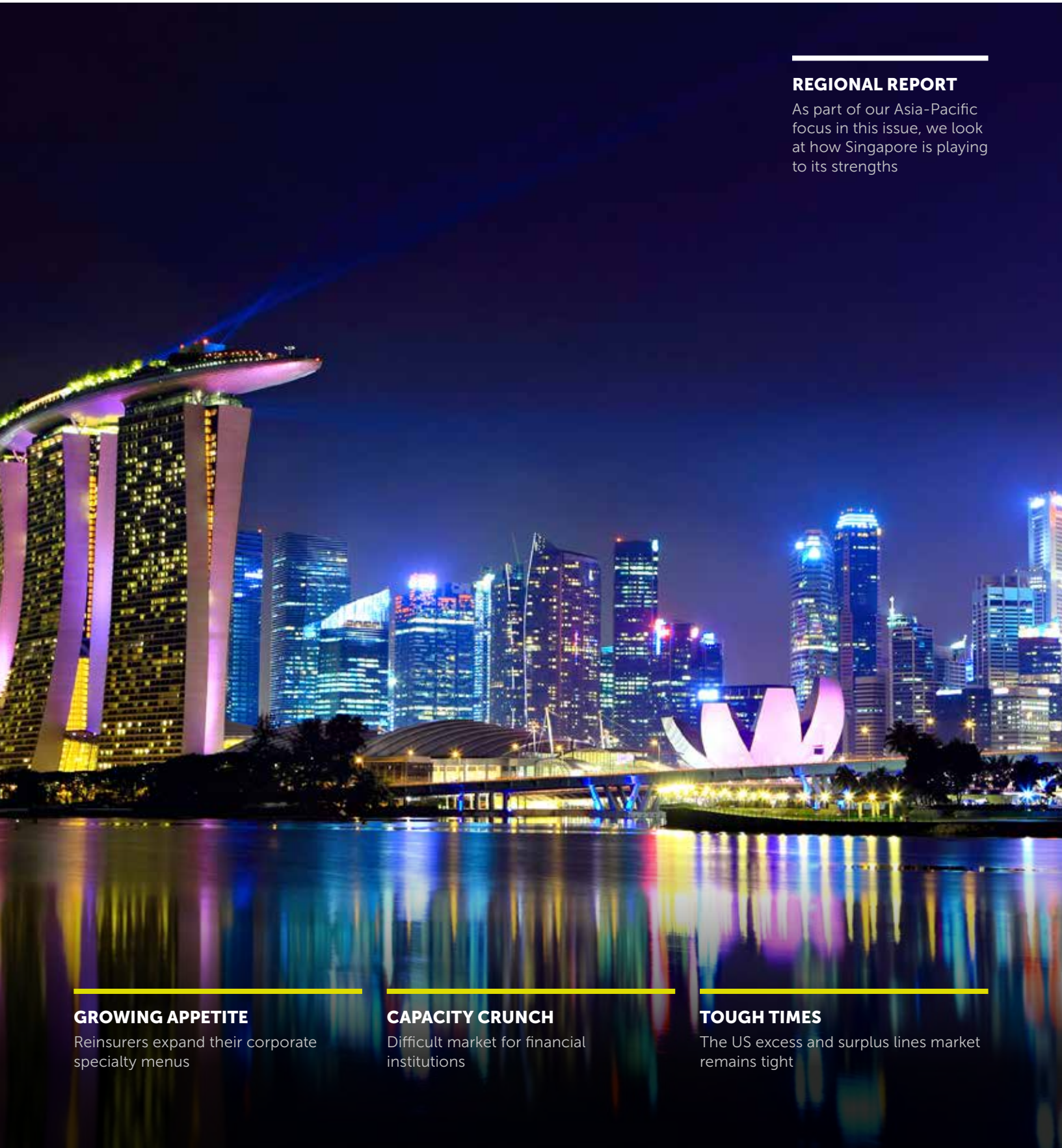
ISSUE 002 | AUTUMN 2021

Global Risk Manager

MULTINATIONAL & SPECIALTY **INSURANCE** PERSPECTIVES



REGIONAL REPORT

As part of our Asia-Pacific focus in this issue, we look at how Singapore is playing to its strengths

GROWING APPETITE

Reinsurers expand their corporate specialty menus

CAPACITY CRUNCH

Difficult market for financial institutions

TOUGH TIMES

The US excess and surplus lines market remains tight

Global Risk Manager
MULTINATIONAL & SPECIALTY **INSURANCE** PERSPECTIVES

It is shaping up to be a difficult year or two ahead for risk and insurance managers. The continuing fallout from the pandemic, combined with increasing natural catastrophes and still-climbing losses in a number of insurance classes, means that any hoped-for major change in the hard market may be wishful thinking.

Prices in some sectors are certainly seeing less dramatic increases but let's be clear: it is a slowdown in rate increase, not a decline. Rates aren't coming down, they are just increasing a little less fast. In some sectors like cyber and D&O, the prices are still accelerating. Capacity is also becoming an issue in some of these distressed classes.

So there is little good news for buyers. But at least the recalibration of the market that everyone is talking about means that buyers know where they stand. And that means a growing role for captives and other alternative risk financing solutions.

Trying to be positive, one impact of the capacity crunch from insurers, and the more positive (for insurers) ratings environment, is that there has been a noticeable increase in new MGAs, Lloyd's coverholders and specialty insurers, often focusing on areas such as financial lines, cyber and environmental risks.

Global Risk Manager is dedicated to bringing you the latest news, analysis and opinion on the insurance requirements for multinational organisations. And in such a market, we look at the concerns of buyers, the responses from insurers and the growing market of smaller operators in the sector.

In this issue, we look at how the big reinsurers are looking to grow their relationships with corporates, as well as examining some of the new startups in the specialty world. We also include an analysis of the US surplus lines market.

Each edition of *Global Risk Manager* reports on particular risks, industries and lines of business. This issue focuses on the financial services sector, environmental liability insurance, and the marine, aviation and transport sector.

The regional focus for this issue of *Global Risk Manager* is Asia-Pacific, with reports on the Australian market, the Singapore specialty market, and Hong Kong and Shanghai as the gateways to China. It also examines insurance market conditions in Asia, the state of global programmes in the region, and a special focus on captives.

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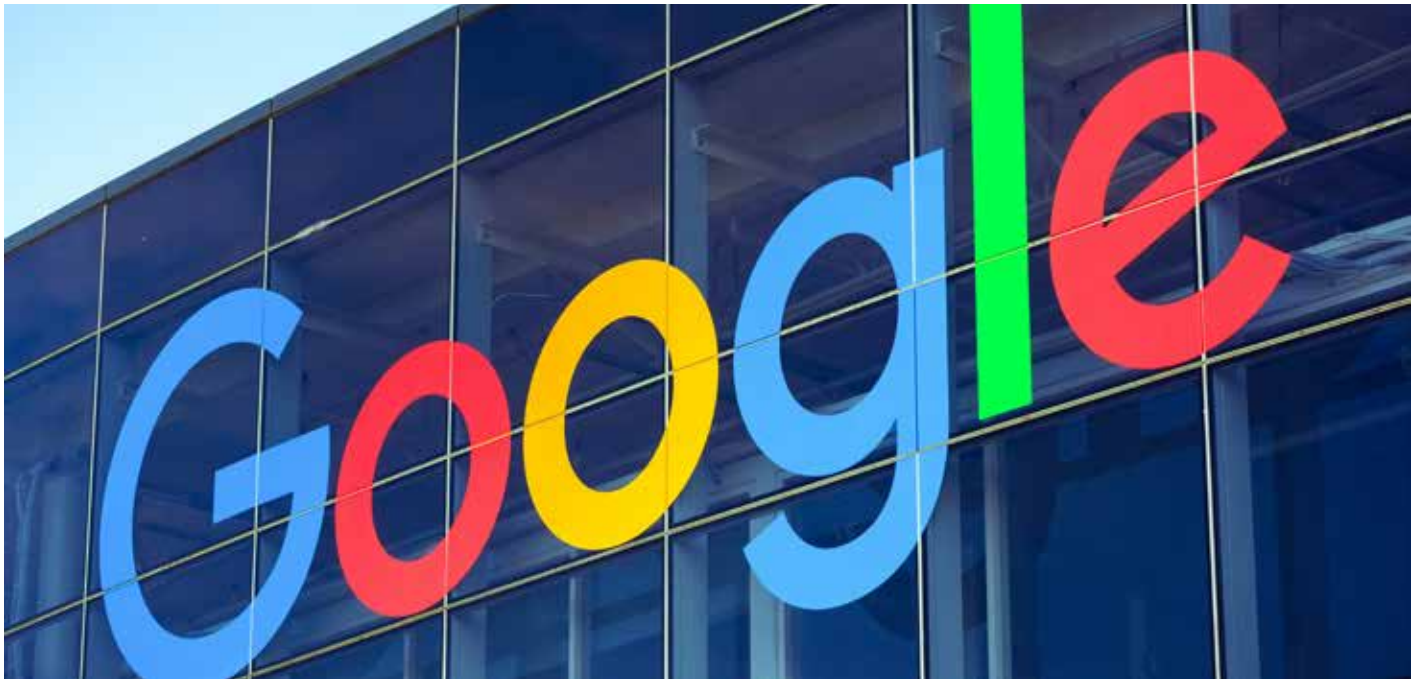
Reinsurers expand their corporate specialty menus

Three of the biggest global reinsurers have a growing appetite for corporate specialty business, says *Garry Booth*



Munich Re recently agreed a cooperation with Google Cloud and Allianz Global Corporate & Specialty, focusing on providing cloud-specific cyber cover for organisations

Large corporate primary insurance business has not always been kind to the handful of global reinsurers bold enough to enter the space. But in today's healthier pricing environment, the corporate risk units operated by Swiss Re, SCOR and Munich Re are performing well and their owners are looking to grow their role.

In its interim results commentary this year, SCOR says its specialty insurance platform is seeing attractive growth opportunities and benefiting from rate-on-rate compounding effects, "despite a more competitive landscape, particularly in energy, property, and space and aviation".

Overall, SCOR grew large commercial risks premiums by 14% year on year, with a 15% rate change, the Paris-based reinsurer says in its first-half results commentary.

Swiss Re was similarly bullish at the halfway stage, stating that its Corporate Solutions (CorSo) unit recorded a net income of $262m in the first half of 2021, compared with a net loss of $312m in the same period last year driven by Covid-19.

CorSo's net premiums earned rose 3.3% to $2.6bn, thanks to realised rate increases and selective new business growth; year to date, CorSo achieved risk-adjusted price increases of 13%.

Munich Re* doesn't break out the numbers for its facultative and corporate unit, which offers direct insurance to large corporate clients as well as facultative reinsurance to its cedants, but premium income now exceeds $2.5bn. In its H1 results presentation, it noted that large single-risk opportunities are in a positive cycle.

Differentiation drive

How are reinsurers differentiating themselves in a market that's dominated by the blue-chip global insurers? "Risk knowledge, innovation and balance sheet capacity together mean Swiss Re is in a great position to address our customers' existing

and evolving needs," says Fred Kleiterp, Swiss Re CorSo's CEO for Europe, Middle East and Africa.

"That's from a risk transfer perspective, but risk insights are also important and of course we have the Swiss Re Institute, a rich source of risk insights that provides data-driven analyses of the risk landscape."

Big corporate buyers appreciate the combination of expertise and security that reinsurers provide, according to Olivier Perraut, chief underwriting officer, specialty insurance, SCOR Global P&C: "At SCOR, our security is first class and we offer a global outlook as well as specialised expertise in various industries. Our underwriters have first-hand experience working in these industries and can therefore better understand clients' needs and provide a global perspective while providing services locally.

"As a risk carrier, SCOR retains most of the risk and our capacity is not reliant on reinsurance programmes, which allows us to be flexible and creative when designing solutions. This in turn creates stability."

Partnership potential

Swiss Re's Mr Kleiterp stresses the importance of building risk partnerships, working on new risks or new business models together with corporations: "A recent example is the Hitachi transaction where we built a data-driven model to enhance predictive [machinery] maintenance. Another example is the partnership of Swiss Re's iptiQ with retail chain Ikea, where they offer home insurance products to their customers, which we facilitate."

In a similar vein, Munich Re recently agreed a cooperation with Google Cloud and Allianz Global Corporate & Specialty, focusing on providing cloud-specific cyber cover for organisations. The policy is initially on offer to Google Cloud customers in the US and will be available to organisations with revenues of between $500m and $5bn. Its scope will be extended to include organisations in other revenue segments and countries, Munich Re said in a statement.

From captives to climate

The worldwide expansion of specialty business plays well to reinsurers' growth plans. "Everything we do is arguably specialty, even when it comes to property and casualty, as we operate in specialised sub-segments with a focus on expertise so we can bring value to the client," says SCOR's Mr Perraut. "We are further developing our core business lines such as property and onshore energy. We also felt the time was right to develop new lines of business to include D&O/executive risks and specie, which complement the current products available to our clients.

"Everything we do is arguably specialty, even when it comes to property and casualty, as we operate in specialised sub-segments with a focus on expertise"
Olivier Perraut, SCOR

"We expect to benefit from the various stimulation plans, especially when it comes to infrastructure projects, where we have a strong and recognised construction team," Mr Perraut adds.

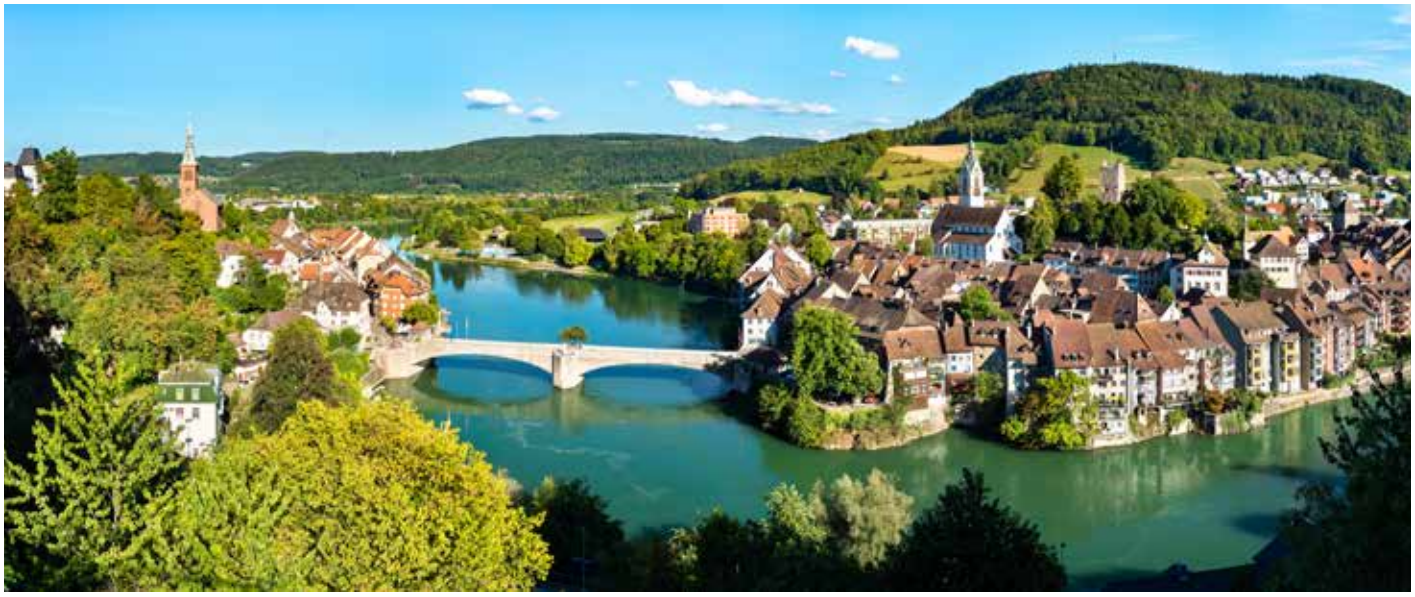
Mr Kleiterp says Swiss Re CorSo is strong in the core lines of property, casualty, financial and professional liability, engineering, and credit and surety, as well as aerospace and energy – but it's seeing other avenues open up: "Captive solutions are increasingly common among clients, especially against a background of the hardening market... We see more customers rethinking how they optimise their retention and how their captive plays a role in that."

In terms of emerging risks, Mr Kleiterp says ESG is a major and growing topic with corporations today. It's a risk category that doesn't always have an off-the-shelf solution and requires working with customers to address their specific needs: "For example, in climate change we can help customers deal with its consequences and understand their future nat cat exposures, guiding their investment decisions."

Helping customers transition to more sustainable business models is another opportunity: "We can't make customers more sustainable – but we can help them in the transition," Mr Kleiterp says.

14%

YOY GROWTH IN LARGE COMMERCIAL RISKS PREMIUMS AT SCOR



Swiss Re CorSo offers a parametric product that responds to water levels in a the Rhine – either too much or too little

Parametric

Parametric insurance products appear to be finding favour with reinsurers' corporate clients. Munich Re, Swiss Re and SCOR all extol the advantages of a risk transfer solution that provides a simple and quick payout across a range of previously uninsurable exposures – or to fill insured exposure gaps.

Munich Re says parametric solutions can address risks in tourism, trade, renewable energy, agriculture, finance and other sectors, which are based on the bespoke needs of the customer. Expenses for items such as first-response programmes, evacuation, loss mitigation or cleanup costs, which are typically not covered or are sub-limited, can now be included.

CorSo concurs: "We have parametric-based products that address specific topics that people can relate to, like windstorm or 'quake solutions. Another example could be risks associated with water levels in a river like the Rhine – too much or too little," says Mr Kleiterp.

Divided over global programmes

Reinsurers differ on the topic of multinational insurance programmes (MIPs), an area dominated by a handful of global insurers that leverage their ability to "issue paper" in multiple countries.

"This is not our ambition as it requires a costly infrastructure, so we leave that to the handful of global insurers who can really deliver this service," SCOR's Mr Perraut says. "We do however have insurance licences in the US, Canada, Europe, Brazil and a few other countries, which are key to accessing business and clients that do not need global fronting/paper issuance."

Swiss Re, by contrast, is enthusiastic about MIP business. "Swiss Re has worked hard on its capabilities for a number of years. Our ambition is to build a superior proposition. Today, we cover more than 150 countries and, where we are not present, we have built a network of third-party insurers," Mr Kleiterp says.

CorSo is currently providing about 300 MIPs, split between the US and Europe. "We can offer programmes out of 17 countries. We aim to issue policies in less than 45 days; currently, with the 300 programmes that we have, it is less than 40 days," Mr Kleiterp says.

"We will continue to grow the MIP segment – we will scale with our customers. Many of our upper mid-market accounts are moving to an MIP for the first time," he adds.

No conflict

It's sometimes suggested by so-called 'pure play' reinsurance companies that direct involvement in corporate insurance creates a conflict of interest that puts reinsurers at odds with their cedants. SCOR's Mr Perraut discounts that notion: "A policy is professionally and strictly enforced within the business, whereby the information our reinsurance colleagues receive from ceding companies is kept confidential and never shared with us."

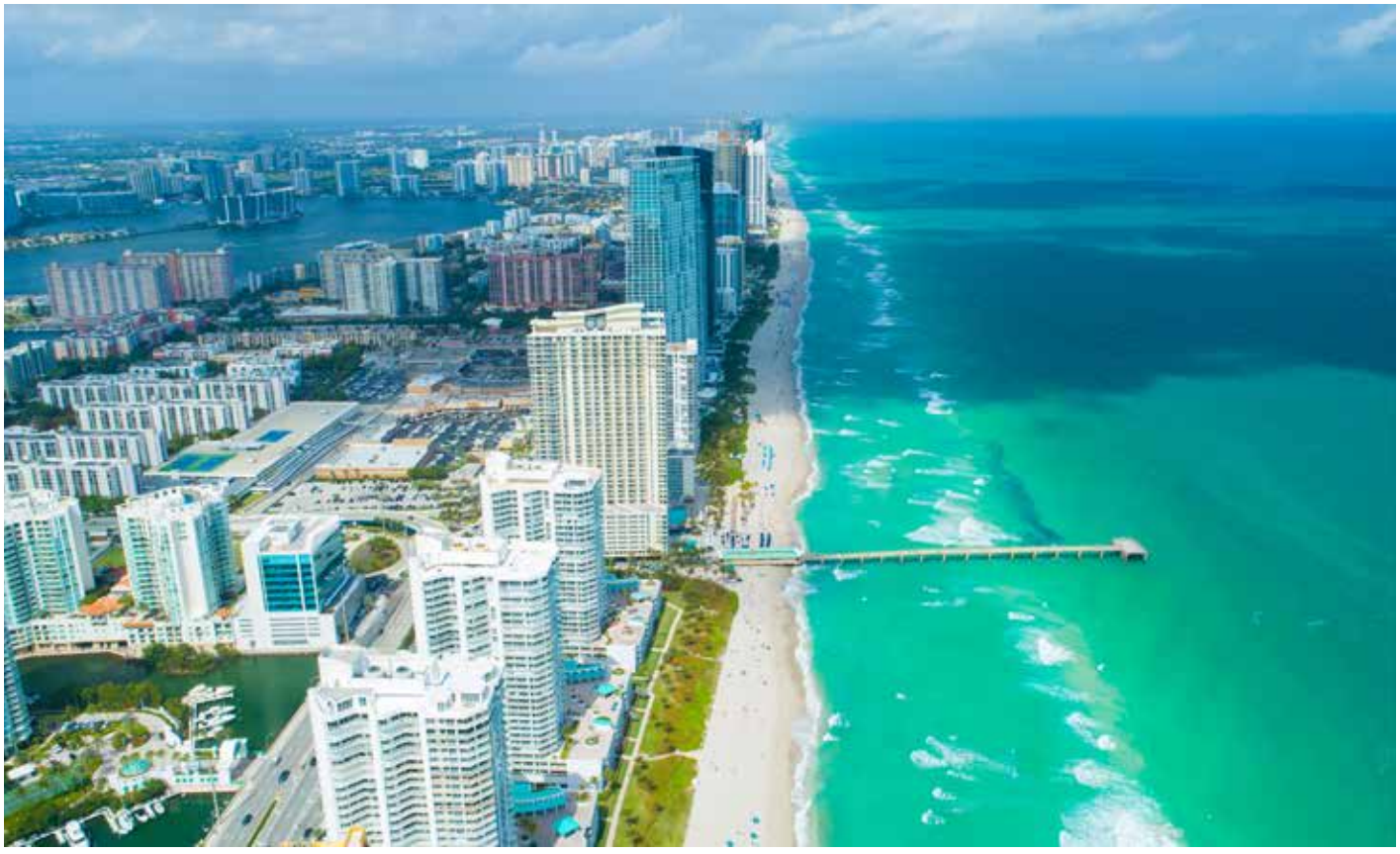
Swiss Re takes a similarly tough line, Mr Kleiterp says: "We operate as a group when it comes to sharing knowledge and data insights; in practice we are running two separate businesses with strict firewalls and we take that extremely seriously.

"Our customers want more options to choose from. Swiss Re Corporate Solutions creates choice and that's how a market should operate."

**Munich Re was contacted for this article*

US surplus lines remain tight

The US excess and surplus lines market remains tight with still hardening prices and capacity restrictions, writes *Michael Bradford*



Florida condominiums are among the hard pockets in the market

A tight US excess and surplus lines market will continue to harden during the next year as admitted market insurers remain selective about the risks they are willing to underwrite and high layers of coverage in some areas stay costly and sometimes difficult to arrange, sources say.

But as the tightening continues, its pace is slowing in some areas, experts agree, with rate increases tapering slightly in some classes. New capital is entering the market and may lead to slight rate relief, they add, but not to a degree that will spark a noticeable softening.

Rates continue to rise, albeit at a slower pace than a year ago, sources confirm. In the excess market, insurer appetite for writing high layers is diminished and it takes more than a few to put together tall towers of coverage, they say.

"What we've seen in the first half of 2021 are rate increases at a decelerating pace overall," says Sam Baig, Atlanta-based executive vice-president at wholesale intermediary Amwins Group. However, he emphasises, there are "hard pockets" within many product segments, most notably in cyber liability, residential construction risks, primary and excess transportation sectors, and real estate excess/umbrella.

On the property side, Mr Baig identifies risks including real estate, Florida condominiums, hospitality, frame habitational, woodworking, recycling and construction as among those hard pockets.

"We're not seeing rate decreases but we are seeing smaller increases," says Richard Wagner, New York-based head of excess casualty at Aspen

$24bn

PREMIUMS REPORTED IN H1 BY THE 15 STATES WITH STAMPING OFFICES

Insurance. Rate increases are not likely to go away soon, he says, as the "fundamental reasons for the increases are not abating", and include large "nuclear verdicts", litigation funding by investors looking to profit from settlements, and overall social inflation that drives up insurance costs.

> "London's re-entry into property has probably forced rates down a bit"
> *Ronald Beauregard, Zurich North America*

A growing market

The surplus lines market showed healthy growth through the first six months of this year, with the 15 states with stamping offices reporting premiums of $24bn, a 21.9% increase from the same period in 2020. The number of transactions in those states increased 7.2% to 2.6m.

"The market is strong," says Davis Moore, president of the Kansas City, Missouri-based Wholesale & Specialty Insurance Association. The growth is coming not only from rate increases, but also from high demand for the kinds of innovative solutions the surplus lines market is known for, he adds.

AM Best revised its excess and surplus lines market outlook to stable from negative in February, saying that despite Covid-19's impact on the US economy, "the E&S segment's ongoing profitability and premium growth signal opportunities for surplus lines carriers to successfully operate".

Market conditions are not expected to change anytime soon, says John Horton, chief market officer at Houston-based AmRisc Group, a managing general agent specialising in property catastrophe risks. "By this time next year, we are not expecting any significant softening or levelling off," in the bulk of the company's book of business, he says.

Market attracts capital

New capital has come into the surplus lines marketplace and while it may have a slight dampening effect on prices, it isn't expected to drastically change market conditions, according to experts.

Some London market insurers re-entered the property market at the beginning of the year after about 18 months on the sidelines, says Ronald Beauregard, Boynton Beach, Florida-based head of national wholesale distribution at Zurich North America, and a handful of companies have begun writing excess casualty business, some of which are based in Bermuda.

"London's re-entry into property has probably forced rates down a bit," Mr Beauregard says. The property market "struggled to make money" in 2020 and London insurers were not aggressive on rates when they reentered, he adds.

Robert Raber, director, property/casualty ratings at AM Best, says he expects to see smaller companies with about $100m in surplus entering the market later this year. Consolidation among insurers has slowed in 2021, he says, but startups are eyeing the market as attractive.

The appearance of new capital from the startups isn't likely to alter market conditions in the near term, Mr Raber says. "But if we go two years down the line and admitted carriers decide to open up their underwriting guidelines and take a lot of business back, it's going to be a whole different ballgame," he adds.

Cost and availability plague buyers

A continuing hard market is not encouraging news for insurance buyers, many of whom are cutting back on coverage limits as rates keep rising. And putting together high excess layers is not easy, sources say.

Submissions for excess layers rose by 30% at Aspen, as insurers began restricting capacity in 2019 and continue to hold back, Mr Wagner says. Accounts that were put together using fewer than half a dozen insurers to build a tower in the past now need seven or eight, he explains.

"What normally was a placement at $25m, we're seeing many carriers cut that back to $15m on the higher layers," Mr Wagner says. Accounts are routinely filled out in layers of $5m within the first $15m-$25m of excess limits for accounts that can put that much coverage together, he adds.

Large casualty risks – particularly transportation and construction – that in the past bought $100m in excess coverage, are more apt to buy half or less of that amount today, says Mr Beauregard.

High limits are available, "it's just a matter of what they want to pay for those limits", says Mr Raber. There are companies willing to write up to $100m, he adds, if a buyer is willing to pay for it.

On the property side, a softening isn't likely anytime soon, according to Mr Raber. "I think there might be a move going forward for commercial businesses to want more coverage, so there may be more demand."

"We're growing," Mr Horton says of AmRisc's commercial property insurance business. E&S premiums are up 25% year on year, he points out, with about two thirds of the growth from rate increases and the remainder from coverage of new exposures.

The biggest rate increases for the catastrophe specialist are in the "peak zones" of south Florida and Harris and Galveston Counties, Texas, says

Mr Horton. "We write a lot of real estate and habitational business, public entity, industrial and builders' risk."

Tough lines remain

Even as rates moderate in some lines, US buyers are hard pressed to save premium dollars in others, sources agree, with cyber insurance their most notable example.

"Cyber liability is in an absolutely disastrous state," said Mr Baig. "Rates are firming daily, weekly, monthly. Carriers are under pressure to reduce capacity and the ones that are writing the exposure are scrutinising risk controls and safeguards more than ever. You see accounts that have proper controls in place still realising rate increases of 10%-30% and those that don't seeing upwards of 100% or greater increases. For risks with limited or unacceptable safeguards and protections in place, the marketplace is viewing these as being essentially uninsurable."

Surplus lines companies are developing cyber solutions but it has to be done strategically because the exposure is large and complex, says David Blades, associate director, industry research and analytics at AM Best. "I don't think anyone is going full bore" into covering cyber risk, he notes, "but surplus lines companies are coming to market a little more."

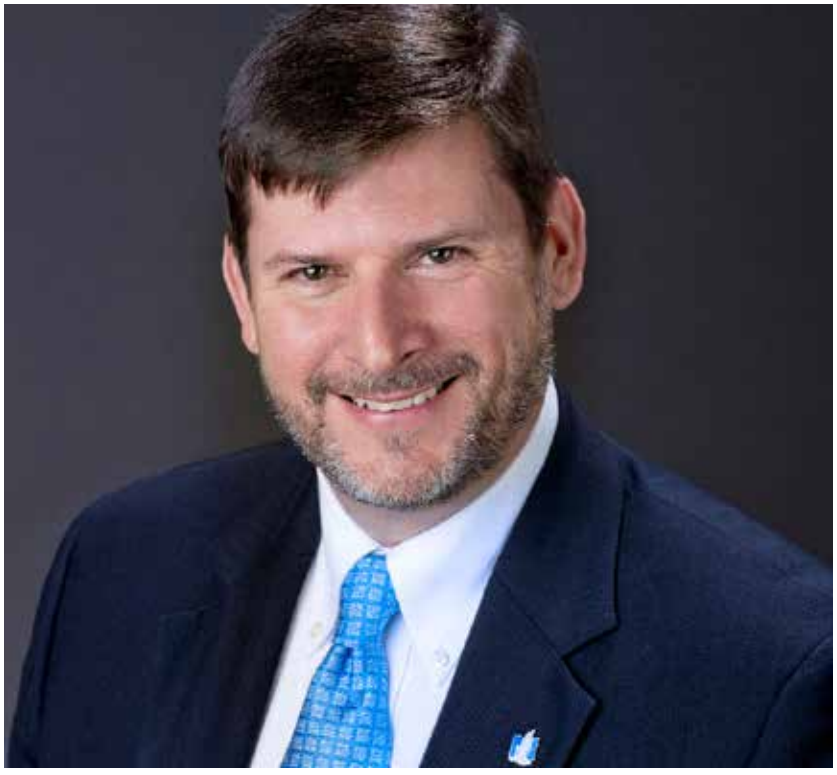
Financial lines are seeing double-digit increases regardless of how the accounts have performed, Mr Beauregard points out, and he expects that to continue during the next 18 to 24 months. The class of business, he says, "has been underwater for the past several years".

Transportation risks remain challenging for underwriters and buyers as large verdicts have become more common and the trend towards litigation funding has made cases harder to settle, sources note.

Aspen has during the last two years tightened its approach to selecting transportation risks, says Mr Wagner, and that is a trend he has recognised among other insurers.

Sources point to commercial trucking risks as particularly susceptible to big awards, which have driven up insurance costs during the last few years. Rates are up 25% to 75% for trucking companies that have been hit with large settlements, they say, and finding insurers willing to write excess layers is more difficult for troubled risks.

"Excess carriers are being very, very diligent and restrictive about who they want to do business with and who they want to sit over," on trucking risks, says Gary Flaherty, vice-president of E&S commercial auto with Nationwide Mutual Insurance in Scottsdale, Ariz.



Gary Flaherty says carriers are being diligent and restrictive about who they want to do business with on trucking risks

Market shows resilience

The standard market is continuing to shy away from some risks, whether as a result of the disruption caused by the Covid-19 pandemic or as insurers reconsider for other reasons the kinds of business they want to keep on their books, says Mr Blades: "I think you're seeing a pretty good time for surplus lines companies to show their value in the marketplace."

The pandemic caused standard market companies that were competing on some lines with non-admitted insurers to "take a step back" and concentrate on their core lines of business, adds Mr Blades.

"The upheaval caused by the pandemic, combined with outsized property catastrophe losses and issues with some other lines of coverage gave surplus lines insurers the opportunity to demonstrate their resilience in the market," he notes.

> **"The upheaval caused by the pandemic, combined with outsized property catastrophe losses and issues with some other lines of coverage gave surplus lines insurers the opportunity to demonstrate their resilience in the market"**
>
> ***David Blades, AM Best***

Inside Bermuda's class of 2020

Widespread improvements in pricing and conditions prompted a wave of capital-raising activity last year, giving birth to several new insurance and reinsurance startups on both sides of the Atlantic, writes *Garry Booth*

With corporate insurance buyers in their sights, two new Bermudians, Mosaic and Vantage, have hit the ground running this year, presenting the market with boxfresh capital and a panoply of new products.

To find out how the two new arrivals will differentiate themselves and their views on how the market looks, Garry Booth spoke to their leaders: Vantage CEO Greg Hendrick and Mosaic's co-CEOs Mitch Blaser and Mark Wheeler.

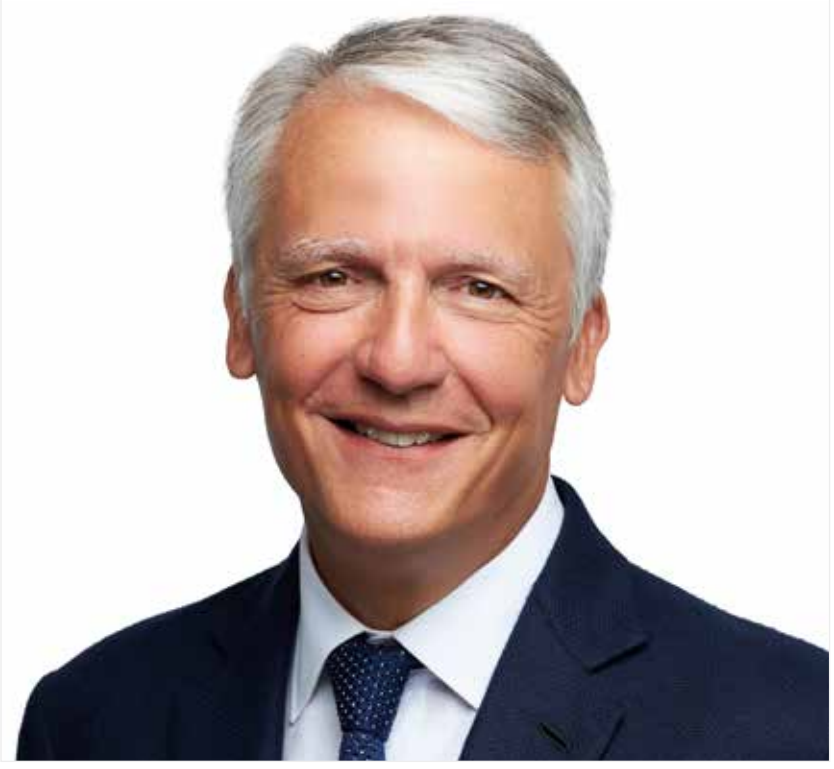
What point on the underwriting cycle is the market at? Will the influx of new capital flatten the cycle?

Mitch Blaser (MB): This market cycle is unique insofar as it is driven by result fatigue rather than catastrophe events and insufficient capital. In fact, the industry is well capitalised in relation to history. This observation is supported by the robust financial strength of the insurance industry today and the absence of carrier insolvency evident during previous hard markets.

The closure of the court system during the pandemic has also caused a bit of a delayed response to the potential for claims litigation and the impact on legacy balance sheets. As the US has now reopened, the impact on the use of insurance company balance sheets as financial backstops will be tested.

The other delayed impact on legacy balance sheets will come from macroeconomic factors, particularly inflation. Claims exposures will have to be adjusted for the growth in costs and will also keep stimulating the need for higher premiums to support both the legacy impact and future development.

The market continues to firm overall. The degree varies by sector, product and geography, in accordance with anticipated returns and capital demands. Firming will continue until price adequacy is set to meet these demands. Capital, both old and new, will allow the cycle to flatten when that position is reached. The uncertainty of identification of that point in time will be impacted by many factors: social inflation, investment yield and volatility, legacy reserving, and uncertainty around Covid-19 fallout. Extreme weather scenarios are contributing to challenges of risk and price modelling.



Mark Wheeler says most insurers have reduced available limits and that has seen programme layers restructured

Greg Hendrick (GH): There is never just one cycle in the P&C insurance industry; rather, many cycles are happening concurrently. Factors influencing pricing vary across business lines and don't simultaneously move in the same direction at the same time. Many of our target lines of business are in a complex part of the cycle, offering great opportunities for Vantage to provide needed capacity with strong margins. In particular, the long-tail lines of insurance have experienced dramatic price increases during the past two years. Conversely, workers compensation in the US is in a softening pricing environment.

The influx of new capital is not big enough to change the marketplace, particularly in the syndicated business lines we write. Many programmes are still not fully placed, which is a testament to the fact that this additional capital is necessary and helpful.

How are programme structures changing?

Mark Wheeler (MW): Again, there is a great deal of variance between sector, product and geography. Mosaic is a pure specialty insurer and the business written is difficult to model. Loss data is either limited or emerging, and characterised more by severity than frequency. The underwriting response must be led by risk selection and client differentiation. With a few notable exceptions, carriers have remained committed to chosen lines of business. Most insurers have reduced available limits and that has seen programme layers restructured, with smaller stretches and excess-layer pricing increased by tighter limit factors. There are some cases of inverted pricing, where an excess layer is priced at a higher rate on line than an underlying placement.

GH: Vantage is seeing more smaller layers on corporate insurance client excess towers. Reduced appetites mainly drive this for many of the existing carriers, for who we are securing smaller line sizes. Additionally, new entrants are placing more modest line sizes in the lower layers as they begin underwriting.

> **"The influx of new capital is not big enough to change the marketplace, particularly in the syndicated business lines we write. Many programmes are still not fully placed, which is a testament to the fact that this additional capital is necessary and helpful"**
>
> *Greg Hendrick, Vantage*

What specific areas of corporate insurance are you targeting and why?

GH: Vantage is focused on lines of business that present opportunities due to hardening market cycles and reduced capacity. In reinsurance, we focus on more short-tail property and specialty lines, including property catastrophe, specialty, mortgage, and new products emerging out of those classes of business. Our insurance business is focused more on longer-tail lines, including excess casualty, healthcare, D&O, political risk, cyber, and other professional lines.

MB: We carefully researched and analysed the market before deciding on the products we would target. The result is a plan that contemplates a narrow range of specialised business with a high technical barrier to entry. We have identified products with strong underlying growth credentials that are expected to outpace normalised GDP. Through data and information analysis, in conjunction with experienced underwriters, we are positioned to outperform the market on both growth and margin in our chosen competencies. These are: transactional liability, cyber, political risk, political violence, financial institutions and professional liability.

It's been said that gaining acceptance in relationship-driven markets when remote working is the norm is not easy for startups – is that your experience?

MW: At Mosaic, unlike so many startups, we have the advantage of not starting from scratch.

VANTAGE PROFILE

Vantage was launched in 2020 by CEO Greg Hendrick, a 30-year industry veteran and former CEO of AXA XL; and Dinos Iordanou, retired president and CEO of Arch Capital, serving as non-executive chairman.

Vantage was backed at launch by the Carlyle Group and Hellman & Friedman, together with management, who invested $1bn of equity capital with the potential to increase their investment as growth opportunities arise.

The startup began writing reinsurance risk on 1 January 2021 through its Bermuda Class 4 company, Vantage Risk. Initially writing property catastrophe and specialty reinsurance products, Vantage Risk has expanded its offering to include financial lines, healthcare and excess casualty insurance products.

In July this year, it acquired an Illinois-domiciled domestic surplus lines insurance company licensed in 47 states. Renamed Vantage Risk Specialty Insurance Co, the acquired company secured an A- (Excellent) AM Best rating, extending the current A- rating held by Vantage.

We're building on the tremendous reputations and relationships the team we've brought together already has. Our company is all about our people. The team consists of individuals with exceptional personal franchises built over decades in global re/insurance markets. That type of traction manifests with our stakeholders: clients, distribution partners, reinsurers, regulators, technologists, service providers, and professional advisers.

We have benefited enormously from these relationships and that's reflected in the submission volumes generated to date, and Mosaic's immediate impact in the market. In addition, we are investing in global distribution so we can make the syndicated Mosaic product available in insurance centres around the world. So, yes, it is our experience that acceptance is driven by relationships. We are absolutely thrilled by the support we have been shown and will take great care to continue cultivating existing and new relationships.

GH: Vantage is a new company, with seasoned talent. Our team comprises a broad spectrum of industry veterans with the depth of experience and strong relationships with producers and clients. We have received a solid flow of reinsurance submissions on the back of our team leveraging their relationships as trusted business partners.

The same is true for our insurance lines as we continue to build. This is already evident with the initial lines we have started writing in the US and Bermuda.

What aspects of a legacy-free start-up are most attractive to clients and brokers?

MB: Just as we are fortunate to have the legacy benefits of a personal franchise, it is also fantastic to have a legacy-free balance sheet in terms of the volatility and additional risk that comes with it. This is a privileged position for a limited period. It means the entire team is free to focus on the future and the opportunities that exist in the market today.

In the same way, and more pronounced today than ever, it is a huge competitive advantage not to have the burden of legacy technology. Our open-architecture approach is structured around three deliverables: data and analytics; data sharing with trading partners; and process.

From both a client and broker perspective, Mosaic is free to engage without the distraction and prejudices of legacy issues. We can bring advanced analytics to bear, which will provide superior data in a timely fashion and increase operating efficiency, which ultimately lowers costs.

"This market cycle is unique insofar as it is driven by result fatigue rather than catastrophe events and insufficient capital. In fact, the industry is well capitalised in relation to history"

Mitch Blaser, Mosaic

GH: As brokers represent our clients' interests, collectively their perspectives are relatively the same. Clients have been very receptive to an increase in capacity in our target lines of business, at a time when it is not available from existing players.

They appreciate a clean balance sheet with no legacy liabilities and are keen to leverage newer technology to deliver a more efficient product and better client service.

How do you avoid bringing a 'legacy mindset' to a brand-new venture: what will you do differently?

MW: This question is fundamental to Mosaic; we are positioned as a next-generation specialty insurance company that intends to do things differently. We have thought carefully about existing structures and identified the frailties and intentionally sought to eradicate them.

Our business model itself is unique, as a hybrid capital structure that offers syndicated capacity in market centres around the world. Mosaic combines proprietary and agency balance sheets to match risk with capital, under syndicated structures and consortia that provide greater protection to our clients.

Another differentiator in this regard is our leading-edge technology and how it is combined across underwriting and corporate functions to maximise revenue and lower our claims and operating expenses.

GH: The talent that has joined the Vantage team all shares a collective desire to continue to grow as a team and build something new and unique in the re/insurance business. The collaborative nature, curiosity and creativity of our people is key to our success.

Technology has boosted our ability to work well together, regardless of our physical location. It gives us the ability to lift our performance on an efficiency frontier and in our analytics and risk selection, which is highly important to us.

MOSAIC PROFILE

Founded by Mitch Blaser (a founding executive of Bermuda-based Ironshore) and backed by long-term Investor Golden Gate Capital, Mosaic launched in February 2021 as a Bermuda-based "next generation global specialty insurer". Mosaic's leadership team has also invested in the company.

Co-CEO Mark Wheeler is a seasoned Lloyd's syndicate founder and market-leading underwriter.

Mosaic opened with operations in Bermuda, London, the US and Asia. It combines Lloyd's Syndicate 1609 with a wholly-owned syndicated capital management agency, enabling the company to identify, source and underwrite business on behalf of itself along with other trade-capital partners.

Mosaic has partnered with Asta Managing Agency, the third-party managing agent at Lloyd's, which will provide oversight and governance services to Syndicate 1609.

A primary-layer lead market, Mosaic focuses on high-value, specialty lines of business, including transactional liability, cyber, political risk, political violence, environmental, financial and professional lines.

Mosaic emphasises its use of disruptive technologies, including blockchain, machine-learning algorithms and actuarial software to build an insurtech platform.

The Vantage team shares a willingness to challenge ourselves to be better, all the time, at everything we do, whether it's internally or externally focused. That's a critical part of being a trusted partner for the clients we serve and the brokers who help us deliver our products.

A flight to specialists?

A niche challenger is upending the status quo in the global aviation insurance broking market. *Mark Geoghegan* meets the team giving the big three a run for their money...

Aviation is a discreet niche market and a diversifier to other risk pools

Specialty business should be served by specialty brokers. Discuss.

Ever since the mid-1990s when Pat Ryan and his counterparts at MMC started trotting the globe and buying up the market leaders in each territory, there has been an inexorable logic grinding its way to the conclusion that there will be a small number of global broking powerhouses dealing with most large corporate clients.

Globalisation has produced global businesses needing global insurance solutions, so there are bound to be global brokers that will emerge to serve these new universal corporate citizens globally. Right?

Well, maybe not anymore.

The embarrassing collapse of the biggest, most heavily strategised and most lavishly lawyered deal in global broking history has shown us where the high watermark in worldwide intermediary consolidation now sits.

Growth will have to be largely organic for Aon, MMC and Willis Towers Watson (WTW) from now on.

And for every seemingly unstoppable trend, there is always a smaller eddy current running contrary to the main flow of the tide.

Counter-movement

While some brokers have been getting bigger, others have been becoming highly specialised.

Steve McGill, formerly of Aon and a pioneer at JLT, has decided to follow this current, launching McGill & Partners with very generous funding and ambitions to become a global boutique specialist.

The subjects I have in front of me are part of the same counter-movement.

In two years from foundation, a brand-new specialist aviation broker, Piiq Risk Partners, led by CEO Philip Smaje and president Marcel Chad,

has put itself on the front pages with some eye-popping blue-chip household-name client wins.

Piiq doesn't like to name names, but media reports have listed Airbus, Rolls-Royce, Dassault, Embraer and Marshall as customers of the startup.

That's quite a calling card for a broker that has only been in existence for two years, and belies the dominance of the big three of Aon, MMC and WTW, whose corporate mantras consistently intone that clients will become institutionalised and personal broking relationships become less important over time.

So, how has this happened? Mr Smaje and Mr Chad are both products of the big broker system.

Mr Chad was at WTW for 18 years, followed by 15 years at Marsh, with posts including CEO of the global aviation practice.

Mr Smaje is a WTW lifer with 'CEO of aerospace' on his CV. He was latterly its global head of broking before linking back up with Mr Chad to form Piiq.

Mr Chad explains the philosophy of the move: "I've got a personal view that specialty business is much better served in a specialty broker, because this is what we spend all of our time doing. We are a specialty business today and will be a specialty business tomorrow, so that's very much the focus of the whole enterprise. That tends to focus the organisation's mind on what the clients need and how they are best served."

But while clarity of purpose is a big factor for the two former big broking executives, another factor is significance.

With a headcount of about 50, Piiq may be a small business in the grand scheme of things, but in aviation broking terms it is not in any way insignificant in size, relative to rival departments at big brokers.

A third dynamic is the focus and alignment that being a specialist brings.

As Mr Chad explains: "I led one of the larger aviation businesses, but it was less than 1% of the revenues of that broking firm. They valued the client base that we looked after, but in terms of revenue and investment, we didn't necessarily move the dial."

It goes without saying that with a 100% reliance on aviation, the Airbuses, Rolls-Royces, Dassaults, Embraers and Marshalls of this world most definitely move the dial for Piiq.

Indeed, they are the dial.

Getting the right people

But what of talent acquisition? In a people business, if you can't attract the right talent you don't have a business.

Certainly not everyone is cut out for the high-octane life of an entrepreneurial and disruptive startup, and not everyone is prepared to take the risk of ditching the certainty and stability of a big-three broker employer.

But Mr Chad feels there are enough people Piiq can tap into with a latent ambition to make a difference and see a more direct correlation between their labour and their rewards: "Talent has choices, but people leave their current employers because they want to, either because they are unhappy with the circumstances they're in – how they're rewarded, how they're recognised, who they report to – or sometimes because they can't do what they want to do or take their career where they want to go next.

"If you can find that double-match – that people are unhappy and that aspirationally we can offer them that opportunity to fulfil their ambitions, then you've got the perfect storm."

Mr Chad acknowledges that this is probably a risk too far for many, but counters: "I think there's risk with everything, there's risk staying where you are. That's clearly illuminated by JLT rolling into Marsh and the Willis-Aon situation."

Mr Smaje adds another view: "There is a lot of fatigue factor that is growing within those collective organisations, because they've been in limbo for a long time."

Market turbulence

With the recent collapse of Aon-WTW, things will eventually settle down to a new normal, but Piiq is clearly making the most of any turbulence while it can.

> **"I've got a personal view that specialty business is much better served in a specialty broker, because this is what we spend all of our time doing"**
>
> *Marcel Chad, Piiq Risk Partners*

Aviation buffs will remember that JLT's aviation department was the original remedy asset from that deal, falling into the welcoming arms of the ever-ambitious and acquisitive Gallagher.

Gallagher has since performed a similar trick with reinsurance broker Willis Re.

But how do clients feel about their market being disrupted again, so soon after seeing JLT Aviation passed between owners like a trinket?

Mr Chad is sympathetic to frustrations around short-term turbulence, but explains that what Piiq is trying to build should engender more stability over the longer term: "We often say to clients, 'we made our decision, we have arrived here, we are going to be here as a group of individuals working together and therefore we offer stability'."

The executive agrees that some clients may be feeling their own measure of fatigue with all the chopping and changing in broking personnel: "We do talk about having a talent-based business, but let's not forget that the client ultimately makes the decision and I think you've got to be thoughtful about disrupting clients by taking teams.

"That doesn't necessarily suit every client and you can't expect them to say, 'thanks for hiring my team, you can have my business'. Clients, particularly the larger ones, will evaluate their options.

"Very often I find myself apologising to prospective clients because we have hired a key individual or a number of individuals that have represented them at their previous employer."

Doing things differently

But enough of the turbulent business of starting a new broker from scratch – when it has hired its staff and turns up to pitches, what is it that Piiq does differently from its direct competitors at global brokers?

Mr Smaje explains: "We talk about having a differentiated client proposition – well, anyone can say that. But we've had feedback that our offering is different.

"We are looking to develop third-party partnerships to offer some different perspectives and different products, so that we can compete on the core, mandatory-type covers, but we can also offer some things that others won't."

The timing itself couldn't have been better. Aviation is a discreet niche market and a diversifier to other risk pools. As a consequence, it tends to move in its own orbit.

Recently, a decade-plus market run of consistent price decreases came to an end as attritional losses caught up with eroded ratings; and a major catastrophe event in the Boeing 737 Max crashes and subsequent grounding hit already loss-making underwriters very hard.

Then Covid-19 came, decimating all clients' revenues simultaneously and adding stress everywhere.

Rising insurance costs, restricted coverage and Covid have made for something of a perfect storm.

When things are going well and cost pressures are manageable, changing broker is not very high on the agenda. Not so now.

But while pressure to shop around for a new intermediary rose substantially last year, the Covid crisis pushed tenders back down the agenda.

However, in 2021 as pent-up demand for new solutions is finally released, Mr Smaje and Mr Chad are seeing a three to fourfold increase in broker beauty parades.

Opportunity is knocking hard.

Aviation is so often an exception to the general rule in insurance, so maybe Piiq will prove an anomaly, with nothing to teach the wider insurance world?

But despite the gradual homogenisation of big-client broking of the past 30 years, Piiq is going some way to demonstrate that people, connections, specialist knowledge and expertise, and an ultra-client focused approach are still incredibly important in the insurance business.

It will ultimately be up to you, the client, to decide if one day all specialist business is served by specialist brokers, or if the big three will continue to steamroller all before them.

But it must be gratifying to have the choice.

> **"We talk about having a differentiated client proposition – well, anyone can say that. But we've had feedback that our offering is different"**
> ***Philip Smaje, Piiq Risk Partners***

Tough times for financial institutions

Insurance capacity has dwindled for financial institutions at the same time that prices boomed and risks such as cyber became ever more severe, says *Rodrigo Amaral*

To compound the challenges financial firms face to set up their insurance programmes after two years of increasing premium prices, carriers are now turning their attention to terms and conditions, which are getting tighter by the day.

As a result, the hard market should continue to affect the ability of banks, investment managers and other financial players to assemble the insurance programmes that they used to enjoy in the past.

According to Gareth Abbot, a senior vice-president at Lockton, the situation is especially complicated in lines such as employment practices liability (EPL), which insurers are reluctant to underwrite for financial companies.

"EPL is incredibly difficult for financial institutions to obtain. It is a very tough line of insurance to underwrite as the exposures now are so broad," he tells GRM. "Capacity has suffered a huge reduction and there is only a handful of insurers who will contemplate the cover, at substantially reduced limits and higher premiums."

Although not as dramatically, the situation bears some similarities in other lines that are vital to the sector. A number of carriers, including Argo and Neon, have withdrawn their capacity for FIs in the past couple of years. In November 2020, the market suffered a big shock when one of its main players, AXA XL, took the same route. New entrants have been unable, or unwilling, to fill the void.

"New capacity that has come in in 2020 and 2021 is very conservative in its approach," Mr Abbot says. "There is capacity for the majority of transferable risks faced by financial institutions, but at a much lower level than they used to see.

"Insurers that offered lines of $10m or $12m, now offer $1m or $2.5m," Mr Abbot continues.

The hard market will continue to affect the ability of banks, investment managers and other financial players to assemble their insurance programmes

"The average of the segment lies at around $5m. For buyers that are no longer able to find their usual limits, the simpler answer is to self-insure. It is a frustrating position to find themselves in."

The difficulties are generalised but some companies suffer more than others, depending on the sector and jurisdictions where they operate. Risks located in the US, Australia and Germany are the hardest to transfer at the moment, as class actions, social inflation and regulatory onslaughts have put financial institutions under pressure in those countries.

"There is very little appetite in the London market for Australian business," Mr Abbot says. "The vast majority of policies will place a harder deductible for claims brought out of the US, compared to the rest of the world."

In such markets, premium rates have gone up considerably, reaching up to 1,000% hikes for some kinds of companies and their toughest risks. Mr Abbot believes that rate increases are losing some of their momentum, though.

"Although we saw substantial increases in 2020 and 2021, and we should start seeing some stabilisation of rates, we do not anticipate they will go down to the levels of 2018," he remarks.

Nonetheless, buyers in financial services should continue to sweat to set up their insurance towers, as insurers have given little if any signs of resumed appetite for their risks.

"When you try to place any limits over $100m, it becomes incredibly challenging today. Four years ago, you could potentially place $100m with 12 or 15 carriers. Today, you are looking at 18, 20 carriers or more," Mr Abbot says.

Terms and conditions

John Richards, head of London market financial institutions at Sompo International, says that insurers are focusing on terms and conditions, which were handed out freely to buyers during the dog-eats-dog days of the soft market. Now, they are striving to claw back in areas such as investigation and mitigation costs. Underwriters are unwilling to provide in-built discovery periods beyond one year, he says.

Higher deductibles are another important item, with many buyers being urged to retain ever higher levels of risks in order to obtain better conditions at the higher layers of their towers.

"Many clients are looking to increase their primary excesses in order to enable more insurers to come onto the placement," Mr Abbot says. "They find that there may be appetite for some institutions for excesses of a certain limits of liability by attaching hard deductibles."

But oftentimes, their choice has been to limit their coverages to bare bones.

John Richards says that insurers are focusing on terms and conditions

"Side-C D&O insurance has become so expensive that a lot of clients are considering whether they should buy it," Mr Richards says. "Many are reverting back to having only Side-A and Side-B coverage, and some are opting for Side-A only."

FIs are also reducing the amount of PI and crime covers that they purchase, sometimes drastically, particularly in locations like Australia, he adds.

For some companies, even the option of limiting their programmes may be hard to achieve. This is the case, for instance, among investment managers with large exposures to the commercial real estate market, which insurers are extremely reluctant to work with today.

That is because commercial real estate was badly affected by the Covid-19 pandemic and it is still not clear for underwriters the extent to which the sector will be able to recover as changes in working habits consolidate once the crisis is over.

> **"When you try to place any limits over $100m, it becomes incredibly challenging today"**
> *Gareth Abbot, Lockton*

Mr Abbot adds that any financial institution that works in an unregulated sector finds it very hard to purchase insurance today.

For his part, Mr Richards says that Sompo, for instance, is not too keen on companies in sectors such as foreign currency dealers and private equity, with exposures to businesses like commercial real estate or others that have been severely affected by the pandemic.

Westpac bank, Sydney: the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has put pressure on financial institutions in Australia

New risks

He also stresses that new FI risks are getting the attention of the insurance market. One of them is the exposures of a growing band of fund and asset managers that pledge to make investments that comply with the highest environmental, social and governance (ESG) criteria.

"Many insureds in the fund management sector are saying that they are launching funds that are ESG compliant and there is a concern it might expose them to different kinds of claims," he says. "For example, if you are an ESG investor, there is a potential risk that you could be seen as an activist investor which will only increase your exposure to claims."

Regulatory risk is also on the rise, especially in Australia, where the work of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has put pressure on financial institutions and increased their risk of being targeted by consumer class actions.

Mr Richards warns that the full impact of Covid-19 on the financial sector is yet to be known, which could be reflected in the future ability of companies to purchase insurance.

"For example, non-performing loans, both in credit cards and mortgages, are a key area of concern," he says. "Everybody is holding their breath to see how these develop, given that government support schemes will have hidden a lot of issues. As those schemes are withdrawn, we will see what impact it has on unemployment, taxation, inflation and so on."

Cyber

And that is all before we talk about cyber risks, which in both Mr Abbot's and Mr Richards' view, constitute one of the main threats for financial institutions these days.

"Cybersecurity breaches are the greatest challenge the vast majority of our clients face today, and they can have a knock-on effect on other risks like regulatory risk," Mr Abbot says.

"Regulators can be a little overzealous when reacting to a security breach situation, leaning quite heavily on financial institutions."

In his view, the ability of FIs to transfer those exposures to the market is still progressing. In fact, the market is now working on the transference of some of those coverages from traditional covers purchased by financial companies to the specific segment of cyber insurance.

"Traditionally, crime policies have provided cover for cyber extortion, however the financial institutions market has started to push back on this due to a worrying increase in ransomware claims," Mr Richards says. "Instead, brokers have looked to the cyber market to pick up this exposure, given that it has deeper knowledge of the area and the required controls.

"This is true across the financial lines product range, where some of the more traditional lines of business that may not have evolved as quickly as the exposures are narrowing cover and relying on the cyber market to address these threats," he adds.

Mr Richards considers that financial companies, especially those that are submitted to tight regulatory regimes like banks, have over the years developed strong controls against cyber risks. But criminals do not stop developing their capacity to perpetrate bad deeds, a fact well exemplified by the recent boom in ransomware attacks.

"Given the sheer frequency and severity of these attacks, insurers are having to look at other solutions, for example higher retentions and co-insurance, otherwise there is a danger that ransomware may become uninsurable in the market," he says.

Better news for marine and aviation risks

In the first stages of the Covid-19 pandemic, the transportation of goods and services came to a halt around the world, impacting the insurance industry in negative and positive ways, according to *Rodrigo Amaral*

During the pandemic, premiums went down in both aviation and marine insurance

During the pandemic, premiums went down in both aviation and marine insurance as planes were grounded and the transportation of cargo by ships reduced dramatically. At the same time, loss ratios improved thanks to the generalised lack of activity.

For their part, buyers were hit in their balance sheets while the overall insurance market went through a dramatic hardening period, which did not bypass airlines or shipping companies.

In 2021, however, the world is moving again, and the insurance market looks less unfavourable for buyers in the aviation and marine segments, according to sources speaking to GRM.

Aviation

Tarcan Erisen, head of aviation and space at broker Price Forbes, believes that early signs of optimism can be spotted in the airline market, for instance.

"Insurers have been sympathetic to the tough times clients have experienced, easing pressure on premium rating increases in light of the probability of enduring difficulty in travel conditions," he says. "The insurance market is now experiencing a deceleration of rate increases into single digits."

One of the keys to this change has been the arrival of new capacity in the market, attracted by a couple of years of consistently higher rates.

"This has resulted in final market supporting levels in excess of 100% of limits required, improving programme composite premiums," Mr Erisen says.

Gary Millen, class underwriter for general aviation at International General Insurance (IGI),

points out that the expansion of the capacity pool has taken some of the tension off the aviation market, which had previously gone through three years of insurers getting out of the segment or reducing the size of their lines.

"In a hardening market it was difficult for brokers to place risk, but that has changed this year," he says. "Capacity has gone up and there is now slight overcapacity for good risks. Over the last three years, the market has seen 20%-40% rate hikes on good business, but now it has between 5% and 10%."

Mr Erisen has also spotted brighter times in the general aviation market, which is reflecting the deceleration in rate increases observed in the airline segment, while the parties try to solidify current conditions with an eye on the long run, especially on major risks.

"The old adage of 'size and volume of premium matters' has seen a return of long-term agreements, which were not seen for some five to ten years," he says.

Some challenges remain though. There is still limited capacity for lighter-class general aviation as insurers require minimum premiums for each risk, Mr Erisen remarks.

"This has inevitably increased prices for operators and in some territories above local treaty levels," he says.

Looking forward, the question is whether rate increases and lower loss levels have done their job, helping insurers feel comfortable with current market conditions so that the hardening process can come to an end.

"Because half of the aircrafts are not flying, hence there are fewer losses but fewer premiums, we have yet to work out if we have reached rating adequacy," Mr Millen says. "The general aviation market had a good year in 2020-2021, even with slightly less income from premiums than the previous year. We should be on course for making a profit."

He notes that, with three new reinsurers entering the aviation market this year, the rating momentum may be slowing down.

"Three or four years ago, general aviation faced challenging conditions and struggled as a class, with rates rising continually. It wasn't sustainable," Mr Millen says. "The market is starting to correct itself now, with the hardening levelling off. We'd like to keep the rate increases to around 5%."

He adds that buyers have adapted their programmes to the toughest conditions, sometimes reducing the purchase of non-mandatory products to focus on legally required liability covers.

"Some of the big South American insureds have restricted government budgets and can't afford to buy hull insurance for all their aircrafts, so may only self-insure for half of them," Mr Millen says.

Sundeep Khera says there is now a balanced market between supply and demand

Marine

Marine insurance also seems to be close to stabilising, with the arrival of new capacity heralding less aggressive rate hikes in future renewals, according to Toby Kayll, a managing director at Amwins in London.

He says that, in 2021, insurers had to temper their rate rise aspirations after three years of significant increases. In the early-year renewals, hikes were limited to between 5% and 10% for businesses with good loss histories.

"Going into 2022, with nine new entrants in the cargo market for example, I have no doubt that flat to 5% rate reductions will be the norm," he says. "If brokers feel the incumbent pricing is not reflective of their individual risk's exposure, we can secure the clients better terms and conditions through remarketing the risk for our client."

Underwriters may not settle so easily, though. Sundeep Khera, head of marine UK and Lloyd's at AXA XL, says that capacity with experience, credibility and the ability to provide premium services still comes at a price, and rates will continue to go up in the near future.

He warns that the reduction of loss ratios observed in the past year and a half may not be reflective of secular market trends and newcomers may be surprised when claims go back to normal levels. Although he also stresses that the unbalances that have characterised the marine insurance market during the protracted soft cycle and the meteoric hardening period have been mitigated.

"Today there is a balanced market between supply and demand," Mr Khera says.

> **"The market is starting to correct itself now, with the hardening levelling off. We'd like to keep the rate increases to around 5%"**
> *Gary Millen, IGI*

The shipping industry had a horrid period between March and June last year but has recovered since, and the insurance market followed the trend. The International Union of Marine Insurance estimates that global premiums in the segment increased by 6.1% in 2020, compared to previous years. Higher rates due to the hard market helped to compensate for losses of volumes, according to analysts.

Mark Trevitt, class underwriter for marine at International General Insurance, notes that there has been an abundance of new capital in business lines such as ports and terminals, as well as marine liabilities, cargo and marine trades, but rate rises continue to be seen.

He advocates that marine insurers and buyers should look for a measured approach that can avoid the extreme peaks and depths reached by the segment in the past.

"If you have incremental increases year on year, you're more likely to persist over a reasonable period, whereas if you go for incredibly high increases, say two or three times a premium, then in our opinion it is not sustainable," he says. "In terms of market performance, we'd like to see rates continue to harden and prefer a measured approach be taken by all. We are confident that the space we occupy – ports and terminals, marine liability and cargo – will continue to offer opportunity and prospects."

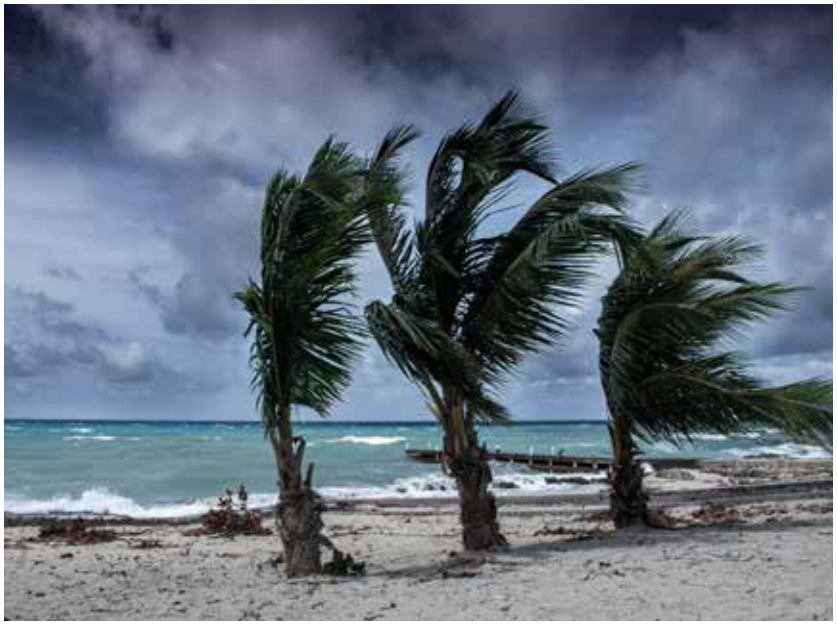
Mr Trevitt points out that IGI has the ability to exert some control over rates as it leads most of the business that the company writes. But it is still a challenging market for both buyers and carriers, he stresses.

"We are still seeing split slips with different rates, which is a sure sign of a disjoint between those carriers who focus on top-line growth, and those with their heart set on bottom-line profitability. This is not ideal for any marketplace and is not sustainable," he says. "If we do not see an abnormal claims period between now and the rest of the year, particularly in the Gulf of Mexico and Caribbean, and if there isn't a huge influx of further capacity, I don't see a softening of the market in the foreseeable future within the marine sphere."

"Indeed, depending on the ultimate marine loss resulting from Hurricane Ida, and if the remainder of the Atlantic season is as active as some predict, I think we will likely see an increased hardening of rates," Mr Trevitt adds.

Digitalisation

A less dramatic market in both aviation and marine does not imply, however, that buyers and their insurers will have a smooth road ahead. Just like other segments of the insurance industry, both face significant challenges, especially in the field of digitalisation.



The ultimate marine loss from Hurricane Ida could result in an increased hardening of rates

Mr Millen, for instance, warns that the aviation insurance market may fall well behind its clients if it does not up its game in this area.

"Digitalisation is not happening in the aviation market," he says. "Placing platforms are not used in the aviation market. whereas in marine they use them all the time. We still use the traditional methods of signing slips and sending them back. We need to digitalise."

In marine, technologies like AI and machine learning have made noticeable inroads, according to Mr Trevitt.

"Along with the rest of the marine broking insurance fraternity, we'd already started to embrace pricing platforms," he says. "The pandemic accelerated the digital transformation process to the extent that well over 95% of all our placings are now on an electronic platform. This brings the advantages of speed of response and accuracy."

The industry is now moving towards implementing more advanced applications of new technologies, such as robotics and hyper automation, he says. But the spread of digitalisation means that cyber risks have become much more of an issue for all parties concerned.

"Cyber is different, as it evolves as the aviation and global logistics industries' reliance on IT infrastructures and networks technology increases, with the propensity of a cyber loss increasing," Mr Trevitt says. "Many marine and aviation insurers have cyber exclusions. There are specific markets for both cyber and pandemic – contingency and cyber – which is where those losses should rightly sit."

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Growing focus on EIL in multinational programmes

Demand is on the rise as risks mount, writes *Ben Norris*

Environmental liability and regulatory enforcement are growing across the EU and other parts of the world

European multinationals are increasingly adding environmental impairment liability (EIL) to their global programmes as demand grows for transfer solutions to help mitigate this growing area of risk, according to market experts.

The move comes as more and more companies realise that specialist EIL cover is needed because traditional policies, typically general liability (GL), won't offer full protection. But the message hasn't got through to all risk managers just yet, experts say.

All of this is against the backdrop of a hardening commercial insurance market. The general hardening has impacted EIL cover, but it seems things are not as bad for buyers in this line of business as some others.

The brokers and insurers say that environmental liability and regulatory enforcement are growing across the EU and other parts of the world, bringing increased risks and uncertainty to businesses in the region and further afield.

Glenn O'Halloran, head of environmental risks at Howden, says this is focusing the minds of risk managers and there is a trend towards European multinationals adding EIL cover to their global programmes.

"Multinationals are continuing to add EIL to their global programmes, which is a trend observed across the market for a number of years. As environmental awareness grows globally and regulations are developed and implemented in jurisdictions where environmental enforcement was previously lacking, risk and exposures grow for multinationals," he says.

But the broker stressed that "great care" must be taken to ensure consistency of cover across both

the master policy and underlying local policies when structuring global, or multinational, EIL programmes. Policy forms and market standard forms can "vary greatly" across different regions and quite often the "intent of cover can be lost", he says.

Christoph Mocklinghoff, environmental practice leader continental Europe, Marsh, agrees that EIL coverage is increasingly being put into multinational programmes. Buyers must take care, however, to work out where there are coverage overlaps, and crucially gaps, with other lines in the programme, he says.

"The articulation between EIL and other lines – principally general liability but also D&O, property, construction, transportation and cyber – is crucial because EIL picks up risks under public law exposure in these lines that won't be covered elsewhere," he says.

C-suite focus

Simon Johnson, director, environment at Aon's Global Broking Centre, says climate change, ESG issues and growing regulations around the world mean the environment is now an important c-suite focus. This is clearly creating more interest in related liability and EIL coverages, not least among multinationals using global programmes, he says.

"That interest is coming particularly from larger multinational companies where key stakeholders also have their own environmental performance targets, such as, for example, pension funds and other institutional investors, and they look to apply those same pressures and concerns onto those in which they invest and have a stake. This is creating more interest [in EIL], as is the gradual rise internationally in environmental regulation and, more importantly, the implementation and enforcement necessary for governments to demonstrate their commitment to the environment," he says.

According to Sylvie Monereau, product leader – environmental insurance for APAC and Europe at AXA XL, building environmental cover in multinational programmes isn't new. EIL insurers with the right capabilities have been offering such solutions for more than a decade, but there has been increased demand, she explains.

"We are certainly seeing a rise in demand in that area and, today, all of our largest clients have a global programme; if they don't, they're looking to set one up... Across Europe, large multinational corporations are either covered, thinking about enhancing their existing coverage, or seeking coverage if they aren't already covered," she says.

But this means there are still companies, including some big multinationals, in industries not considered most at risk, that aren't properly covered, says Ms Monereau.

> **" interest is coming particularly from larger multinational companies where key stakeholders also have their own environmental performance targets"**
>
> *Simon Johnson, Aon*

"There is still a lot to do, with the broking community, to support risk managers and help their organisations understand their exposure to environmental risks, notably through risk engineering," she says.

Brokers and insurers have warned for a long time that many companies have relied too heavily on GL policies to cover environmental risks, which weren't designed to properly cover the growing liability issues. This is certainly the case with certain aspects of the European Liability Directive that governs the EU.

Howden's Mr O'Halloran says that while an "overreliance" on GL cover for environmental exposures remains a concern, the problem appears to be improving over time as environmental issues climb the boardroom agenda.

He says risk managers are putting more emphasis on fully understanding the environmental coverage they currently have. This has seen many identify gaps, and then propose solutions to the board and executive committee to "strengthen resilience" against environmental risks, the broker continues. EIL insurance is increasingly a "clear and obvious solution", he adds.

"Examples can be found in the M&A space," says Mr O'Halloran. "Buyers are performing a deeper dive into a target's existing environmental or GL insurance policies through insurance due diligence, recognising the gaps – such as forward-looking versus backwards-looking – and supplementing the target's environmental insurance with a one-off transactional environmental insurance policy to transfer backwards-looking risks. Germany offers a good example, where an overreliance and misunderstanding of the cover offered by market-standard GL policies is beginning to be more fully understood," he explains.

Marsh's Mr Mocklinghoff says it is rare today for big companies to rely purely on GL cover for environmental exposures. This problem still exists among SMEs, but even here the number of first-time EIL buyers across Europe is increasing year by year, he adds.

Aon's Mr Johnson agrees that more companies are taking out EIL cover rather than relying on GL.

Increased frequency of extreme weather events related to climate change might affect claims on EIL policies

But he warns that there remains a blindspot over operational risks, which is where the market sees the most claims

"In this case, it is a question of companies understanding, one, where EIL fills gaps in more traditional GL and property programmes; and two, the consequences of these gaps being uninsured. Historical pollution risk is important to cover, although cover is subject to having appropriate information about site use history and any known pollution conditions – land and groundwater contamination. But these covers can be crucial in land, property and business transactions, facilitating deals and adding value," he says.

Hard market

Meanwhile, the EIL market in Europe is hardening like much of the rest of the commercial space. However, rates, terms and conditions haven't deteriorated as badly as they have in some other lines.

"There remains a core base of longstanding underwriters and carriers in the market, providing consistent coverage, premiums and servicing. In our experience, premium rates remain flat to +5% on renewing business, primarily driven upwards by hardening market conditions," says Mr O'Halloran.

In addition, there are signs of capacity reduction among some markets, he continues. "Whereas previously an insurer may put up €20m for a certain risk, now they're pulling back to €10m. Certain pollutants are also coming under scrutiny, such as PFA [perfluoroalkyl and polyfluoroalkyl] substances, which are increasingly subject to a blanket exclusion," says the broker.

Aon's Mr Johnson says EIL cover is generally available across all EU member states, usually through freedom-of-service structured polices with European and London market players competing for business. But he too says carriers are looking for rate increases as part of general market hardening.

While conditions and coverage remain "relatively unchanged", they are subject to changes in response to claims and events, he continues. "For example, increasing PFOS/PFAS exclusions and more recent concern over how the increased frequency of extreme weather events related to climate change might affect claims on EIL policies," says Mr Johnson.

AXA XL's Ms Monereau says there are a "number of newcomers to the European EIL market" with "no shortage" of capacity. Therefore, pricing is "very much dependent" on client activity, risk management and loss history, she adds.

The insurer explains that some markets in Europe are more mature than others. France, Spain and, to some extent, Benelux are among the more developed, but there remains room for progress in other countries, she says.

"We are also seeing rising interest in added services such as 24/7 incident support, remediation, crisis and reputation management.

> **"We are also seeing rising interest in added services such as 24/7 incident support, remediation, crisis and reputation management"**
>
> *Sylvie Monereau, AXA XL*

At AXA XL, we have partnered with Cedre, an organisation that specialises in mitigating the impact of ecological incidents, to offer such services to our clients," she says.

Mr O'Halloran adds that as the environmental and ESG agenda grows among corporates operating in Europe, Howden is seeing more EIL uptake from "previously elusive buyers" in key territories such as France, Germany, Benelux and the Nordics.

"It's not just the traditional polluting industries either – such as industrials, chemicals and waste businesses – we're seeing buyers from SMEs through to real estate owners and even hospitality," he says.

But the broker says there remains a "knowledge gap" among insurance risk managers and legal advisers surrounding the availability of cover for environmental risks.

"We were recently approached by a corporate looking to insure historical pollution relating to a warehouse they own. The risk manager was convinced it wasn't insurable, but was pleasantly surprised when we returned with a broad set of terms at a premium below their expectation," he says.

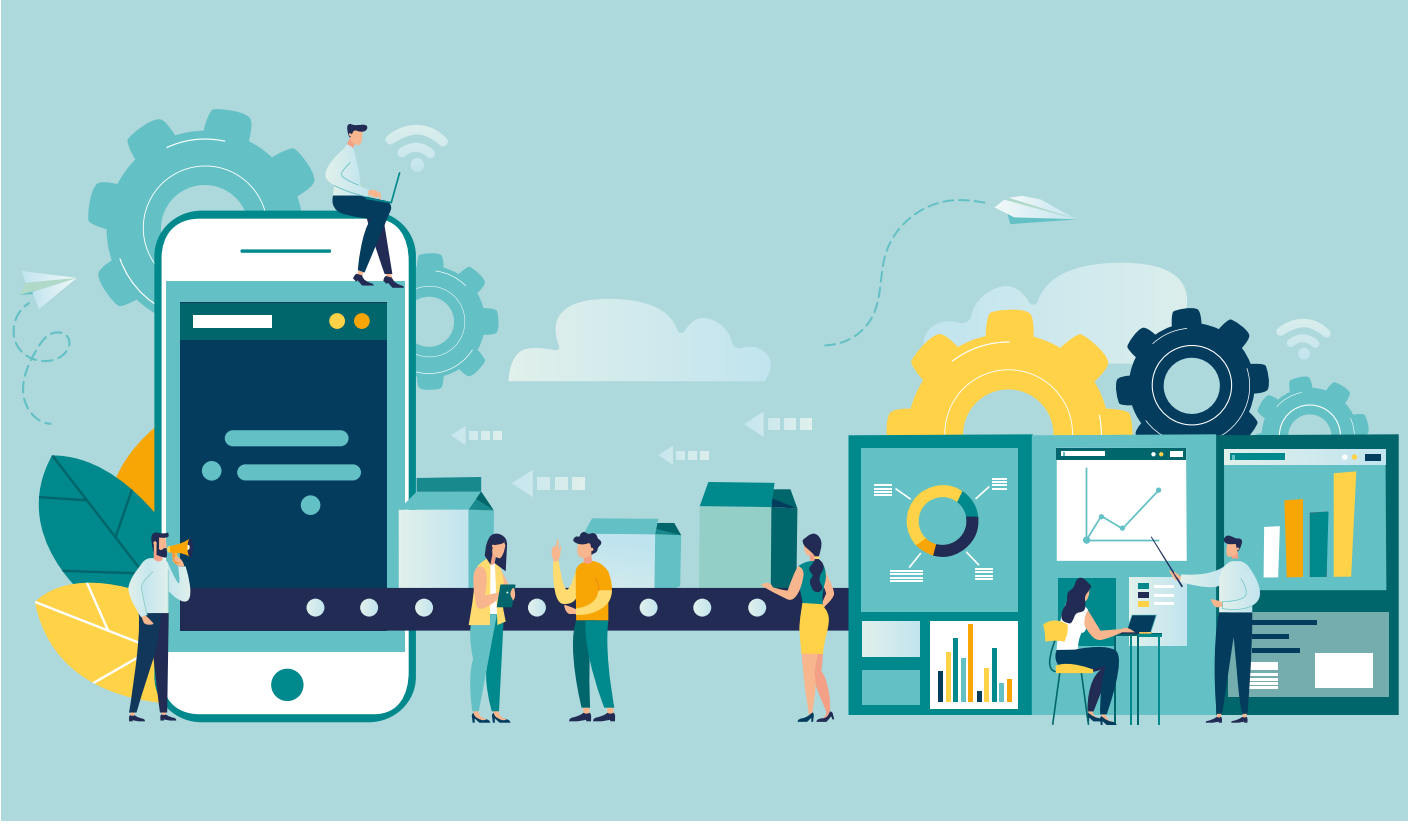
> "Certain insurers now write standalone policies wrapping around contractual liabilities"
>
> *Glenn O'Halloran, Howden*

Mr O'Halloran adds that there is also ongoing innovation in the EIL market. This is most apparent in the M&A space, where certain insurers are now offering environmental insurance policies that are more closely aligned with other transactional insurance policies, such as warranties and indemnities and tax insurance, he says.

"For example, certain insurers now write standalone policies wrapping around contractual liabilities, such as a breach of warranty or specific environmental covenant. This has driven uptake in mergers and acquisitions as corporates and private equity firms become accustomed to transferring risks to the insurance market," the broker explains.

The insurance factory

Mark Geoghegan **looks at the coming insurance revolution**



Insurtechs, specialist brokers and MGAs are the first movers in a broader change in the insurance industry

"One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head..." and so on.

This is how the 'father of economics', Adam Smith, illustrated the idea of the division of labour in his seminal work *The Wealth of Nations*, first published in 1776.

The above is the example of a pin factory.

Mr Smith goes on to list "about 18 distinct operations, all performed by distinct hands", culminating in the production of one of the simplest and most commonplace manufactured objects of the day.

The division of labour into specialisms is as old as civilisation itself. The smith, the baker, the doctor, the potter, the carpenter, the farmer and the hunter have given us surnames and driven the enlightened world ever since we started to come out of the caves.

But it was Mr Smith who was the first to notice that we tend to specialise in things we are good at and enjoy, and that this gives us a comparative advantage over others. Professionals are quicker, more efficient, relatively cheaper per unit and overall provide a better product or service than rank amateurs.

When we all specialise, we can advance more efficiently as a group than when we have to try and do everything on our own.

Insurance specialisms

I wonder what Mr Smith would have made of the 21st century insurance industry?

I suspect he would probably find it as bizarre as we do the idea of it taking 18 people to make a pin.

Insurance has its own specialisms. Sales, marketing and distribution, underwriting, legal, compliance, analysis, pricing, exposure and

portfolio management, claims handling and reserving, capital management and executive strategy, to name but a very few.

There is a busload of different functions. Let's say at least 50 distinct hands touch the insurance product before it is unleashed on the world.

But how many insurance companies are really good at all of these things?

I would say none.

Yet, despite this evident inefficiency, so much of the insurance value chain is currently sitting inside this monstrously misdirected entity – the Insurance Company.

Indeed, the situation has only got worse as globalisation has produced ever larger, ever less responsive global insurers.

Risks go into these entities and only exit in an increasingly concentrated way right at the top, through a steadily diminishing relationship with reinsurance and interactions with investors and the wider capital markets.

At the same time, despite the transformational technological advances of our age, which have produced revolutionary gains in productivity in many peer sectors, the expense ratio of the insurance industry has remained stubbornly and consistently high.

Indeed, the expense ratio has remained so stubbornly high that the imperative to lower it has become a cliché that is trotted out at conference after conference, year after year.

Can it be any surprise that we are inefficient when we persist in centralising, and not dividing our labour?

Surely the revolution will come when we all become ultra-specialised into our own versions of wire-drawing, straightening and cutting?

Indeed, I think change is already on the way.

First movers

Other financial sectors such as credit or asset management are showing the way; and insurtechs, specialist brokers and MGAs are proving to be the first movers in a broader change.

Up until now, every bit of collaboration in our industry has meant adding crippling frictional cost to the value chain.

We all know the story: the retail broker goes to an insurer with a non-standard risk, the insurer finds a wholesale or reinsurance broker who finds an MGA, which is in turn writing on behalf of specialty insurers, often via another brokered relationship.

Before we know it, we have taken half the premium in distribution and admin costs, and service levels are strained because of the inherent time delays that accumulate along the way.

Errors and omissions also breed in the cracks between providers: a Spanish shipment of "clocks" turns out to be a box of highly stealable "watches" (because the two words are the same in Spanish) and all hell breaks loose when there's a claim.

But all of this friction and lack of clarity is being removed by advances in technology. Zero friction will mean zero transaction costs and no loss of data.

In the future, the specialty insurer or reinsurer, even five notches along the food chain, should have exactly the same information that the original client has provided. No one in the chain will be further removed than anyone else.

Value will be added through what we are able to do with the information we are given and whether we know the right questions to ask.

This future is one in which Mr Smith's vision can finally be realised. Indeed, in his own example the wire-drawing and straightening might today be carried out by two different companies, each on different sides of the world.

"In the future, the specialty insurer or reinsurer, even five notches along the food chain, should have exactly the same information that the original client has provided. No one in the chain will be further removed than anyone else"

Call this phenomenon open insurance, embedded insurance or insurance ecosystems, it's definitely coming.

Only in the past week I have spoken to a meta-wholesale broker that has a broking licence in all 50 US states, but isn't a broker in any conventional sense of the word because it doesn't broker the risk – it just moves it about more efficiently.

I have interviewed an enabler and incubator of ultra-specific MGAs. Each MGA is the sort of business that is millimetres wide but miles deep and collects hundreds of really specific data points on its clients. Think ultra-specialist chicken farm insurance and you'll get the idea.

And I have also interviewed a 50-person aviation broking startup (see page 16) that has won global clients including Airbus and Rolls-Royce within two years of opening. Ten years ago, such a sophisticated client list would have been the sole preserve of the big three global brokers.

Ever so slowly, an age of transparency, collaboration, sophistication and efficiency is beginning to dawn.

Adam Smith would be pleased, and so should you.

Singapore: playing to its strengths

Singapore's specialty market has been hit hard by the global recession triggered by the pandemic, but it is looking once more to bounce back through innovation, says *Simon Challis*

Singapore's location makes it the gateway for those looking to trade in southeast Asia

Singapore's location at the southern tip of the Malacca Strait has meant it has long been the gateway for those from Europe looking to trade in southeast Asia. It has acted as a magnet for western insurers, reinsurers, and brokers, who set up their Asian headquarters there, and the island state has sought to exploit that by transforming itself into a regional insurance hub, including for niche lines. The economic fallout from the pandemic has hit Singapore hard, but it is looking to innovate to bounce back.

Singapore has developed its insurance market by playing to its strengths, rather than by setting itself up as a rival to London or Bermuda, says Murray Wood, head of financial specialties, Asia at Aon's commercial risk solutions unit. "Singapore has looked to address a gap in the geographic spread of global insurance markets in the fast growth economies in Asia. Being able to access insurance capacity that is headquartered in the region has been an integral part of the Singapore market's growth, along with its access and distribution platforms."

Singapore's thriving specialty insurance market focuses on the kind of entrepreneurial risks associated with doing business in fast-developing, high-growth Asian economies: casualty and liability, financial and credit, marine and construction, war and political violence.

But the 'triple shock' that, according to the World Bank, the pandemic delivered to Asian countries – namely the virus itself, the economic impact of worldwide lockdowns and the global recession they triggered – also hit specialty lines hard.

In its Q2 2021 market report, Aon says the Singapore specialty market faces the same challenges as other global centres, with capacity being withdrawn, rates pushed up, and terms and conditions tightened. In casualty and liability lines, rates have risen by up to 10% across the board, with blanket communicable disease exclusions being applied, it says. The picture is worse in financial lines, with prices up as much as 30%, along with higher deductibles; the subscription market has broken down with every market insisting on applying its terms, rather than following the lead. "Insurers are increasing premiums and reducing their capacity as they assess the long-term viability and sustainability of these products," Aon states.

Singapore was among the Asian economies worst hit by Covid-19. It contracted by 5.4% in 2020 and although its economy is expected to rebound in 2021, its forecast growth of between 4% and 6%, according to its Ministry of Trade and Industry, isn't as fast as other ASEAN countries. Its neighbour Malaysia is set to grow by more than 7%, while Vietnam's economy will expand by nearly 9%, according to GlobalData.

Innovation

In 2020, Singapore's $4.1bn insurance market saw virtually no growth, after having posted healthy growth of nearly 8% in 2019. But while the pandemic has put a brake on Asia's economic growth, it also highlighted the need for new products to cover emerging risks such as cyber and climate. It is those gaps in the market that the Singapore insurance market, championed by its government, is looking to fill.

"General insurers have remained resilient and agile in response to addressing changing protection needs and evolving risks... The only way forward for us is to continue what we started – proactively driving progress and innovation for our industry to propel Singapore towards its eventual recovery and ensuring insurance remains accessible when people need it most," said Craig Ellis, president of the General Insurance Association of Singapore.

Invention has always been at the heart of the long-term plan to grow Singapore's insurance market, says Aon's Mr Wood. "The government has fostered an environment of innovation, bringing academia and the insurance market together to collaborate on product innovation, addressing unmet needs in the country and, more broadly, the Asia region and beyond," Mr Wood says.

CyRiM, the Singapore-based public-private cyber risk initiative, is an example. The "pre-competitive research project", led by researchers at Nanyang Technological University, in collaboration with industry partners, regulators and academic experts, aims to help Singapore become an industry centre of excellence on cyber risk and grow the cyber risk insurance market.

Craig Ellis aims to continue proactively driving progress and innovation in the Singapore insurance market

CyRiM has developed its own cyber pricing tool for SMEs, as well as commissioning research into southeast Asia's enormous cyber risk. A coordinated cyberattack on 15 ports across Asia-Pacific, launched via a computer virus carried by ships, which then scrambles the cargo database records at major ports and leads to severe disruption, could cost as much as $110bn – of which only about $9bn is insured – according to a 2019 report by the University of Cambridge Centre for Risk Studies, on behalf of CyRiM and Lloyd's.

> **"The government has fostered an environment of innovation, bringing academia and the insurance market together to collaborate on product innovation"**
> ***Murray Wood, Aon***

Another emerging risk – climate change – is a particular threat in southeast Asia, where 650 million people live with the ever-present threat of flood, drought, tropical storms and tsunami. As a low-lying island, much of Singapore is vulnerable to rising sea levels, while an increase in severe weather events could endanger its precious water supplies and rising temperatures could cause more outbreaks of vector-borne diseases. So, the search for insurance responses is particularly pressing in the island state.

The Monetary Authority of Singapore is reportedly extending the ILS grant scheme it created until the end of 2022

Singapore is home to the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), which aims to strengthen the ASEAN bloc's resilience to climate-related natural disasters. SEADRIF Insurance Company is incorporated and licensed in Singapore and provides disaster risk financing and insurance products to participating countries.

Regional hub

Singapore is also trying hard to establish itself as a regional hub for insurance-linked securities. The Monetary Authority of Singapore (MAS) is reportedly extending the ILS grant scheme – which pays the costs incurred in issuing catastrophe bonds in Singapore – it created in 2018 until the end of 2022. The MAS is also exploring ways to enable others risks, such as pandemic, cyber and climate exposures, to be securitised, as well as allowing industry loss warrants, reinsurance sidecars and collateralised reinsurance deals to be set up in the island state.

Some companies are already taking the plunge. In August, Sompo Global Risk Solutions launched a parametric pandemic insurance policy that would cover Asian companies against loss of income, expenses or supply chain disruption caused by local lockdowns resulting from a declaration of public health emergencies declared by the World Health Organization.

Beazley has also launched a range of liability policies to cover Asia's fast-growing life sciences sector, which it says is now the second largest in the world after the US. "Covid-19 has also exposed the need for self-reliance among different countries in the region, as we saw closing of borders, restriction on movement of pharmaceutical ingredients and the global vaccine scramble. The response to Covid-19 has also fuelled a race to create tests, vaccines and treatments," says Prashansa Daga, healthcare underwriter at Beazley.

A return to business as usual after the Covid-19 crisis is eagerly awaited by everyone in the Singapore specialty insurance market, says Aon's Mr Wood, not least because the island state's economic growth is reliant on full resumption of international trade. "Innovation remains fundamental to the growth strategy, so do expect more from the incubators in Singapore that will no doubt look for scalable risk solutions for export."

FLAT GROWTH FOR SINGAPORE MARKET IN 2020

Singapore recorded flat growth for 2020, with a marginal 0.2% decrease in gross written premiums, amounting to S$4.09bn, according to the General Insurance Association of Singapore. The sector also recorded an underwriting profit of S$237.3m.

Gross written premiums (2020) and market share of the top five segments

	Gross Written Premium (S$'000)	Market Share
Motor	1,124,513	27.5%
Health	692,716	16.9%
Property	591,785	14.5%
Employer's liability	381,456	9.3%
Marine hull	185,677	4.5%

Underwriting performance across the top five segments

	Underwriting Performance FY2019 (S$'000)	Underwriting Performance FY2020 (S$'000)
Motor	(17,437)	104,529
Health	(11,194)	17,872
Property	(3,945)	43,733
Employer's liability	(7,345)	40,997
Marine hull	(45,527)	7,101

Source: The General Insurance Association of Singapore

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- Christian Ayerst, *CEO, Mental Health Support Solutions*
- Travis Bailey, *Senior Financial Planner, Advice First*
- Franck Baron, *President, PARIMA*
- Denis Cronson, *Chief Sales & Distribution Officer, Zurich LiveWell*
- Peter Devlin, *former Chairperson, IEBA*
- Giovanni di Meo, *Regional Director Asia Pacific, Allianz Global Benefits*
- Imogen Finnegan, *Senior Consultant, Bellevue Law*
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Looking closer to home

For large complex risks, London has always been the market to turn to, and while this is still the case, financial centres in Asia have been growing and playing a more important role in global insurance programmes and the provision of specialty insurance, says *Tony Dowding*

Asian companies are increasingly looking locally for coverage, even with specialty lines, and various markets have grown up, which is perhaps not surprising given the region has some of the world's biggest financial centres – in Singapore, Hong Kong and Shanghai.

London still plays a critical role in providing capacity and as Adam Russell, retail placement leader, Marsh Asia points out, the more specialised the insurance becomes, the greater role London plays.

The largest and most complex risks often still need the support of the London market, and this is particularly true in the energy and power sectors, according to Nick Garrity, chief executive officer, IGI Labuan. But he says Asian companies tend to be more attracted to financial centres in the region where they can deal with people in the same timezone who understand the local business environment.

Mark Mitchell, regional managing director, Allianz Global Corporate & Specialty Asia-Pacific, agrees, noting that the preference is to find local regional capacity first, including from resident global insurers in Asia, before approaching London.

Andy White, chief underwriting officer, QBE Asia, says that some complex and niche businesses have gone to London but adds that clients are increasingly seeking insurers based in the same region of the world who are able to respond faster to requests for coverage or claims, and who have a stronger understanding of the local environment and business context.

Shanghai is ranked the third-best financial centre in the world, behind only New York and London

Local knowledge

Expertise in local markets is growing, giving insurers an edge in terms of possessing the capability to understand and underwrite risks, says Mr White. "This is a result of many global insurers supporting local operations through blending the expertise, capacity and scale of the global markets with the local touch and knowledge of the local market."

Maria Kuznetsova, head of Zurich international programmes, Asia market, says that specialty insurance centres such as China, Hong Kong and Singapore provide competitive and relevant coverages that account for local requirements. "Capacity-wise, a good number of insurers can service the needs of customers without having to reach out to markets outside of Asia. At the same time, the rationalisation of capacity in the region – in particular Singapore – has seen an increase in business flowback to London, for instance marine cargo war coverage and distressed risks across the board, particularly Australian risk," she says.

The growing choice of centres in Asia is a clearly a bonus for risk and insurance managers. As Jiunn Woei Lee, head of complex property and casualty, crisis management, Asia, commercial risk solutions, Aon points out: "Clients are agnostic to which financial centres are most attractive to them. Their main consideration is which markets or centres can deliver the best value to their insurance purchase and they will swing to that market/centre."

Insurance hubs

There is little doubt that Singapore remains the main insurance hub in Asia. Franck Baron, group deputy director, risk management and insurance at International SOS, and chairman of the Pan-Asia Risk & Insurance Management Association, says Singapore and Hong Kong remain top of the list, with Singapore leading the game. But he adds that companies are still struggling to get the appropriate amount of underwriting expertise and authority from local or regional centres.

QBE's Mr White says that Singapore is a key hub with a healthy wholesale insurance market servicing all countries in Asia, and notes that other locations with a regional footprint include Vietnam with some servicing of Indochina, and Hong Kong which acts as a hub for business in northeastern Asia.

IGI's Mr Garrity says that Labuan, while not so prominent as Singapore, is a well-established domicile that has a substantial specialty insurance and reinsurance presence, with many international companies having operations there, including IGI. He says Hong Kong, while not the powerhouse it once was, is still an important hub in north Asia and continues to dominate as the domicile of choice for lines such as marine and construction.

With China being such a strong presence in the region, it is not surprising that Hong Kong continues to be an important hub, but Shanghai has become the gateway to accessing Chinese insurers, according to Marsh's Mr Russell. "The expansion of Chinese investment, not just within Asia, has seen Chinese insurers become more visible to the west. Partnerships between global insurers and domestic Chinese carriers have further strengthened their ability to look after complex and specialised businesses," he says. "Regional centres of excellence play a significant role in providing the technical expertise, client engagement and global servicing needs. London still plays a critical role in providing capacity and leading in many aspects of the innovation of insurance solutions."

David Wang, head of financial lines, Zurich Insurance Singapore, explains that in the latest Global Financial Centers Index, Shanghai is ranked the third-best financial centre in the world, behind only New York and London. "The city has undergone years of development to become an attractive and competitive force in the financial sector. Shanghai also serves as a base for many foreign insurers to develop local business and serve multinational corporations," he says.

But he adds that insurers in Hong Kong have the expertise and advantage of capturing reinsurance opportunities from the mainland. In addition, the Hong Kong Insurance Authority continues to transform Hong Kong into a regional insurance hub and global risk management centre.

AGCS's Mr Mitchell notes that Hong Kong traditionally served as a gateway to the Chinese market. However, he says in recent years Hong Kong has been playing an increasingly important role for Chinese businesses seeking risk management solutions when expanding overseas, including One Belt One Road projects.

> **"Hong Kong has been through a series of incidences of social unrest and changes in the past two years, however it remains the financial and capital gateway for mainland China"**
>
> ***Mark Mitchell, Allianz Global Corporate & Specialty***

"Hong Kong has been through a series of incidences of social unrest and changes in the past two years, however it remains the financial and capital gateway for mainland China, mainly because Hong Kong, under 'One Country Two Systems', still maintains very different monetary, tax and legal systems from the mainland to ensure an open and free business environment," he says.

Carlos Beltran, head of first-party lines, Asia, Berkshire Hathaway Specialty Insurance, says that when it comes to international business, Singapore is probably shaping up as the regional insurance hub for wholesale reinsurance, including treaty and facultative reinsurance.

"Together with Hong Kong, these two regional hubs have captured a much bigger share of the regional (re)insurance business by capitalising on local/regional servicing capabilities," he says. "Both producers and customers increasingly value the local knowledge and expertise and this long-term tendency has been accelerated by the pandemic. In the P&C segment, China has been, and remains, a challenging trading environment with many international players struggling to compete with domestic capacity and distribution."

Australian D&O market continues to harden but signs of hope for buyers

The Australian D&O market continues to harden but there are some signs of hope for buyers as fresh capacity appears over the horizon and regulatory reform provides a more optimistic outlook, says *Ben Norris*

Melbourne CBD: Australian D&O was one of the hardest-hit risks, and one of the first parts of the market to turn

Global commercial insurance market hardening has pretty much spread to all corners of the world and business lines, causing all sorts of problems for risks managers, not least those at multinational firms. One of the hardest-hit risks, and one of the first parts of the market to turn, is Australian D&O. Heavy claims amid a highly regulated and litigious environment took their toll and rates went up very steeply and very fast.

As Nick Chubb, head of financial lines for Howden in Australia, explains, the country's financial lines market has been in a hard phase for two to three years, with specific segments such as D&O particularly tough for buyers.

According to Craig Claughton, head of finpro in the Pacific at Marsh, despite early signs that D&O premium increases were beginning to moderate at the start of 2021, the "significant premium increases seen over the past two to three years have continued into the second quarter and were observed across most of the June renewals".

"In the first half of 2021, Australian D&O premiums increased by 34% for publicly listed companies," he says.

A recent report from Marsh explains that private Australian companies and not-for-profit entities are also "vulnerable" to D&O price increases, albeit less severe. "On average, there has been a 25% increase in renewal premiums in this sector in the first half of 2021, despite a lack of historical losses," states the report.

But Howden's Mr Chubb believes there are now "some signs of moderating" in the market. "D&O rates are typically still rising but to a less extreme degree" than the last few years, he says.

And London excess layer D&O rate increases for Australian risks are "tapering quite quickly, as insurers return to growth mode", says colleague Kurt Rothmann, executive director of financial lines at Howden.

Mr Chubb stresses that Australian companies can still get D&O cover in both the local and London markets but the capacity available, especially for Side-C cover, has diminished during recent years.

Mr Rothmann adds that London insurers are focused on achieving what they view as an appropriate level of Side-C retention from clients. "Some insurers will only look to provide excess layer capacity, which does limit the pool of primary capacity that is available," he said.

The experts also explain that rising D&O insurance costs are causing many large listed Australian companies to drop Side-C, and sometimes Side-B, cover completely and take the balance sheet risk.

Fresh capacity

However, in better news for buyers, fresh D&O capacity is peeping over the horizon to hopefully improve life for Australian buyers in both the local and London market.

"There are some early signs of capacity coming into the market, reflecting the more attractive premium rates being achieved. This is largely coming out of the London market, although there are also some early signs of revived interest in certain segments of the market from local insurers. It is too early to say that this is of any material impact, but we are hopeful that this trend will continue and allow for some more predictable behaviour in the market for insureds," says Mr Chubb.

Mr Rothmann adds that there is a lot of movement among London underwriters as new D&O capacity providers look to attract quality underwriting teams and position themselves for growth. "This is a positive development and it will hopefully help to ease the current capacity constraints," he says.

Marsh explains that six new Lloyd's syndicates have entered the excess layer D&O market. Many of these have shown an interest in Australian securities exchange firms, with some also showing interest at the primary layer, the broker says. It adds that most of the new entrants appear to have been attracted by lucrative premium rates available in the current market.

Nick Chubb says there are some early signs of capacity coming into the market

Meanwhile, A J Gallagher says in its recent D&O report that insurers covering Australia-domiciled companies continue to tighten capacity and risk selection. But while premium rate increases and underwriting restrictions accelerated last year, there is now more cause for optimism among buyers, it adds. A J Gallagher says there are signs that carriers are willing to trade on new opportunities and, in many cases, on more adventurous programme structures. "Premium strengthening year on year has given insurers more confidence," it adds.

Class actions

In addition to signs of new capacity, there has been a fall in the number of shareholder class actions against Australian firms and their directors and officers, partly driven by the government's temporary pause on continuous disclosure requirements introduced at the beginning of the pandemic.

Howden's Mr Chubb says Australia remains a hotspot for class actions, thanks to litigation funders, but "reform is on its way".

A reduction in exposure will be welcomed by Australian risk managers, helping to make risk transfer easier and, ultimately, more affordable.

In early August, a permanent change to continuous disclosure obligation was passed through the Australian parliament. These disclosure rules require regulated entities to disclose materially price sensitive information to the market.

August's Treasury Laws Amendment Bill amends the Corporations Act 2001, so companies and their officers will only be liable for civil penalty proceedings for falling foul of continuous disclosure obligations if they have acted with

> "Some insurers will only look to provide excess layer capacity, which does limit the pool of primary capacity that is available"
> *Kurt Rothmann, Howden*

"knowledge, recklessness or negligence" when it comes to market-sensitive updates, explains Marsh.

It expects D&O premiums to "start to ease" as a result of this change, but thinks the benefits for buyers are unlikely to occur immediately. "Insurers may look for a period of 'clear air' to demonstrate that the environment has changed and that their claims costs will reduce," says the broker.

Howden's Mr Chubb agrees that recent reform of the continuous disclosure regime has "provided some cause for optimism" but that it is "too early for the impact to be clearly identified".

"It is hoped that this will provide a more balanced environment and provide insureds and their D&O insurers with greater scope to defend claims, rather than moving toward settlement which has previously typically been the case," says Mr Chubb.

Jacques Jacob, partner at Clyde & Co in Australia, says directors and officers in Australia face "unparalleled regulation and scrutiny, leading to a heightened risk of exposure".

He says class actions and the approach of regulators to enforcing corporate governance rules continue to put pressure on directors and their insurers.

This has led carriers to "seriously reassess" the cost and terms of cover, or pull out of the market altogether, continues Mr Jacob. "This environment has resulted in manifest changes to the insurance market's risk appetite and the terms on which they are prepared to offer D&O cover to respond to these risks, if at all," he says.

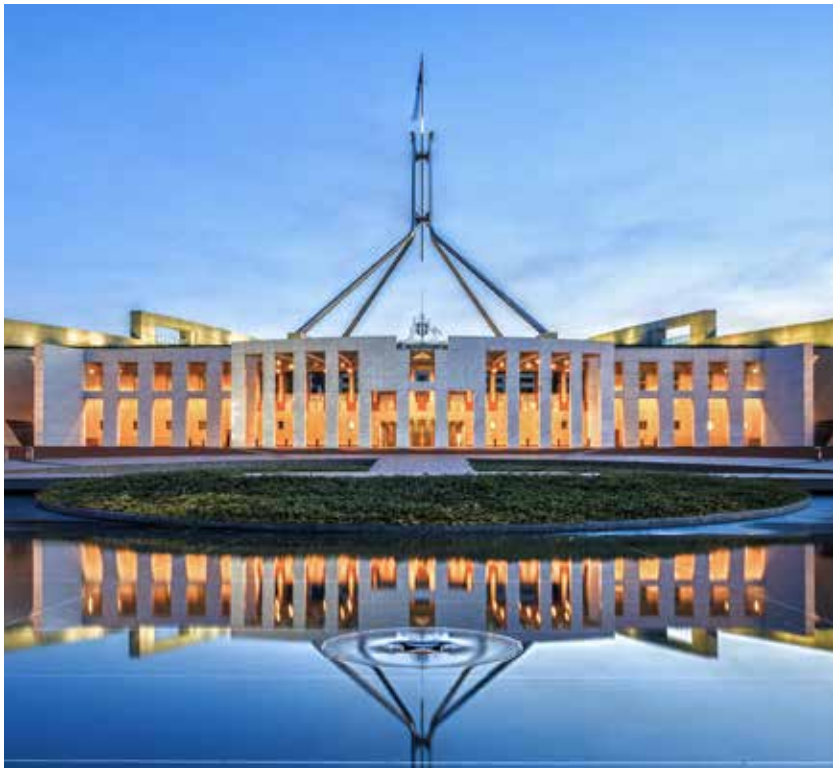
But like the brokers, Mr Jacob explains that the growth of class actions due to increased interest from litigation funders has given rise to various issues for reform in Australia. A big change concerns the availability and timing of common fund orders (CFOs), he explains.

In December last year, the Australian Parliamentary Joint Committee on Corporations and Financial Services released a report on regulating class actions, including recommended reforms to CFOs.

Mr Jacob says the committee recommended parliament should intervene in two ways. "First, by clarifying what is considered a fair and reasonable minimum return to litigation funders. Second, by clarifying when CFOs are available in a proceeding, which the committee recommends should only be at the resolution of a class action where there is greater certainty about the number of members, quantum of the claim and transaction cost," he explains.

Government action

The Australian government has already acted on the first recommendation, releasing a consultation paper taking submissions on options to guarantee statutory minimum return. And Clyde & Co expects things to continue to develop in line with the committee's recommendations on other issues in the report.



In early August, a permanent change to continuous disclosure obligation was passed through the Australian parliament

A J Gallagher notes that government action seeking legislative and judicial reform to corporate regulation in Australia is signalling "more balance for a director community craving business efficacy".

It also points out that while there is a continuing increase in the number of consumer law claims in Australia and a gradual increase in the number of employment claims, the number of securities actions against Australian directors and officers is falling. This is also potentially good news for Australian directors and officers, their risk managers and insurers, because fewer securities claims will help the market, and consumer claims tend to have far less impact on insurers, it adds.

But despite better news on the legal and regulatory front, Clyde & Co expects the heightened risk environment to continue post-pandemic and place further burden on risk managers and their insurers.

"We expect this trend for heightened demand on D&O insurance to continue into the future, which may see, for example, claims arising from shareholder activism in response to the post-Covid economic landscape. Insurers will need to be cognisant and prepare for these risks, including their capacity to cover them," says Mr Jacob.

Hard times

The hard market has had a global impact, but in Asia it is a mixed picture, with some classes seeing big price increases and others like liability remaining relatively flat. Nevertheless, the market is tough, according to buyers, while insurers point to the need for price corrections after the long soft market. *Tony Dowding* reports

Insurance buyers in Asia are struggling at the moment

These days, hard markets do not respect borders, or even continents. Filtering down, as hard markets do, from the reinsurance market, national and regional markets around the globe tend to be equally caught up in the rate increases, capacity issues and tightening terms and conditions that characterise the typical hard market.

So it is no surprise to find that insurance buyers in Asia, from China to Singapore, and India to Malaysia, are struggling at the moment. As Franck Baron, group deputy director, risk management and insurance at International SOS, and chairman of the Pan-Asia Risk & Insurance Management Association (Parima) in Singapore explains, the current situation "is very challenging as pricing terms have dramatically increased without true connection to the claims or risk management of organisations".

Renewal frustration

The concern is that some insurers may be increasing rates across the board and not taking into account risk management efforts, or even claims experience. It is the lack of discernment or differentiation that bothers buyers at a time when all sectors are struggling. Mr Baron says renewal discussions have been very frustrating "as carriers tend to lose focus on risk management basics such as loss prevention and protection measures in place".

Insureds and brokers are having to work harder to find capacity at the right price, says Mr Baron. "This being said, as insureds we did not get the buying leverage expected from brokers," he adds.

Capacity is obviously a concern for buyers, but other than financial lines, there is an abundance of capacities across the board in Asia, according

to Jiunn Woei Lee, head of complex property and casualty, crisis management, Asia, commercial risk solutions, Aon. "The main challenge is finding a right price for these capacities that clients can accept. Yes, the workload for brokers has certainly increased and it is a challenge to get every renewal over the line. Markets are having tighter scrutiny from their headquarters when laying out their terms and conditions including pricing," he says.

But it is clearly not a simple case of all markets and all lines seeing prices rise, and it very much depends on location and industry, as well as class of insurance.

Mr Lee explains that those countries that are exposed to catastrophes would be experiencing rate increases (such as Japan/Pacific/Philippines), while those non-catastrophe territories (such as Singapore) can still expect rate reductions. Similarly, he notes: "Lightweight industries such as real estate will continue to enjoy benign renewal outcomes, while heavyweight industries (manufacturing/food processing with expanded polystyrene exposures) will be expected to cough up more as markets demand more rate adequacy and/or reducing their capacities on such hazardous occupancies."

Adam Russell, retail placement leader, Marsh Asia, says the time needed to complete renewals has definitely increased during the past 24 months. "We observe that brokers would have to start working with clients on the renewal process at least four months prior to their renewal date and aim to be providing clients with options. Be that cost containment through potential coverage and/or deductible changes or review pricing with expiring limits. Brokers need to consider the pricing dynamics in their local markets as well as international markets in structuring programmes for clients."

Troubled lines

Certain lines are particularly suffering at the moment, not least financial lines, where a number of markets have withdrawn from this line of business, together with construction, US-exposed liability, cyber, marine, aviation and cat-exposed property.

Maria Kuznetsova, head of Zurich international programmes, Asia market, says conditions have tightened across the board with few exceptions. She says the most urgent corrections have come in financial lines (particularly PI, cyber and D&O) and in property, construction and technical risks (energy) since last year, with product liability and D&O with US exposure particularly challenging. She notes that the corrections have come in scope, self-insured retentions and pricing.

Nick Garrity says the engineering and construction market has sustained significant losses in the region in the last few years

Andy White, chief underwriting officer, QBE Asia, says that across the Asia market, construction, financial and professional lines, marine hull and large, complex property accounts – particularly those with material exposure to natural catastrophe events – have all seen a contraction of available capacity during the last 18 months and a correction in pricing. He says this follows years of reductions in premium rates, and several significant losses for insurers, and after allowing for inflation, the premium levels in many Asian countries in these lines are now approximately equivalent to those in 2014 to 2016.

Cyber risks are seeing price increases in Asia, as they are throughout the world as claims steadily increase. Marcus Portbury, head of third-party lines, Asia, Berkshire Hathaway Specialty Insurance (BHSI), says the increased severity and frequency of cyberattacks have caught the market off guard, and capacity and coverage has pulled back as ransomware attacks became a common issue in the corporate world globally.

One specific area that is seeing rates harden considerably is the coal industry. Mr Portbury explains that it is seeing customers with coal exposures (such as coal-fired power plants, coal extraction/mines) facing increasing difficulty in finding support as insurers and reinsurers are adopting ESG policies that can restrict their appetite. He notes that as a result, carriers are declining to write or renew accounts with such exposures, and the reduction in capacity has also led to more restricted coverage as well as increased prices.

Nick Garrity, chief executive officer, IGI Labuan, agrees: "Any business that is involved in coal –

Global carriers have looked to strengthen price adequacy on all accounts, which has had an impact in Greater China markets particularly

mining, transportation, or power generation – will be experiencing a reduction in available capacity and an associated increase in price. This has been driven by the pressure on international insurers and reinsurers to reduce their involvement in this sector in line with the United Nations' COP26 commitments, which has sparked a revolution of insurance industry climate cooperation."

Another sector that is seeing price increases is engineering and construction. The market sustained significant losses in the region in the last few years, according to Mr Garrity, but is currently undergoing a correction in pricing. "Particularly for larger and more complex projects, we are seeing substantial rate and deductible increases from what we viewed to be previously unsustainable levels. This may be painful for project owners and lenders, but ultimately, they were not being well served by a market that was forcing some insurers to withdraw from this class because of unsustainable business conditions," he says.

Bucking the trend

Interestingly, liability has not been particularly affected by the hard market in Asia. Mark Mitchell, regional managing director, Allianz Global Corporate & Specialty Asia-Pacific, says that while Asian companies with international operations will be exposed to the litigation and regulatory conditions of their overseas locations, liability insurance pricing in Asia has remained generally flat, as it has for more than five years. He says there is some rate strengthening for accounts that have claims activity but in general, rates are still very competitive throughout Asia.

Many insurers have reduced capacities for product recall programmes, which has led to some hardening of the terms and conditions in that space and finding sufficient capacity becomes more challenging, especially in the sector of auto components, he says.

> "We have seen increasing demand for both standalone captive and bundled captive solutions from the market"
>
> *Mark Mitchell, Allianz Global Corporate & Specialty*

For the two biggest markets in Asia – India and China – capacity is not too much of an issue. Mr Mitchell explains that in India, local insurers have very strong treaties to cover Indian assets and some also have special treaties to cover Indian interests abroad. In addition, global reinsurers are very active in the Indian market and ready to provide capacity. He notes that some local insurers struggle to administer large global programmes despite having automatic capacity to underwrite risks. He adds that buying standalone local policies in India can often be cheaper than buying a consolidated global programme.

Similarly, in Greater China, there is no lack of capacity. "The local insurers are always happy to offer the capacity, but they do have to rely on the international carriers to participate and then agree to front the global programme using their network capabilities, though this would depend on the international carriers agreeing to the required premium and fronting costs etc for offering such programme," he says.

Global programmes

Despite the rate increases in much of the Asian market, demand has remained strong for global programmes, according to Mr Mitchell. "The hardening market was to some extent linked to Covid but this has not decreased the need for global protection solutions or the overall demand for global insurance programmes," he says.

"It has however caused some companies to review the best use of their balance sheet versus pursuit of traditional risk transfer. Consequently, we have seen increasing demand for both standalone captive and bundled captive solutions from the market."

He says that all global carriers looked to strengthen price adequacy on all accounts after many years of favourable market conditions to clients. But in some regions, this has had an impact, such as in Greater China markets. "We have worked very hard with our Greater China clients to consolidate programme business over the last few years and, due to the increases in overall pricing, we are now seeing clients decentralise and compare international insurance programme costs with local standalone policies, and therefore forfeiting the benefit of international insurance programme coverages against premium savings on a local policy basis," Mr Mitchell explains.

Despite insurer and broker reassurances, finding capacity for particular lines can still be a major issue for companies operating in Asia, creating headaches for buyers. And inadequate pricing followed by severe price corrections does not help with long-term planning. Parima's Franck Baron is scathing about the market's recent actions: "Carriers have a tendency for knee-jerked reactions in terms of providing long-term capacity. The lack of consistency and long-term commitment is severely impacting how risk-managed organisations establish their risk financing strategies."

ALL'S WELL THAT ENDS WELL?

The collapse of the Aon-Willis merger was probably welcomed by most risk managers. 'Choice' has almost become a dirty word as brokers and insurers (like many other companies) look to achieve scale and cost savings through mega mergers, but end up removing competition and service.

The collapse of the deal hasn't stopped M&A happening and the market will no doubt see more deals involving smaller brokers and units of the bigger ones. In Asia, any consolidation will be keenly felt as in the rest of the world. But are insurers concerned about broker consolidation or is it an opportunity for other brokers to expand the market?


Andy White

Reginald Peacock, CEO, Singapore branches and head of commercial insurance, Asia, Zurich Insurance, says: "While we monitor the situation closely, we are of the view that there is strong investment in resources amongst brokers, and the scrapping of the Aon-Willis deal in particular will ensure healthy competition and customer choice is maintained. Insurers should also support and engage with smaller brokers to serve more customers and promote a fair and transparent market."

In Asia, there is of course a wide range of intermediaries and distribution channels that customers can use to access insurance coverage, including major global brokers, local brokers, insurance agents, banks and, increasingly, digital distribution channels and platforms.

QBE's Andy White points out: "Whilst there is some consolidation of brokers locally and internationally, the choice of how to access insurance for customers remains broad and the larger potential impact to the industry lies in online distribution. Insurers will continue to support partners and customers with efficient platforms to transact business and give them access to the right resources for more complex risks."

> "The scrapping of the Aon-Willis deal in particular will ensure healthy competition and customer choice is maintained"
>
> *Reginald Peacock, Zurich*

BHSI's Marcus Portbury says: "We are seeing more consolidation among brokers for efficiency and scale and this trend is no different from what we have seen with insurers. Almost all our business is via broker channels and we do believe that the market dynamics will adjust themself to any excess concentration eventually, with customer choices being the key differentiator."

And Globex's Thomas Gu adds: "From our perch, consolidation is not necessarily viewed as a 'bad' thing. The Asian market tends to look at the player with many lenses, including size and history."

Getting the global/local mix right

In Asia, insurance programmes require a mix of global expertise and capacity, along with local knowledge, to satisfy insurance needs and regulatory requirements, says *Tony Dowding*

In some markets like Japan there is a preference for local insurers as they require Japanese language support in overseas locations

Global programmes are generally put together with the involvement of a global insurer, working with local or regional partners. Asia is no different in this respect to any other region but there may be more of a local flavour, as there are many different territories, regulations, and cultural differences to be considered.

Asian multinationals, or multinationals with Asian operations, tend to look at both local/regional insurers, and to global insurers to satisfy their insurance needs. And it seems that they take a pragmatic approach to insurance programmes, according to brokers.

Adam Russell, retail placement leader, Marsh Asia, explains: "We have seen through this market cycle whereby many clients are open to explore localised or regional programmes, carving out particular countries from their global programmes or breaking up a programme targeting different regions to mitigate the pricing differences that exist across the globe. Localised insurance capacity is largely shielded from losses outside its jurisdiction, and across Asia, appetite remains among these domestic carriers to increase their presence."

As Asian companies mature in managing their risks, with insurance being one of the risk transferring tools, they are more open to adopting optimisation and consolidation of their insurance programmes, says Jiunn Woei Lee, head of complex property and casualty, crisis management, Asia, commercial risk solutions, Aon.

"This includes seeking global insurers as their preferred risk partners. The other reason for multinationals selecting global insurers is because

global insurers would have the capability (as compared to regional or local insurers) to issue locally admitted policies in the countries in which the client operates," he says.

Role of global players

Of course, the considerable demands in structuring a global insurance programme as well as the provision of service teams with expertise in local market conditions, regulations, compliance requirements, taxation and claim management, means that inevitably global insurers play a crucial role in global insurance programmes for both Asian multinational corporations and multinational corporations with Asian operations, says Mark Mitchell, regional managing director, Allianz Global Corporate & Specialty (AGCS), Asia-Pacific.

He adds: "However, we have seen in more recent times that local insurers, which already have a relationship with a client, partner up with the global insurers for their expertise and network. Also, in some unique markets like Japan there is a preference for local insurers as they require Japanese language support in overseas locations, as well as stable, continuous capacity and coverage."

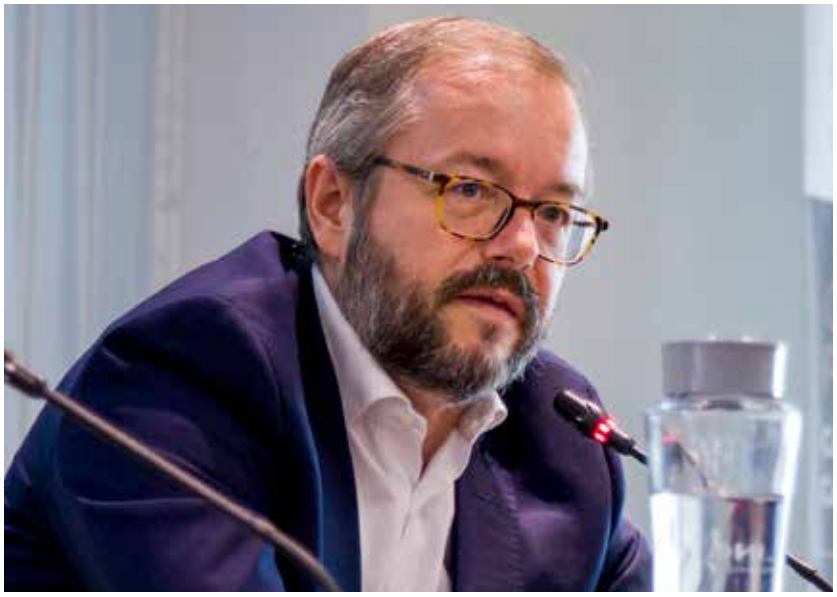
He continues: "Chinese clients are open to consider global insurers and are also very smart insurance buyers as they tend to benefit from both the competitiveness of local insurers and the comprehensive network of global insurers."

With many of the large global insurers headquartered in Europe or the US, the question is: just how strong are global insurers' networks in Asia? The answer is that most have strong networks across Asia-Pacific through subsidiaries, joint ventures and selected network partners.

"Across the spectrum of global insurers, their networks in Asia remain strong with various approaches to build their presence," says Marsh's Mr Russell. "Some will have an owned network of branded offices in-country, which cater to the needs of their multinational clients, while others form partnerships, and in some circumstances exclusive arrangements, to provide clients with the service on the ground."

Aon's Mr Lee says that outside of the big five global insurers (AIG, Chubb, Allianz, Zurich and AXA XL), which have a very strong network in Asia and/or Asia-Pacific, the rest of the other carriers have a limited footprint in the region.

"For specific markets like China and India, a strong network can be seen from two perspectives," says AGCS's Mr Mitchell. "A strong local network in China/India and a strong international network. So far, there aren't any global insurers that have a comprehensive provincial network in China as local insurers. Likewise, there aren't any local insurers that have a comprehensive international network like the top global insurers."



Franck Baron says that insurance regulators in Asia are increasingly taking a tougher approach on compliance

Protectionism and compliance

One of the things that influences decisions around global and local insurance is regulatory compliance. And recent times have seen a rise in protectionism globally and at the same time, insurance regulators taking a hard line on compliance.

Franck Baron, group deputy director, risk management and insurance at International SOS Pte, and chairman of the Pan-Asia Risk & Insurance Management Association in Singapore, says that insurance regulators in Asia are increasingly taking a tougher approach on compliance. He says the development of multinational programmes in the region is becoming harder and harder because governments and local regulators are looking at all options to favour local business activity and economics, and this trend applies to insurance as well.

Aon's Mr Lee agrees: "Regulators have tightened scrutiny when it comes to compliance in the region's insurance space." But he adds that Aon has not seen a rise in protectionism within the insurance sector in Asia.

Protectionism is less driven by regulatory measures but rather by market dominance of a few large players, for example in Japan and Korea, says AGCS's Mr Mitchell. Insurance regulations and insurance premium tax rules are not well established or matured in most Asian countries compared to their European counterparts, while some countries prohibit claims activities and/or

money transfer from overseas, so a local policy issuance in most Asian countries is recommended, he says.

Looking at specific territories, he says that Hong Kong market remains relatively free and open, and there is no requirement for a local admitted policy generally. A few business lines like employee compensation and motor insurance have to be insured by authorised insurers in Hong Kong, and these local standalone policies could still benefit from an overarching global programme, if preferred, he explains.


Mark Mitchell

"Chinese clients are open to consider global insurers and are also very smart insurance buyers"

Mark Mitchell, AGCS

In India, he says there is a rise in protectionism where the market is strictly regulated/governed by the Insurance Regulatory and Development Authority of India (IRDAI). For example, the first right of refusal lies with the domestic reinsurer GIC, the second reference is to the foreign reinsurance branches (FRB) registered with IRDAI, and there is a limit of a maximum 50% reinsurance cession by FRBs outside India for Indian business.

Mr Mitchell adds that there is also no protectionism in Japan but local clients prefer to work with local insurers due to factors such as price flexibility, long-term relationships and claims flexibility.

SPECIALTY COVERS

Specialty products are gaining increasing interest in the region, as Asian multinationals look to protect themselves against emerging and complex risks

Specialty insurance is always in demand, especially in a financially-volatile environment, according to Maria Kuznetsova, head of Zurich international programmes, Asia market. "We have noticed a trend where global customers insure their Asian exposure under a newly-created regional programme to improve terms and conditions from the local offices of global insurers, since they are closer to local markets," she says.


Maria Kuznetsova

"By its nature, the underwriting of specialty insurance tends to require specific knowledge and expertise allied with strong oversight," says Nick Garrity, chief executive officer, IGI Labuan. "This results in specialty insurance generally being focused on regional hubs rather than in every country. In Asia, that often means that clients are unable to directly access that capacity and expertise (in programme structure terms) but they will work with their broker and local insurers to access that capacity on a reinsurance basis. There are very few specialty areas where the market is absolutely focused on a single global hub – and those tend to be very niche."

There are some specialty areas that have gained traction in Asia. Thomas Gu of Globex Underwriting Services points to D&O, employment practices liability and weather-bound products, all of which he says are "a combination of global with the flavour of locals".

Marc Breuil, president, Asia Middle East, BHSI, highlights steady demand for transactional and tax liability insurance in the region, with both small and large deals seeking protection for the transactions, as well as growing interest for medical stop-loss programmes in the region "as companies seek more cost-effective risk-transfer strategies to not only manage growing medical bills but also meet employees' evolving wellbeing needs". And parametric insurance has also been a point of focus for cat-exposed risks.

"With Covid-19 we have seen demand for construction all-risks insurance slow down in line with reduced activity on construction sites"

Andy White, QBE

Some areas of specialty insurance are seeing a rapid increase in demand, such as cyber, says Andy White, chief underwriting officer, QBE Asia. He also points to a growing risk awareness around specialty insurance, which has seen firms opt in to buy additional cover and higher limits in lines such as D&O insurance.

"In areas that have already seen strong insurance penetration, demand is primarily driven by economic activity," he says. "With Covid-19 we have seen demand for construction all-risks insurance slow down in line with reduced activity on construction sites."

The impact of the pandemic means that many insured clients will need to think carefully and consult with their insurers and brokers on the longer-term impact on their business and how this affects their risk profile, he says. "This includes impacts on servicing and maintenance of machinery, longer-term financial impacts on businesses, availability of skilled staff to carry out required processes, etc. This will help inform their decision-making on adopting the right cover for short-term and long-term risks," he adds.

Finalists announced

EXCELLENCE IN RISK MANAGEMENT

Risk Manager of the Year
Charlotte Candy, *Associated Director, AECOM*
Maxim Kondratenko, *Chief Risk Officer, VTB*
Alex Sidorenko, *Chief Risk Officer, EuroChem*

Rising Star of the Year
Béla Cluse, *Insurance Manager, Knauf*
Dennis McNeill, *Solutions Lead, Fusion Risk Management*
Radvile Ragozyte, *Specialist of Law & Risk Management Division, Lithuanian Transport Safety Administration*

Innovative Insurance Programme
Gokce Citak, *Insurance General Manager, Socar*
Dmitry Saveliev, *Head of Insurance, EuroChem*
Marina Tsokur, *Regional Insurance Manager, Cargill*

Systemic Risk Initiative of the Year
Gordon Darling, *Director ERM, WBCSD*
Gintaré Rastené, *Head of Law and Risk Management, Lithuanian Transport Safety Administration*
Dmitry Zhabin, *Head of ERM, VTB*

Collaboration of the Year
Ezinwanyi Kezieme, *Aecom*
Pavel Zhesterov & Yulia Pindyurina, *Deputy General Director for Risk Management and Anti-Corruption Fighting, Director of Internal Audit and Risk Management Department, Salair*

Risk Resilience Initiative of the Year
Ahmet Kirgic, *Business Continuity Master Lead, Turkcell*
Cristina Martinez, *Group Chief Risk Officer, Sacyr*
Giuseppe Sinatra, *Head of Infrastructure, Sustainability & General Service, Universita Luigi Bocconi*

Outstanding Contribution to Risk Management
Roberto Bosco, *Corporate Risk Manager, Mediaset*
Alex Sidorenko, *Chief Risk Officer, EuroChem*
Reiner Siebert, *Managing Director, GVNW/Lufthansa*

INDUSTRY EXCELLENCE

Insurer Innovation of the Year
Parsyl and Lloyd's – *The GHRF and Syndicate 1796*
Swiss Re Corporate Solutions – *Virtual Captive*
Zurich Insurance Group – *Zurich Resilience Solutions*

Broker Innovation of the Year
Howden Insurance Brokers, *Replexus, Mitiga, Danish Red Cross – Danish Red Cross volcano cat bond for disaster relief*
MDS Group – *Digital Transformation Program*
Marsh – *Claims Solutions, Marsh Advisory*

Systemic Risk Solution of the Year
FM Global – *Building a Climate Resilience Strategy*
Pool Re – *Pool Re*
Zurich Insurance Group – *Zurich COVID-19 Hospitalization Supplemental product*

Global Programme Innovation of the Year
AIG – *Implementation of a Global Integrated Risk Management Programme*
Swiss Re Corporate Solutions – *International Programs PULSE & Network*
Zurich Insurance Group – *Zurich Global Program Support (GPS) Tool*

Technology Innovation of the Year
Keoghs – Kuarterback – *artificial intelligence automated claims solution*
Origami Risk – *Origami Risk's Risk Management Information System*
Wenalyze – *Wenalyze*

Claims Innovation of the Year
Charles Taylor – *Charles Taylor Assistance*
Davies – *Virtual Adjusting Technology*
LMA and Advent Insurance Management – *Gemini Expert Management & Settlement System*
Zurich Insurance Group – *Claims Build Back Better Initiative*

TRAINING AND EDUCATION EXCELLENCE

Training and Education Programme of the Year
BELRIM Academy
Risk Hub, Senscia
Willis Towers Watson Training Academy Team

EUROPEAN RISK MANAGEMENT AWARDS 2021

The European Risk Management Awards have recognised individual and team achievements in the field of risk management and its associated service providers since the first ceremony took place in 2016.

The aim of the Awards is to promote the vital work of the risk management community to a larger audience, celebrating the success of the individual while acknowledging that individual merit depends ultimately on a collective contribution.

Judging has taken place and we are delighted to announce the finalists for this year's Awards programme! Good luck to them all.

Join us at the Awards ceremony on 14 December – more information announced soon!

Look online for more information.
www.europeanriskmanagementawards.com

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ZURICH

Captives on the rise in Asia

The captive sector is experiencing a boom time as the hard market bites and companies look at alternatives to the traditional insurance market. While Asia has had a relatively small captive market to date, it is seeing considerable growth and interest, says *Tony Dowding*

There has been a surge in special purpose reinsurance vehicles in Singapore

Statistically, Asia represents just a fraction of the captive market, both in terms of domiciles and captive numbers/premiums. Certainly compared to the US and Europe, the captive solution is relatively uncommon, for a number of reasons including culture, regulation and market dynamics.

But growing acceptance of risk management, emerging risks and globalisation have all led Asian companies to increasingly look at options such as captives. Many Asian corporates have risk managers or chief risk officers and are looking to effectively manage risks and captives undoubtedly fit into such a strategy. And as companies become more global, the captive solution fits well into a global insurance programme.

And of course, the hard market, combined with emerging and changing risks, means that the traditional insurance sector is no longer seen as meeting all the requirements of corporates. And captive managers and fronting insurers in the region are reporting growing interest in captives.

Captive growth

There has been a marked increase in the establishment of captives and cells, and perhaps even more prevalent is the increased use of existing captives in Asia, according to George McGhie, managing director, captives Asia-Pacific, Willis Towers Watson (WTW). He says in Asia acceptance has varied across countries, due to the wide range of economic, regulatory and cultural environments, but WTW is seeing a significant increase in interest from a number of countries. He notes that WTW experienced a

major increase in interest from Australian clients beginning about two years ago, which has continued to develop.

Marsh saw a 25% increase in owners of captives from the Asia-Pacific region in 2020. Stuart Herbert, captive solutions leader, Marsh Asia and Pacific, points out that this is largely wholly owned captives but there is strong interest in cells as well. Total captive revenue and net assets for clients managed by Marsh in the Asia-Pacific region have grown by approximately 55% and 24% respectively, he says.

Aon too says it has received an increase in captive insurance interest across Asia, including from China, India and Japan. Alastair Nicoll, regional director, captive and insurance solutions, Asia-Pacific, Aon, says: "We are establishing new captives in Singapore, while we are seeing cells are popular with Australian clients. There also has been a surge in special purpose reinsurance vehicles in Singapore and special purpose insurers in Hong Kong with new Asian catastrophe bonds."

Captive fronters are also reporting more interest. Ben Vale, head of multinational, APAC, AIG, notes a growing interest in the concept of captives in the Asia-Pacific region, with an increasing number of enquiries during the past 18 months a key indicator, largely as a result of the current hard market conditions.

"However, acceptance is a very different dynamic and interest can quickly wane once brokers and insureds understand the organisational commitment of entering into a captive arrangement," he says. "Often, initial enthusiasm decreases once there is greater understanding of the associated challenges, such as the initial feasibility study, ongoing management costs and capital commitments, particularly where short-term insurance spend reduction is the key driver, as opposed to a medium- to long-term risk management strategy."

He continues: "In this sense, the acceptance of captive structures in Asia-Pacific still seems to lag behind some other regions. Greater knowledge sharing with respect to captive options, benefits beyond price considerations and developing a clear understanding of the role a captive can play in an organisation's overall risk management strategy will be key to growing acceptance. But Asia-Pacific does have many established captives, which points to long-term acceptance once the benefits, potential challenges and fit with corporate risk management strategy are understood and supported."

John Bang, head of country desks, Asia and captive lead, Singapore, Zurich, agrees: "The captive insurance sector in Asia is relatively small but has potential for significant growth, with high interest and enquiries. While a global broker has reported a 24% increase in the number of captives it manages in APAC in the past five years, most of the growth comes from Australian middle-market corporations and a lot of associated services remain in Australia. While it is a compelling concept, we have yet to see momentum in the use of cell captives as they are still a new concept in Asia, and most existing and new captives are wholly owned."

Ben Vale notes a growing interest in the concept of captives in the Asia-Pacific region, with an increasing number of enquiries during the past 18 months

Captive growth in Asia has been robust, albeit coming off a small base, supported by a hardening market and regulatory easing, particularly in Hong Kong, says Christie Lee, senior director – analytics, AM Best. She says that within Asia, new captive formations in 2020 were largely from the Labuan International Business and Financial Centre (Labuan IBFC) and Singapore. She adds another observation – an increase of Japanese-owned captives moving to Asian domiciles like Singapore, Labuan and the Federated States of Micronesia, although Hawaii has traditionally been a hub for Japanese captives.

Shiwei Jin, global programmes and captives regional director, APAC, AXA XL, says captive growth is driven by both a strategic risk management need and a tactical solution for navigating the changing market environment. She explains that the pandemic has fostered a more holistic and increasingly important risk

management philosophy in the region, noting that multinationals' risk management teams are taking the centre stage to actively engage in matters critical to enterprises' resilience and have a much stronger connection and better visibility with c-suites, boards of directors and key functions across the organisation.

She adds: "Our Asian captive community has been expanding in the last five years and the ecosystem for captives in the region is developing too. Thanks to the strong push from Asian domicile regulators such as the Labuan IBFC, Parmia and other risk management associations, captive consultants, insurers and other support systems, captive prospects now have better understanding of the concepts. They also have access to growing resources and support to explore a potential captive roadmap and/or to seek senior management and board approval."

Leading domiciles

Singapore has long been the leading domicile, with captive regulations dating back to the early 1980s. It continues to lead in captive numbers and premium volumes and its insurance-linked securities (ILS) offering is now well established. The other major domicile is Labuan, which was established as a captive domicile in 1990 and has the unique ability in the region to allow the establishment of protected cell company (PCC) facilities or structures. Hong Kong is looking at establishing a leading role for Chinese-owned (and other) captives, and has established an attractive ILS offering, while the Federated States of Micronesia remain popular with Japanese companies.

AXA's Ms Jin says that a major domicile development in Asia is the Gujarat International Finance Tec-City (GIFT) in India. It has established itself as a captive domicile for Indian-headquartered companies to form pure captives to write risk for a company's Indian-based exposures only. "This is groundbreaking for the Indian captive industry after a long wait for captive legislation. It is great news for Indian companies that want to set up captives for its Indian risks," she explains.

Ms Jin says it is particularly complicated for Indian risks to be exported offshore due to reinsurance restrictions, and adds that a few Indian companies are already looking into captive formation in the GIFT, "so it is definitely a captive domicile to watch".

Asia-specific captives?

In recent years, there have been a number of closures of captives around the world as a result of M&As or restructuring. Companies have moved away somewhat from having multiple captives, but are global companies now looking at having a separate captive for APAC risks, domiciled locally?

It would appear that there are some companies that seek to have their risks held more regionally to be more responsive to the local needs, generally using cell captives. Captive managers say they have some clients with a Singapore captive and another for example in the US. WTW's Mr McGhie says that multiple captives are more often driven by different regulatory needs, for example a US captive for domestic employee benefit business, alongside a Singapore captive for global programmes.

AXA's Ms Jin says they see a trend of global companies looking at having a separate captive for APAC risks domiciled locally, and at the same time Asia-headquartered companies looking to redomicile their captives from traditional offshore territories like Bermuda or Cayman Islands to Asia domiciles.

HONG KONG LOOKING TO RE-ESTABLISH ITS CREDENTIALS

Hong Kong is looking to re-establish itself as a captive domicile after years of stagnation. Its first captive was formed more than 20 years ago but has since failed to live up to expectations. But recently, the Hong Kong Insurance Authority (IA) has made moves to improve the situation, and Aon's Alastair Nicoll says: "From our initial review of the new proposals, it would appear to be a strong change for the better and a reduction in the perceived obstacles to doing business in Hong Kong."


Shiwei Jin

Chris Lim, senior financial analyst, AM Best, says Hong Kong will continue to remain an attractive captive domicile for Chinese enterprises as it is geographically closer to home, as well as politically and economically tied to the mainland. "The IA has introduced many incentives to attract companies to set up captives in Hong Kong, such as lower minimum capital requirements, a less stringent solvency margin, as well as tax benefits. The IA also proposed to expand the scope of insurable risks of captives in Hong Kong to meet the risk management needs of multinational companies, as well as to develop a competitive captive domicile, and is now working with the government to prepare a new ordinance," he says.

AXA's Shiwei Jin notes Hong Kong's Insurance (Amendment) Bill 2020 was passed in July 2020 and seeks to expand the scope of insurable risks for captives. "This Bill enables captives to provide wider risk management coverage on the investments of their parent company, thus transforming Hong Kong into a preferred domicile for captives formed by state-owned enterprises from the mainland, multinational conglomerates and local corporates," she explains.

She adds: "In China, we note that the captive interest mainly comes from Chinese companies with overseas investments. The existing Chinese captives have showcased to their peers the importance of captives in risk management for more transparency and stronger control of overseas insurance programmes. The overseas investment is a major driver for setting up captives, as the Chinese domestic market has not experienced the same hardening market dynamics like Japan, Hong Kong, Singapore and Australia in the region."

Marsh's Stuart Herbert is fairly confident about Hong Kong's prospects: "Hong Kong continues to position itself as the primary choice for Chinese-sponsored captives. And with some changes coming up, it does appear that Hong Kong is seeking to level the playing field and drive its niche. As more China-based sponsors look to establish captives and the changes in rules, this would make Hong Kong more viable, particularly for private companies looking to establish captives as well."

Zurich's Mr Bang notes that global companies are looking for innovative ways to improve their risk management and says that many multinational corporations in APAC are forming a separate European or North American HQ, which he says may be a sign of possible separation of captive domiciles. However, he warns that regulatory restrictions and "time crunch" are important factors that need to be addressed.

Broader risks

Captives have historically tended to focus on standard P&C risks but they are increasingly being used to cover a broader range of risks, including emerging or difficult-to-place risks. In Asia, Aon's Mr Nicoll says they are writing "nothing too exotic for now, although cyber risks, D&O liability and benefits are topics for discussion", adding: "Identifying and quantifying the initial risk classes for a new captive is essential and takes time to ensure the maximum benefits for businesses."

Other areas being explored by captives in Asia include professional indemnity, contingent business interruption and parametric solutions. Looking ahead, says AIG's Mr Vale, with much of the global trade infrastructure becoming more 'virtual', physical assets and traditional premises and product exposures are no longer the main risks faced by today's insureds in Asia-Pacific.

"Companies are exploring parametric insurance solutions via captive mechanisms for pure financial loss covers. As these types of requests become more frequent, they will continue to pose challenges for many captive domiciles in terms of how these products are viewed and the associated licensing requirements under each domicile's captive licensing regime," he says.

Traditional v innovation

Hard markets are traditionally a time when captives focus on traditional uses such as trying to alleviate the impact of increasing rates, getting better value for money, improved terms and conditions, and reversing exclusions. But with emerging risks, the impact of the pandemic and a growing focus on risk management in Asia, will there also be scope for an expansion in use for captives in other strategic areas?

"Over these more challenging conditions, we have seen captives reverting to their principal coverages – where they spend the most money," says Marsh's Mr Herbert. "Logically, making savings in your largest premium spend is more valuable than participating in other lines. However, it is important to note that for many clients, the conditions have increased other policies' spend and thus they become more 'interesting' for captive utilisation. The type of coverage still largely revolves around improving rates, removing 'hotspot' pricing points and ensuring coverage is fit for purpose and/or regulatory compliance for the businesses."

> **"Captives can be a key part of an integrated risk management strategy for organisations as emerging risks call for more flexible and customised solutions"**
> *June Wang, AM Best*

WTW's Mr McGhie says it is not an either/or question. He believes the difficult market for traditional risks has increased clients' focus on the value of their captive and enabled a broader conversation about use in less traditional ways.

"A captive provides a client with a formal, licensed and regulated means to value and finance retained risk, and access a wide range of risk transfer arrangements. These principles apply to any class of risk and writing a range of risks in a captive helps spread the risk exposure of the company, and opens the possibility of multi-line, multi-year reinsurance programmes, which can also spread risk forward over time," he says.

Clearly, much depends on the captive's owner and the attitude towards risk management of the parent company. "Less risk-mature companies are typically looking for a quick fix for an existing problem like higher pricing or less capacity, while more sophisticated buyers already utilise their captive(s) widely across the whole spectrum of their insurable risks, often building their main programmes around the captive's strong balance sheet," say's Aon's Mr Nicoll.

June Wang, associate financial analyst, AM Best, believes that captives form part of the solution as the market hardens, "and provide risk managers with a greater value proposition to optimise risk retention from reinsurance, as well as narrow coverage and capacity gaps", adding: "Captives can be a key part of an integrated risk management strategy for organisations as emerging risks call for more flexible and customised solutions."

There may be a way to go before Asian captives start truly looking at alternative solutions and broader uses for their captives. Zurich's Mr Bang believes that while the demand for non-traditional solutions such as extended warranty and product recall are high, there is insufficient expertise in the Asian market and a lack of a simple-enough solution for corporations to make the final decision. "Once there is a simpler and faster innovative platform backed by new regulations, customers are likely to respond faster to the new solution," he says. "More c-suite engagement is needed if the captive market is going to get meaningful traction, be it traditional or non-traditional."

Taking a global approach to the hardening market

The hard market in Asia-Pacific, as in the rest of the world, is seeing increasing rates but which lines are the most distressed, where is capacity reducing and what does this all mean for global insurance programmes?

***Tony Dowding*, editor of *Global Risk Manager*, spoke to several of the leading multinational insurers and brokers to consider some of the issues relating to the state of the market in Asia-Pacific.**

Participants

Maria Kuznetsova, head of Zurich international programmes, Asia market

Marc Breuil, president, Asia Middle East, Berkshire Hathaway Specialty Insurance (BHSI)

Liam Burrell, head of client and broker engagement for Asia-Pacific at AIG

Adam Russell, retail placement leader, Marsh Asia

Christine Wee, chief underwriting officer and head of accident and health, Singapore, Zurich Insurance

Cherry Gao, vice-president, customer and broker engagement, BHSI

How would you describe the pricing environment in Asia for multinational companies and their global programmes/specialty covers?

Maria Kuznetsova (MK): In line with global markets, Asia is also seeing an increase in rates for specialty programmes. However, some geographies are lagging as associated local carriers endeavour to soften the impact – a delay rather than avoidance. Examples are South Korea, Hong Kong and the People's Republic of China.

Adam Russell

Adam Russell (AR): The pricing environment is arguably the most pronounced in the large multinational client base. Their diverse geographical footprint presents potential catastrophe exposures that insurers are focused on achieving adequate pricing for. The concentration of the marketplace for clients in this space does mean that clear risk differentiation and a dedicated risk management plan play an integral part in achieving a renewal outcome.

> "Clear risk differentiation and a dedicated risk management plan play an integral part in achieving a renewal"
> *Adam Russell, Marsh*

Marc Breuil (MB): Except for executive and professional lines, Asia P&C remains highly commoditised in the region. Pricing is still

competitive and capacity is generally not an issue except for more complex risks, particularly those with North American exposures and/or poor loss histories. For first-party lines (property, energy, construction), customers with exposures in high nat cat zones and territories have been more impacted by price increases and reduction in capacity.

Liam Burrell (LB): The pricing environment across Asia-Pacific remains in a hardening phase of the cycle, aligned with the global trend, although there are signs this is moderating. In Asia, we have experienced some of the lowest rate increases globally as part of this cycle, while Australia and New Zealand experienced some of the most significant rate increases globally. Naturally this varies further by country and line of business. Companies with global/multinational programmes (master-controlled or decentralised) will have experienced this hardening trend throughout Asia-Pacific in their recent renewal cycles.

Which lines are the most distressed in terms of rates and terms and conditions?

AR: As we move through Q3 in 2021, financial and professional lines including D&O and cyber insurance are the most challenging. Cyber insurance has seen a dramatic increase in pricing and a tightening of terms and conditions throughout 2021 as a result of losses and capacity constraint. Property rate movement has moderated through the first two quarters of the year. We see this trend continuing through the rest of the year, absent of major loss activities.

Christine Wee (CW): For many years, most lines of business were operating at breakeven and the current trend of hardening terms and conditions helps correct such stressed performance and moves lines into more sustainable modus operandi long term. Increased cost of servicing and commissions continue to be pressure points.

LB: The most impacted lines in Asia-Pacific are Australian D&O and Australian property. Casualty and cyber are impacted throughout Asia-Pacific, with the latter being driven by the global impact of the dynamic ransomware environment.

MB: Executive and professional lines are the most distressed globally in terms of both rates and coverage. US-exposed casualty, D&O and cyber are continuing to see large increases in rates and/or restrictive coverages, due to social inflation in what is the most litigious environment in the world.


Liam Burrell

Is capacity an issue or are there signs of new capacity entering the markets?

LB: Capacity has unquestionably reduced through the hardening cycle but has started to stabilise and become more predictable. The notable exception to this is cyber, which continues to evolve rapidly. The question clients and brokers need to address more frequently today is around the quality and composition of the capacity for their large/complex programme placements. We do see some niche capacity entering the market and some existing capacity repositioning for growth, but overall capacity remains tight.

AR: There has been new capacity generated throughout the last 12-18 months, broadly out of London and Bermuda and with focus on the US market. The cyber market continues to see a supply-and-demand disconnect, with many clients needing to actively reassess their risk tolerance levels as capacity levels fall short.

MK: Capacity deployment is currently being reconsidered by insurers for many renewals, but brokers have been largely successful in finding the required capacity in local markets. Also, new capacity is expected to be added via models such as MGAs and facility arrangements.

MB: Capacity remains available for vast majority of the general insurance products, barring the exceptions I mentioned before such as executive and professional lines.

> "Casualty and cyber are impacted throughout Asia-Pacific, with the latter being driven by the global impact of the dynamic ransomware environment"
> *Liam Burrell, AIG*

Has the global pandemic (and associated economic downturn) increased demand for global insurance solutions generally in Asia?

Cherry Gao (CG): We have not seen much uptake in traditional P&C global programmes in Asia. However, there is an increase of interest in medical stop-loss insurance in the region as the pandemic drags on. Companies are looking at alternative risk mitigation strategies as they look to provide more flexible and cost-effective employee benefits solutions to their workforce.

AR: The pandemic has certainly laid bare the fragility of the global supply chain that many clients rely on. Upstream suppliers have been impacted due to country lockdowns, causing significant impact to downstream in some respects. For example, the current global microchip shortage has seen far-reaching implications to a number of industries. We have seen a number of Asia-based clients look to establish a more globalised approach for their insurance purchasing, giving the clients greater consistency in coverage and also greater control of the companies' tolerance to accept or transfer risk.

LB: There has been a growing awareness of global and multinational insurance solutions in Asia-Pacific for some time. The pandemic and the associated economic downturn have occurred in a hardening insurance cycle, resulting in the insurance environment and the general economic environment being negatively correlated. This has led clients and brokers to review their global and multinational insurance solutions and programmes generally.

MK: The increased demand for global insurance solutions in Asia can be attributed to the risk management function getting stronger and carrying more weight within organisations' management teams. Insurance policies are being consolidated into global programmes for better compliance, control, convenience, cost and coverage.

Are multinational businesses based in Asia taking a more global, coordinated approach to insurance generally or has there been a move to a more local approach?

LB: With a growing awareness of the benefits that a global/multinational insurance solution provides, the trend is certainly towards a more coordinated global approach. Combined with the current insurance cycle, many multinational


Cherry Gao

businesses are further strengthening their central control of insurance purchases, not only to maintain visibility and management of cost but also to ensure that local subsidiaries are purchasing adequate coverage and limits that meet both parental/corporate and regulatory requirements. Both required cover and capacity may not be as readily available to each subsidiary entity individually in each local market as may have been the case in prior years, with a global coordinated approach seen as one way to manage these challenges.

MK: We have noticed a trend where global customers insure their Asian exposure under a newly-created regional programme with the master policy placed in Singapore. Customers hope to obtain more relevant terms in the current environment of hardening terms and conditions by doing so. More multinational companies are also setting up or moving their regional risk management functions to Singapore to have more control over their Asian insurance placement via the master policy in Singapore.

AR: Clients today are more connected than ever before. We have regionally-established risk manager associations, bringing greater awareness to clients around risk and ways to mitigate them. Brokers should be focused on delivering choice to clients. In this challenging market cycle, with pricing fluctuations based on catastrophe exposures and loss performance, we encourage clients to be open to all possibilities. Breaking up global programmes to ensure what is being delivered in 2021 still remains the most viable combination of coverage and pricing for the client. On the flip side, where there has been a decentralised approach in the past, seek

> "Companies are looking at alternative risk mitigation strategies as they look to provide more flexible and cost-effective employee benefits solutions to their workforce"
> *Cherry Gao, BHSI*

options to wrap product lines into a regional or global programme.

MB: Unlike the western hemisphere, insurance remains less integrated in risk management strategies in corporate Asia and is often handled and purchased on a standalone basis. As a result, companies are generally very cost-driven when it comes to insurance purchasing. It takes a coordinated effort and senior management commitment to set up a proper multinational programme – which is even more challenging during the current environment. Additionally, there is still a limited number of risk managers with an international remit who can be truly empowered to drive such initiatives.

Is there a rise in protectionism within Asia and how is this impacting multinational insurance programmes? Are insurance regulators in Asia taking a tougher approach on compliance?

MK: The regulatory landscape in APAC continues to evolve at a fast pace, so increased regulations remain a challenge for insurers. Insurers must continue to fully comply with insurance regulations and foreign insurer premium tax obligations for their international programmes.

AR: Within Asia there are a number of countries that have regulations in place to support the sustainable growth of their indigenous market, and this has been the case for a number of years already. Multinational clients are recommended to work with their brokers and to equip themselves with all the relevant information around these regulations, including premium taxes, to ensure their programmes are structured properly and are compliant. In Singapore, for example, we have seen the tightening of the use of unregistered insurance companies outside of Singapore. Lloyd's of London was exempt in the past, but will require MAS pre-approval from 2022.

CG: Multinational programmes have not really been a point of focus from a regulatory standpoint in the region. It remains a grey area in a lot of the existing legislative frameworks.

Marc Breuil

> "Insurance remains less integrated in risk management strategies in corporate Asia"
> *Marc Breuil, BHSI*

Australia experienced some of the most significant rate increases globally

The nuts and bolts of global programmes

Global insurance programmes are undoubtedly affected by macro issues such as the state of the insurance market, capacity and pricing, as well as protectionism, global and national regulations, trade sanctions and the like. But programmes are also complex, detailed and have their own distinct issues in terms of implementation and operation, writes *Tony Dowding*

Macro issues are discussed extensively in the media, various publications and numerous conferences and seminars. But there is less of a focus on the nitty-gritty, nuts and bolts of global programmes, which is perhaps why the recent virtual conference run by Commercial Risk, 'Global Programmes: implementation and operation', was attended by 800 delegates. That, and the fact that corporates are struggling with a global hard market, capacity withdrawals and emerging risks.

Sessions on topics from premium allocation to retention-setting, documentation and collection of information to resolving central versus local conflict, tackled the real issues affecting global programmes, with panels featuring risk managers, brokers and insurers.


Alexander Mahnke

Hard market responses

Of course, if you have risk managers and insurers on the same panel, then the hard market is obviously going to lead to straight-talking from all sides. The conference heard from risk managers that while a recalibration of the market may have been needed after a lengthy soft market, the lack of differentiation, and little recognition of risk management efforts, has eroded trust with insurers.

Alexander Mahnke, CEO insurance, Siemens, and chairman of the German risk manager association GVNW, said: "We want our insurers to earn money with the business they do with us. But doing this in an unsustainable way, not making profit over a long period of time, is not something that is good for the market, or insurers, and because we believe in long-term relationships, it is not good for us either, because it creates erratic behaviour."

Franck Baron, group deputy director, risk management and insurance at International SOS and chairman of Parima, said the problem is the lack of differentiation, and a lack of recognition of the value of long-term commitments, and a lack of value given to risk management.

Insurers pointed to 14 years of rate reductions and an acceleration of losses, but they did acknowledge that insurers should be valuing differentiated risk and differentiated risk management.

Captive solutions

The result of the hard market has been a growing interest in captives and other alternative risk transfer mechanisms. Corporates are also increasingly turning to captives as part of the solution to the problems of finding insurance cover for emerging and difficult risks, particularly financial lines and cyber risk because of the capacity crunch.

"Insurance isn't the panacea for everything that is happening at the moment. Some of the risks are generally uninsurable by their nature," said

> **"We want our insurers to earn money with the business they do with us. But doing this in an unsustainable way, not making profit over a long period of time, is not something that is good for the market"**
> ***Alexander Mahnke, Siemens***

one insurer. A risk manager agreed: "Insurance is not the miracle solution for us, it is just a tool."

Steve Tunstall, general secretary, director and co-founder of Parima, noted that a number of companies are specifically setting up small protected cell companies, with relatively low cost. "And they are basically doing it as a holiday," he explained. "So if insurers don't want to sell D&O cover to a company for a couple of years, then they will go and do it themselves in a cell captive until the insurer gets back to the pricing it is used to."

Compliance

One issue highlighted by the conference is the need for compliance. But this is becoming more and more complicated for multinational buyers, as protectionism is on the rise. Praveen Sharma, global practice leader, insurance regulation and tax at Marsh, said the laws change regularly, with a clear trend for protectionist and "insular" regulations around the world. He said the rules are therefore "not fit for purpose" for multinationals, creating "angst, anxiety and confusion" among insureds.

The conference heard that regulations are struggling to keep up with the rapid change in risk transfer solutions on offer. New products and covers with global application are being developed in response to emerging risks, but regulators find it hard to adapt regulations. At the same time, it is clear that regulators are focused on policyholders in their own territory rather than multinational organisations.

Communication and risk appetite key

On the nuts and bolts of global programmes, the conference panellists were generally in agreement that communication and collaboration were the key words for a global programme to be implemented and operated successfully.

This might be between the multinationals' headquarters and the local units, where it needs to be a two-way dialogue to ensure that conflicts can be resolved, especially in relation to retention levels and premium allocation. Or it might be between the insured and the insurer, particularly when it comes to documentation requirements and the collection of data.

With the hard market, the issue of retention levels has taken on even greater importance. Risk appetite has attained a much greater importance, and the issue of whether retention levels are putting the company at risk. The conference heard that risk appetite is key when it comes to setting retention levels.

And higher retentions can be used to encourage loss prevention and risk management, as the company and the units have "skin in the game" as one insurer put it. But the conference also heard that different risks may have very different acceptable retention levels, for example, auto versus natural catastrophe. And there appears to be growing use of aggregate stop-loss covers to support the central retention level in the event of an accumulation of smaller losses.

Praveen Sharma says compliance rules are 'not fit for purpose' for multinationals and are creating 'angst, anxiety and confusion'

MORE FROM THE GLOBAL PROGRAMMES CONFERENCE

All the sessions from the three-day conference are available to be viewed on the Commercial Risk website at: **www.commercialriskonline.com/on-demand/conferences-on-demand**

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- Resolving central vs local conflict
- Managing the claims
- Encouraging loss prevention: changing the culture
- Criteria for premium allocation
- Accident and health
- Steering the workforce through
- Setting retention levels
- How technology simplifies the process of structuring international programmes