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RE/INSURANCE REIMAGINED

Taken at face value, this year's *CEO Risk Forum* is a collection of fine opinion editorials on many disparate topics. But look a little closer and there's a unifying theme: insurance and reinsurance technology.

Not technology in the commonly understood sense of computer hardware and machines. A wider definition of technology is the use and knowledge of techniques and processes for producing goods and services.

An even more apposite definition of technology here is that it's "an activity that forms or changes culture; the application of mathematics, science, and the arts for the benefit of life as it is known".

It's striking how many of the articles you will read here concern the role played by the re/insurance industry in improving conditions for different communities. There are discussions about closing the protection gap through public/private partnerships; the use of index-based derivatives to structure nat cat coverages and also the need to build resilience into our cities.

But there's also insights on how the re/insurance industry is adapting and investing in techniques to help clients with mitigating and transferring cyber risk; ditto terrorism.

The important part played by technology in making the re/insurance industry more efficient and more effective at absorbing shocks is dissected too by many of the CEO contributors. That includes the development of risk trading technology to new ways of cutting costs in the value chain. The vexed topic of Big Data and risk pricing is a hot topic that fits into all those brackets.

But *CEO Risk Forum 2018* is far from being a "technology special". There are other, exterior forces at work today that are less easy for re/insurers to manage - trends in risk distribution, for example. Uncertainties around political risk and also regulation are arguably one of the biggest worries for the C-suite today.

You might disagree with some of the theses, but they're certain to make you think about the changing nature of re/insurance "technology".

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CALLING FOR A CULTURAL REVOLUTION

Lloyd's next CEO needs to cultivate a new market culture if it is to prosper, says **Dermot O'Donohoe**, CEO of Hamilton at Lloyd's

Lloyd's of London remains a compelling market for companies looking to leverage its iconic brand and global licenses: however, it is an expensive proposition. For every £1 that insurers and reinsurers receive, 40p is spent on expenses and acquisition costs for brokers. The frictional costs of doing business at Lloyd's are high, and it is clear that this model is neither efficient nor sustainable at a time when Lloyd's faces competition from other hubs such as Bermuda and the United States.

In the wake of heavy losses which Lloyd's experienced after hurricanes Harvey, Irma and Maria last year, there was a perhaps overly-optimistic expectation that catastrophe rates would harden. Rate improvements were slight, but the abundant availability of alternative capital through insurance-linked securities (ILS) has helped to keep cat pricing low.

On top of this, insurance and reinsurance companies face a plethora of compliance issues from Lloyd's, the Prudential Regulation Authority (PRA), and the European Union's Solvency II capital management regulations. That's not to mention the ongoing uncertainty related to Brexit.

In the middle of these multiple challenges, it is clear that re/insurers have to focus on a lot more than just good underwriting. They need to tackle these issues already mentioned while at the same time running profitable portfolios based on prudent risk selection that will enable them to make a return to shareholders.

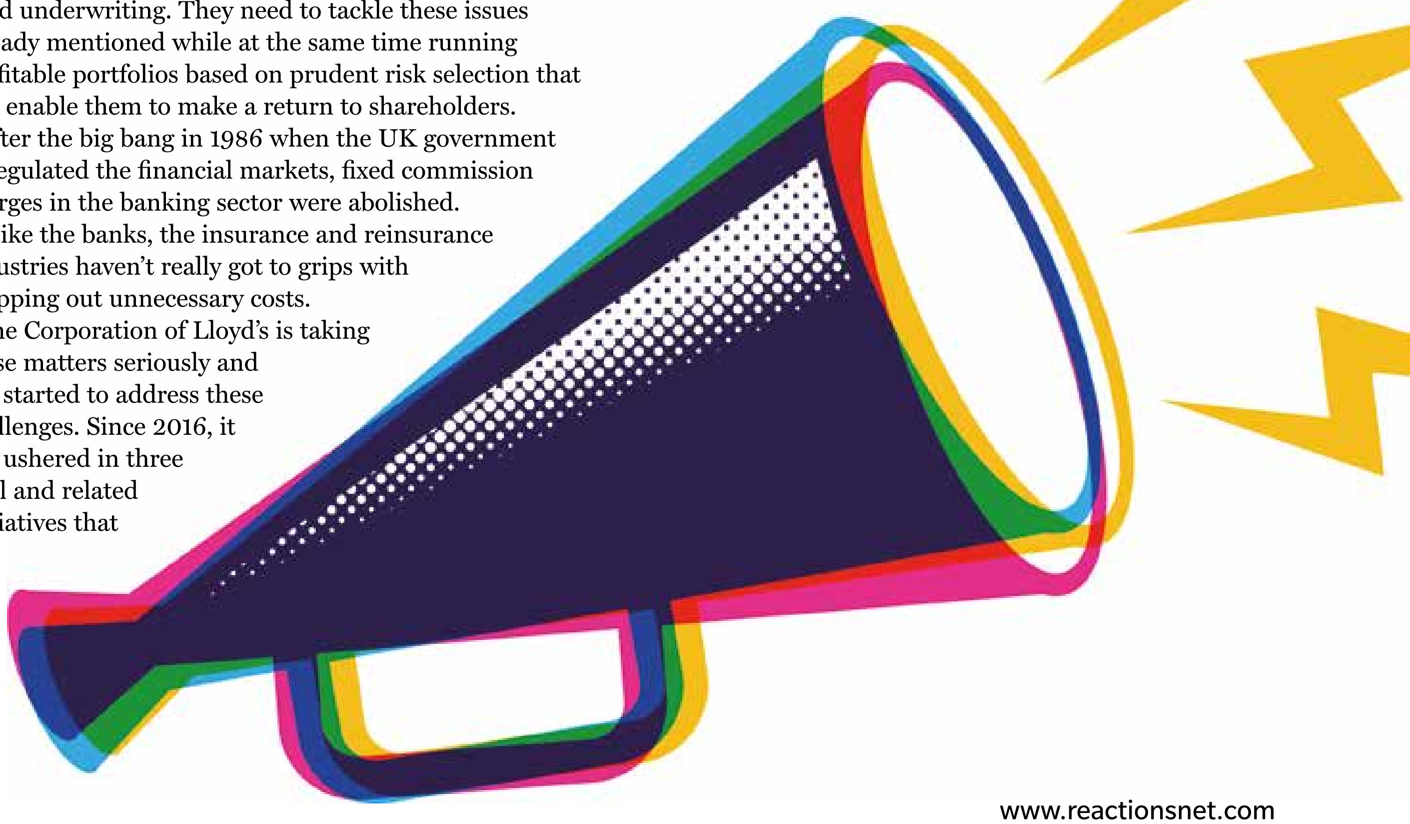
After the big bang in 1986 when the UK government deregulated the financial markets, fixed commission charges in the banking sector were abolished. Unlike the banks, the insurance and reinsurance industries haven't really got to grips with stripping out unnecessary costs.

The Corporation of Lloyd's is taking these matters seriously and has started to address these challenges. Since 2016, it has ushered in three vital and related initiatives that are designed to improve the efficiency of the market: PPL, the London market's electronic placing platform; the Target Operating Model (TOM), which included costs that market players would incur to acquire the software to implement PPL; and Structured Data Capture (SDC).

SDC is a vital step towards enabling straight-through electronic processing. Prior to SDC, information on a Market Reform Contract (MRC) was repeatedly inputted by multiple parties to a risk, which was time-consuming and resulted in inconsistent or poor-quality policy data. Following the reforms, an online service converts contents of a MRC into a consistent electronic format that is compatible with ACORD standards. The MRC data is aligned with 120 master fields, including more than 275 data items, which dramatically reduces time and improves accuracy, freeing insurers and reinsurers to concentrate on the activities which add real value to their clients.

However, it is all very well the market conducting business more efficiently and with less frictional costs, but this must also translate into a reduction in the distribution costs we pay to brokers.

Many Lloyd's syndicates and reinsurers generally have struggled with the electronic change agenda because they are shackled with legacy IT systems which make it difficult and/or expensive for them to align with reforms such as SDC.



Technology was at the heart of our operations when Hamilton at Lloyd's was launched in 2015, and for cat exposures we have our own proprietary platform Hamilton Analytics & Risk Platform (HARP) which runs 200,000 iterations across a multi-year framework of thousands of reinsurance layers in a matter of seconds.

We have signed up to SDC and are on track for our first live policies to be processed during the third quarter of this year. In our advanced use of automation, we feel we are ahead of our peers, and we are providing faster and more accurate feedback to the broker community.

Greater use of technology, automation and electronic through processing are clearly the way forward, and it is encouraging that Lloyd's is taking this seriously. In March this year, the Corporation of Lloyd's announced that each syndicate will need to write at least 10% of its risks electronically by the end of Q2 this year, rising by 10% each quarter until the end of the year (30%) - with further targets confirmed at Q4 2018.

As an incentive, syndicates that meet the targets will get a rebate on subscriptions, while those that don't will pay additional fees to help meet the cost of market modernisation.

Lloyd's recognises that there are too many poorly performing syndicates. In May this year, Lloyd's noted that between 2010 and 2012, 40% of syndicates were unprofitable, but between 2015 and 2017, the figure had risen to 52%. It warned syndicates to submit a credible, near-term route to profit in a three-year plan or close down the syndicate if they could not agree this. We launched Hamilton at Lloyd's in 2015 focussing on Treaty Reinsurance, Casualty/Professional, Specialty, Space and Property, and I am pleased to say that that we are moving in the right direction on the path towards profitability.

Lloyd's is unique, and one of its great strengths is its ability to underwrite complex risks when expert syndicates come together – and the fact is, that is expensive.

However, if Lloyd's really is to emerge from the current digital revolution in robust health, it will need to do much more than simply become more efficient at data processing. Quite simply, the culture of the industry needs to change. The insurance business is still overwhelmingly dominated by middle aged white men – like myself – who are not remotely representative of the many and varied clients and cultures whom we trade with around the world.

The insurance industry undoubtedly has an image problem, with most people seeing it as a stuffy business which pushes boring must-buy products like car and home insurance. The reality, of course, could not be more different. Lloyd's must be one of the most exciting places to work in the world. It is more akin to an advanced research centre combined with a multi-national bank, where some of the brightest and most talented people in the country come together to analyse and create solutions for a bewildering array of problems, from crop failure and global warming through to cyber protection and insuring space satellites.

To continue to do this in the future, the industry needs to attract a new generation of brilliant programmers, data scientists and digital pioneers who will give us the tools that deliver the insights we need to underwrite these ever-more complex risks.

If offered the choice of working in a tech start-up or in the old school atmosphere of 330-year-old Lloyd's, I think we know which one most millennials would choose. But culturally, even Lloyd's is starting to change. While suits are still de rigueur for men inside the iconic building, it emerged in May this year that the strict rule about wearing ties is being relaxed.

We think our culture at Hamilton is conducive to attracting young professionals who would not normally consider a career in insurance. The dress code is relaxed – although it's always smart business wear when meeting clients – and we even have branded hoodies which staff often wear in the office.

"If offered the choice of working in a tech start-up or in the old school atmosphere of 330-year-old Lloyd's, I think we know which one most millennials would choose"

This isn't about trying to be trendy; it is about creating the right culture to optimise the success of our business. The 2018 global report from McKinsey proved there was a direct correlation between diverse leadership teams and financial performance. It found that companies in the top quartile for gender diversity on their executive teams were 21% more likely to outperform on profitability, and 27% more likely to have superior value creation.

Inga Beale, who will leave Lloyd's as CEO next year, has made commendable progress in making the market more diverse, especially through the Dive In festival for diversity and inclusion, which we have strongly supported. We also signed the Inclusive Behaviours in Insurance pledge, which commits to a culture where inclusive behaviour is the norm.

Lloyd's is a unique and exciting place to do business, and for all its quirks and challenges, I believe it has a bright future if it can change in the right way. Whoever replaces Inga next year as the new CEO faces a tough task in trying to address the difficult cultural and business challenges that the market faces. However, I firmly believe that insurers who have a culture that can bring together the right people and the best technology and then scale up their operations will be the real winners in the next few years.