said it was not part of the fallout from last year’s Marsh & McLennan Companies’ (MMC) deal for JLT.

“There has been a huge amount of fallout from the major consolidation that has taken place, but these aren’t necessarily all investments we can make,” Topping said.

“However, a lot of people are being snapped up by our portfolio companies, so they are seeing the opportunities. Opportunities are emerging to hire good teams in the fallout from MMC-JLT, Ardonagh and other deals.”

During the financial year ended January 31, BP Marsh received 64 new opportunities for investment, of which 58% were insurance intermediary enquiries.

“If we look at between 65 and 100 opportunities a year, I’d be surprised if more than five to 10 get past first base. We then, typically, try to close between one and three. We have up to four that may close this year,” Topping said.

He said the investment firm retained its interest in managing general agents (MGAs), with its existing MGA portfolio performing well, although he acknowledged the sector is facing some challenges.

“Lloyd’s Decile 10 review is leading to questions about what value MGAs add in relation to their impact on premium,” he said.

The fourth new investment that may close this year is for an agricultural underwriting agency in Australia and Topping said Australia continued to be of interest to the group.

During the 2018 financial year, BP Marsh took a 20% stake in Australian MGA ATC Insurance Services, its third investment in the country.

Last July, Australian-listed insurance intermediary investor PSC Insurance Group took a 19.8% shareholding in BP Marsh and Topping said the relationship was “progressing well”, with PSC benefiting from the uptick in BP Marsh’s share price.

The 2018 financial year saw BP Marsh generate a consolidated profit after tax of £12.5m (£15.9m), compared with £20.2m in 2017. Earnings per share fell by 15% to 16.4p.

At January 31, the company had a net asset value of £126.2m, up 10% year-on-year. The equity value of the firm’s portfolio of investments from £79.1m to £101.9m, which represented a 16.1% increase once adjusted for acquisitions.
**From tracking cargo to preventing workplace accidents, the internet of things has potential applications for commercial insurers**

**Rogério Amâncio**

The internet of things (IoT) is the kind of fancy tech that makes the gizmo at your house a little more interesting. But is there anything that can be done with this technology to benefit businesses?

As a report published last year by Lloyd’s and University College London London argues, the IoT will enable insurers to capture data at levels never seen before. The market will be able to crunch inspection data with laser accuracy. As a result, some reinsurers are talking about pressures not consistent with the way that Insurers are using IoT technology to reduce claims and improve business performance.

The benefits of this vision, can be full across the insurance chain, as it makes a more transparent dialogue possible between the seller and the buyer. It brings a new level of engagement, which is particularly important in the insurance sector. Insurers can use this information to adjust their pricing strategies and improve their risk management. The potential benefits of IoT are significant, and they are increasingly being realized in the industry.

Marc Bower, director of product and market development at Chubb, says IoT technology has the potential to revolutionize the insurance industry. By using IoT devices, insurers can collect data on various aspects of a customer’s life and use that data to make more informed decisions about pricing and underwriting. This can lead to lower premiums for customers who use IoT devices, as well as improved claims management for insurers.

The rise of IoT has also created opportunities for new types of insurance products. For example, home insurance policies that use IoT devices to monitor temperature, humidity, and other environmental factors can provide discounts to customers who maintain a healthy lifestyle. Similarly, car insurance policies that use IoT devices to monitor driving behavior can provide discounts to safer drivers.

The commercial insurance sector is also seeing significant potential for IoT. For example, ship insurers are using IoT devices to track the location of vessels and monitor cargo temperatures. This information can help insurers reduce premiums for customers who use IoT devices to improve the safety and security of their cargo.

In conclusion, the IoT holds significant potential for the insurance industry. By harnessing the power of IoT, insurers can improve their risk management and pricing strategies, and provide more personalized insurance products to customers. As the technology continues to evolve, the potential benefits of IoT are only likely to increase.
Modernisation for the market is a pre-requisite for success

In the midst of a new Lloyd’s marketing campaign which asks brokers to challenge their perceptions of MS Amlin, Tom Clementi, CEO of MS Amlin’s Lloyd’s managing agency, discusses the recently published Future at Lloyd’s prospectus and how the marketplace in general needs to question itself in order to meet the challenges it faces.

Our market is at a turning point. For centuries, Lloyd’s has been a redoubtable component of the insurance industry. Lloyd’s reputation for underwriting expertise and bespoke coverage solutions that businesses could not find elsewhere firmly cemented it as the world’s leading market for specialist insurance. However, the world around us is changing. Clients’ risk profiles are changing, and the way insurance is transacted is changing. The future success of the market will require us to rely not on how things have been done in the past, but to adapt systems, processes and behaviours to clients’ evolving needs in order to remain relevant in the face of an ever changing environment.

This is why John Neal’s vision of how to modernise one of the world’s oldest markets could not come at a better time. I believe the “Future at Lloyd’s” prospectus presents a compelling and ambitious vision for the future, and MS Amlin is keen to support Lloyd’s with this key initiative. It is a very important moment for the marketplace as a whole. As we would see it, the challenges facing the market are broadly two-fold. First, there is the supply-side challenge of ensuring that as an industry we can take our product to market efficiently; our market has tended to be slow to adopt technologies that can bring products to clients more cheaply and efficiently. The creation of a ‘Lloyd’s Risk Exchange’ will likely have a profound effect in automating the placement of less complex risk and freeing up resource to be deployed more widely on the provision of products, services and insight requiring more sophisticated thinking.

The other key challenge we face is on the demand side; just as it will become critical to take products to market in a highly efficient manner, so will it be a prerequisite for success to take products to market that our clients really want to buy; products that meet the needs of our clients over time as their business models change and as new businesses spring up. The focus required on product innovation is crucial and the investment required in data and analytics to facilitate its development will need to be significant. It is clear from looking at numerous CEO surveys across different industries that our market doesn’t yet adequately cater for many of the risks which top business people identify today as their chief concerns.

Our market has arguably never been in greater need of modernisation, and as such we applaud John Neal and his team’s efforts to galvanise support for an exciting future vision. However, being at the forefront of the insurance world, and underpinning all the work we need to do to modernise our industry, requires the best talent to come and work in our market. And to attract that talent we have to shout more loudly about the purpose of our industry. What insurance can achieve for our clients is inspiring. It can help them grow, it can help them get back on their feet when things go wrong, and it can enable them to think big and achieve their potential. It is inspiring. It can help them grow, it can help them get back on their feet when things go wrong, and it can enable them to think big and achieve their potential. It has an essential role to play in today’s economy and if we can better promote that story more widely and more volubly it will help to attract a new generation of talent that is increasingly interested in working for businesses that have a positive impact on society.

It’s time for us all to progressively evaluate how we are perceived, what we offer, and where we are heading and then undertake radical change with pace.

Product innovation is about more than just providing cover for new risks

Like many of our peers, we are already using data to enhance profitability by identifying near misses, fraud, incidents, and accidents and, thereby, ultimately reducing claims. However insurers will need to challenge themselves and use data in new ways to benefit clients. Risk advisory services will increasingly complement more traditional coverage solutions as the risk landscape of our clients expands to incorporate more intangible exposures. Prevention will increasingly become as important, if not more so, than cure.

Creating brand new coverage solutions that comprehensively address client needs is a key aspect of product innovation but we must also focus on how existing products can be re-packaged to meet changing demand. Risk no longer exists in a vacuum. Today’s risks are borderless and interconnected and the traditional approach of siloing products into specific lines of business is becoming increasingly outdated as the demand for holistic risk solutions increases. Clients are looking for brokers and insurers to develop coverage solutions that address all the different risks their business may be facing and adding on advisory services, such as risk management and data and analytics support where appropriate.

Getting back to who we are

Our market has arguably never been in greater need of modernisation, and as such we applaud John Neal and his team’s efforts to galvanise support for an exciting future vision. However, being at the forefront of the insurance world, and underpinning all the work we need to do to modernise our industry, requires the best talent to come and work in our market. And to attract that talent we have to shout more loudly about the purpose of our industry. What insurance can achieve for our clients is inspiring. It can help them grow, it can help them get back on their feet when things go wrong, and it can enable them to think big and achieve their potential. It has an essential role to play in today’s economy and if we can better promote that story more widely and more volubly it will help to attract a new generation of talent that is increasingly interested in working for businesses that have a positive impact on society.

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Four ways to improve the relevance of cat risk models

The insurance industry must show leadership to make catastrophe risk models more accurate, accessible and relevant at a time when the global climate is changing rapidly.

Dickie Whitaker
Oasis Loss Modelling Framework

Catastrophe models historically have been statistical, usually relying on 50 to 100 years of data to get a representative sample. While this statistical approach is helpful for modelling extreme events, it falls short when it comes to modelling for climate change.

Factoring in climate change to risk models presents many challenges. According to the recent Icebreaker One provocation and discussion paper, Environmental Intelligency for Everyone, published in May this year, stakeholders from local communities, local, regional and national governments and international public and private organisations are using available data to assess vulnerability to multiple hazards, but the framework for this is not yet structured to allow for easy and open access to the data that already exists.

Despite best efforts, Icebreaker One insists the availability of tools to assess disaster risk and assist in building capacity to enhance resilience is incomplete both in areas where the poor and vulnerable are most exposed and those in more developed nations.

So what can be done to improve the accuracy and relevance of catastrophe models and to open access to critical data on climate change and its impacts? Here are my calls to action for our industry to sharpen our collective focus on the climate challenge at hand.

Work with academia

It is critical the insurance industry actively supports and brings in academia to better understand the factors that influence climate change and its impacts on society and economies and develop evolving risk models that reflect this.

Local science knowledge and data must be linked with the decision-making needs of the risk-management industry. We must not only get a positive leverage on society’s adaptation measures, but also the value of natural infrastructures such as coral reefs and mangrove swamps in mitigating the impacts of climate change.

From supporting international universities with new doctoral training programmes, to collaborating on research projects with institutions like the Met Office, the Potsdam Institute for Climate Impact Research or the UN Office for Disaster Risk Reduction (UN-DRR) – to name just three – the re/insurance industry can play a pivotal role in not only joining the dots between research and application, but also with helping to bridge funding gaps.

Develop interoperable models

We must lower the barriers to information for catastrophe models and increase the interoperability of current models. Standardising formats and components across different vendors, academic and research groups can access and integrate the latest models will improve risk insight and help unlock public and private sector efforts to build resiliency in exposed communities around the globe and close the protection gap.

To improve long-term access to and knowledge of risk and catastrophe modelling to multiple stakeholders, we must not only change how catastrophe models are used but also make them affordable for more organisations. If it is to be of use to developing and developed nations, public and private stakeholders, risk-modelling technology simply needs to be more cost-effective.

Recognise we have a collective responsibility to get this right

All countries are all facing the impacts of climate change, but the poorest nations are disproportionately affected. We have a collective responsibility to help improve our understanding of climate change risk, and improve resilience.

Working together as an industry with governments and academia, we can co-develop new models, enhance existing models to better quantify the impacts of climate change on various risks, and support risk-management decisions and risk-based financing.

The expertise of key influencers of disaster risk management and disaster risk financing and insurance from the government, the academe, and the insurance sector are already being pooled to co-develop catastrophe models for flood in the Philippines and windstorm in Bangladesh, factoring in climate change to more accurately assess the risks and support more disaster resilient communities.

In Germany, meanwhile, we are working to demonstrate the added value of climate services for the insurance sector and beyond by applying a multi-hazard and risk-model suite for the Danube region. Concentrating on hazards like floods, droughts, storms and heatwaves under current and climate change conditions, models are tailored to end users with a focus on insurers, in order to help them to calculate adequate levels of capital and adaptation measures enabling them to survive under changing climate conditions.

We aim to not only provide local hazard information under current conditions but also to account for the future climate change impacts on these hazards and what this means for the insurance sector.

We hope to play a part in demonstrating the usefulness of the Future Danube Model for other sectors, for example, to support adaptation decision making in the public, industrial, finance and investment sectors.

Insurance must show leadership

Initiatives like these are only possible thanks to the support of leading re/insurance companies, which are providing capacity to specific in-country demand where appropriate.

But there is a clear need for more advanced insight into the impact and risk that climate change presents to global economies. At the same time, the insurance industry itself is under pressure to improve margins, embrace the disruptive challenge that technology presents and fill the protection gap.

These two pressures are the driving forces behind an upswing in support for a more collaborative approach to risk modelling to better understand climate change impacts.

The risk experts, investors and underwriters that make up the global insurance industry have a critical role to play in ensuring the resilience of global infrastructure and economies to the impacts of climate change.

It is time to show leadership as an industry and work together to unlock and change the world around catastrophe modelling to better understand risk, and help in the global effort to withstand and mitigate the impacts of climate change.

Dickie Whitaker is chief executive of the Oasis Loss Modelling Framework

We have a collective responsibility to help improve our understanding of climate change risk, and improve resilience.
VIEWPOINT

Renewable energy insurers caught out by climate change

Insurers must devise a common set of risk mitigation standards to accommodate the changing nature of extreme weather risks

Major weather events are intensifying, their frequency increasing and, as more renewable energy projects are developed, the probability of catastrophic impact on renewable facilities is multiplying.

Regions previously thought of being at low risk of such occurrences are now being affected. As a result, new and existing renewable energy projects such as wind farms, solar plants and battery storage facilities now, increasingly, find themselves in areas exposed to extreme weather.

The industry needs to be better prepared for storms and loss mitigation at such sites than it is at present. Recent research undertaken by the renewable energy team at Axis, in partnership with Renewables Consulting Group, has highlighted a number of issues including contract clarity, balancing acceptable mitigation spend and risk transfer, establishing which contracted parties are undertaking mitigation works and the compensation for such undertaking and the interplay between warranties and insurance to ensure any gaps are closed through further mitigation or insurance.

Recent events, together with the increased emphasis from regulators on the insurance industry’s need to respond to climate change, must serve as a wake-up call, even for the renewable energy insurance sector. We must learn to analyse exposures more thoroughly, taking into account not simply exposure to potential property damage, but any longer-term issues such as restricted site accessibility that exacerbate business interruption losses. The conclusions of that analysis must allow the industry to come together to facilitate better risk mitigation and improved standards before the next natural disasters strike.

Renewable energy site management and planning for natural catastrophes is of critical importance, as well as loss modelling of exposure to extreme weather, assessing in some cases even site suitability.

Last year, Hurricane Michael became the fourth-strongest hurricane ever to make landfall in the US, with sustained wind speeds of 150 mph, and caused catastrophic damage. As well as physical damage to buildings, Hurricane Michael caused widespread damage to a number of solar energy projects in the region. Worriedly, following the event, we continue to see new renewable energy projects being developed to the same inadequate standards – some developers are still designing projects to withstand wind speeds up to 100 mph, which is significantly less than the speeds of Michael: owners and insurers beware. We can only assume this is in an attempt to reduce the costs of these new installations, as opposed to a focus on building projects to withstand the elements to which they are potentially exposed.

Better preparation
Preparation for unpredictable weather events is, therefore, essential and should not be limited to windstorm risks: towards the end of 2018, storms raged throughout parts of Europe and, in many cases, caused severe flooding. With better preparation and proper design, the severity of these losses would have been lessened.

Severe flooding affects site accessibility, preventing damage assessment and, of more concern, reconnection to the grid. For example, following Hurricane Florence, also in 2018 and the Carolinas’ wettest-ever storm, many solar projects were effectively unreachable as a result of flooded roads and downed trees. In 2017 in Puerto Rico, Hurricane Maria brought down the grid itself and it was months before the projects were able to export power to the communities that needed it most.

Risk mitigation and improved procedures will certainly reduce losses. For severe weather, insurers should consider generic site issues, alongside technology-specific matters such as drainage design and maintenance; back-up service contracts for items such as generators; site security for post-event protection; and miscellaneous site activity and storage for additional auxiliary generators and fuel.

It is equally important to establish the balance of responsibility between developers, insurers, financiers, site owners, suppliers and contractors. Each party must be comfortable with any additional or amended obligations placed upon them to accommodate tropical storm preparedness and allow for the costs associated with such obligations, pricing services accordingly. Each renewable energy project should create its own appropriate technical and commercial mitigation strategy.

In the renewable energy sector, a market-wide effort to improve and adopt common standards across the board is essential, both pre- and post-loss. With severe weather events increasing in frequency and severity, a consistent industry response will help mitigate risks and enable projects to continue generating power for the communities that rely on this increasingly important source of energy.

Richard Carroll is global head of renewables at Axis.