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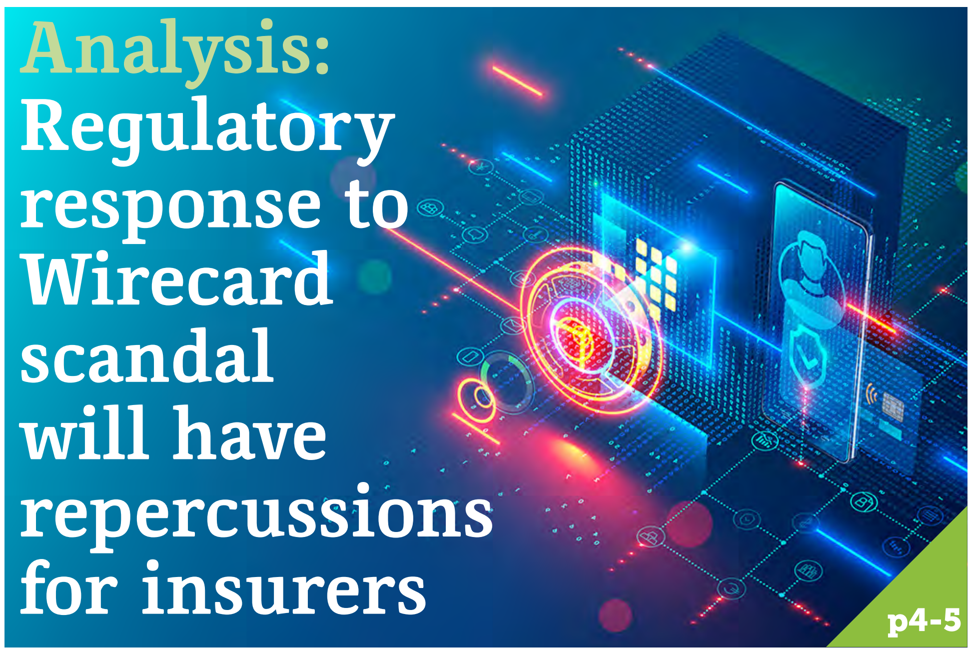
ISSUE 5,660

Lloyd’s mandates face masks in all public areas

p3

Analysis: Regulatory response to Wirecard scandal will have repercussions for insurers



p4-5

Analysis: Portfolio underwriting is central to the survival of the London market

p6-7

NEWS

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Insurance Day is the world's only daily newspaper for the international insurance and reinsurance and risk industries. Its primary focus is on the London market and what affects it, concentrating on the key areas of catastrophe, property and marine, aviation and transportation. It is available in print, PDF, mobile and online versions and is read by more than 10,000 people in more than 70 countries worldwide.

First published in 1995, *Insurance Day* has become the favourite publication for the London market, which relies on its mix of news, analysis and data to keep in touch with this fast-moving and vitally important sector. Its experienced and highly skilled insurance writers are well known and respected in the market and their insight is both compelling and valuable.

Insurance Day also produces a number of must-attend annual events to complement its daily output, including the *Insurance Day* London Market Awards, which recognise and celebrate the very best in the industry.

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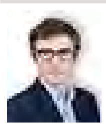
Genevieve to become major hurricane off Mexico

Forecasters expect an above-average Atlantic hurricane season in 2020



Lorenzo Spoerry
Deputy editor

A tropical storm watch was in effect for the southern end of the Baja California peninsula on August 17 with the approach of the rapidly strengthening Hurricane Genevieve.

Genevieve became a major hurricane yesterday.

The US National Hurricane Center expects Genevieve to remain a major hurricane until early on August 20, when it is likely to be centred just offshore near the tip of Baja.

On Tuesday, Genevieve was located about 360 miles south-southeast of the southern tip of Baja California.

Hurricane Genevieve off the Baja California peninsula on August 17

Tropical storm conditions are possible in southern Baja by the afternoon of August 19.

Meanwhile, forecasters said a disturbance near the Windward Islands has a 20% chance of developing into a cyclone by August 19, while a system in the central Atlantic has a 60% chance of becoming a cyclone.

Forecasters have predicted an above-average Atlantic hurricane season in 2020.

Ardonagh acquires Lloyd's-backed MGA Thames

Broking and managing general agent (MGA) Ardonagh Group has acquired Thames Underwriting, a specialist MGA in the construction, leisure and commercial sectors, *writes John Shutt, Los Angeles*.

UK-based Thames will operate under Ardonagh's MGA subsidiary Geo Specialty Group Holdings. The terms of the deal were not disclosed.

"As a strong brand with brokers across the UK known for its professional underwriting approach and hands-on service proposition, Thames is a great addition to Ardonagh's suite of MGA brands," Derek Coles, Ardonagh's chief executive of MGA binders and facilities, said.

He added: "With a proven track record and access to specialist schemes, facilities and bespoke products, Thames' team of highly experienced underwriters further bolsters the group's specialist MGA with Geo Underwriting increasing capability, particularly in construction, and greatly expanding on the breadth and depth of products we have to offer the UK's regional market, with a specific emphasis on independent brokers."

'As a strong brand with brokers across the UK known for their professional underwriting approach and hands-on service proposition, Thames is a great addition to Ardonagh's suite of MGA brands'

Derek Coles
Ardonagh

Thames has partnerships with a network of more than 600 independent brokers and operates a number of delegated underwriting authorities on behalf of Lloyd's and insurers including Allianz, Axa XL, Liberty and QBE.

In June, Ardonagh Group secured a £1.9bn ($2.51bn) financing deal to support its business expansion plans. The deal is made up of a £1.6bn unitranche loan and a £300m committed capital expenditures facility.

Fausto remnants fuel California thunderstorms and wildfires

The remnants of Tropical Storm Fausto, which developed off Mexico's Pacific coast last week, have spawned thunderstorms over California that in turn have sparked dozens of wildfires in the state, *writes John Shutt, Los Angeles*.

State officials began issuing red flag warnings for dry lightning across northern California on August 16, along with excessive heat warnings and heat advisories. On August 17 California's governor, Gavin Newsom, said the state is facing its worst heat wave in 70 years.

The US National Weather Service reported around 2,500 cloud-to-ground lightning strikes in the San Francisco Bay and the state's central coast in a 12-hour period on August 16. Wildfires have charred around 80,000 acres and damaged or destroyed dozens of homes and other structures.

Over the weekend the NWS issued a tornado warning after the Loyalton fire in the north of the state spawned a fire tornado.

NEWS

Lloyd’s mandates face masks in all public areas

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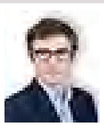
Corporation has redesigned its procedures to prevent the spread of Covid-19 when the Underwriting Room reopens on September 1



Lorenzo Spoerry
Deputy editor

Lloyd’s will mandate face masks in all public areas of One, Lime Street when the Underwriting Room reopens on September 1.

Lloyd’s chief executive, John Neal, said reception, lift lobbies and lifts, bathrooms, the coffee shop and Underwriting Room will all be areas where face coverings will be mandatory. Lifts will be limited to carrying two people at a time.

Lloyd’s has also tightened access procedures to prevent the spread of Covid-19.

For the time being, only Lloyd’s passholders will be permitted access to One Lime Street and must enter via Tower 1 or the main reception only. A temperature reader will be available in reception for voluntary use. Passholders are to exit Lloyd’s building via Tower 3 and Tower 5 only.

In a bid to maintain social distancing, Lloyd’s will be reducing its capacity to 45% and will be splitting its working week by class of business (see boxout).

Several areas remain closed, including the coffee shop/restaurant seating area, events and tours and meeting rooms.

Lloyd’s has installed screens at each of the underwriting boxes to enable face-to-face trading. Masks will not be required at the box.

Brokers will need to sit on the underwriting chairs alongside the underwriter, with a few exceptions where stools will still be in use. This will continue while social distancing guidelines remain in place.

Lloyd’s recommends brokers and underwriters agree in advance a time to meet, particularly since not all underwriters will choose to sit in the box.

In addition, brokers and underwriters will be able to connect to those outside the Underwriting Room via the digital booths located in the coffee shop. These booths are non-bookable and designed to be used for short periods of time only.

A “Connect Bar” will be created on the ground floor to allow market participants to receive training and assistance with virtual meeting platforms, tools and products. Faster Wi-Fi has been implemented on all underwriting floors.

A virtual underwriting room will be tested with a select number of firms before a wider release later in the year.

“Covid-19 has reinforced the need for the market to become more operationally resilient so it can continue to provide customers with products and services, whatever the circumstances,” Neal said.

“That is why we have taken this opportunity to accelerate the implementation of digital enhancements and technology to complement and connect with the best features of the physical Underwriting Room, as part of our Future at Lloyd’s ambition,” he added. “This includes significantly improving our digital connectivity within the Lloyd’s building, creating virtual meeting spaces, as well as building a virtual room that will enable brokers and underwriters to connect and collaborate online, alongside the physical trading environment.”

In an effort to combat the virus, Lloyd’s has enhanced cleaning procedures in the building. This includes a “fogging” in all areas of the building every 30 days to kill the virus. The fogging leaves all surfaces it lands on unable to be contaminated with the virus for up to 30 days. Lloyd’s recommends market participants clear their desk each day to protect files.

Lloyd’s has given a preliminary estimate for its own losses arising from the Covid-19 pandemic at $3bn to $4.3bn. This is on a par with the September 11, 2001 terror attacks and hurricanes Katrina, Rita and Wilma in 2005.

Willis Towers Watson has put Covid-19-related losses for US and UK insurers, including the London market, at up to $80bn.

Class of business rota

The working week will be split between classes of business to enable to market to place their own team’s return to the market.

Lloyd’s recommends booking appointments in advance as there is limited space for queuing in the building. Brokers and underwriters will be able to connect to those outside Lloyd’s via the digital booths in the coffee house.

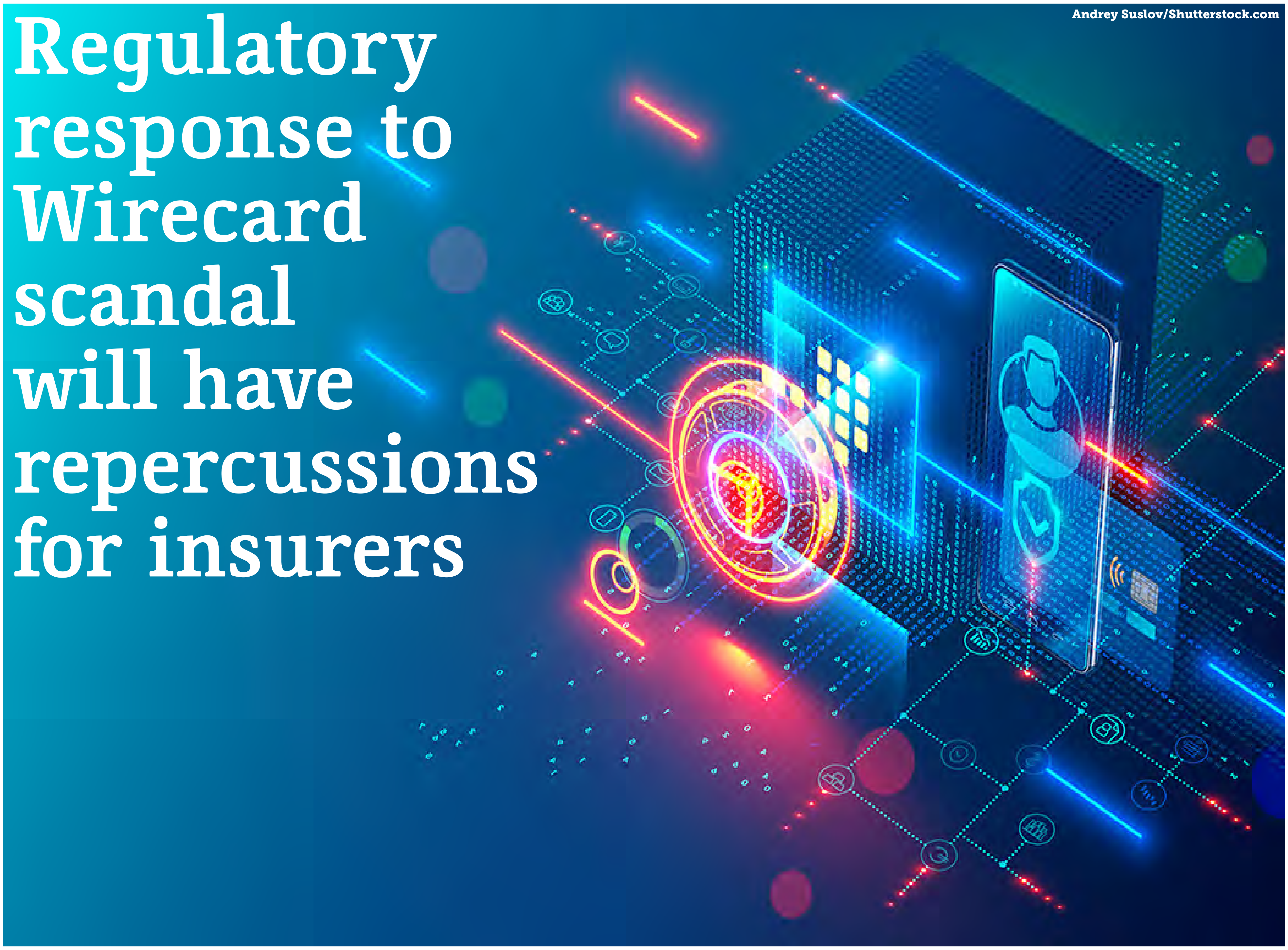
- **Monday:** first-party liability and casualty (ie, third party) including facultative
- **Tuesday:** property, terrorism, construction (ie, first party) including facultative
- **Wednesday:** marine and aviation
- **Thursday:** kidnap and ransom, accident and health, political risk, bloodstock, energy and reinsurance
- **Friday:** the Underwriting Room will be open for all classes

‘Covid-19 has reinforced the need for the market to become more operationally resilient so it can continue to provide customers with products and services, whatever the circumstances’

John Neal
Lloyd’s

ANALYSIS

Regulatory response to Wirecard scandal will have repercussions for insurers



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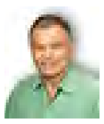
In today's regulatory environment, carriers cannot afford to be oblivious to the governance risks involved in digital payments and trading platforms



Rasaad Jamie
Global markets editor

The sharp rise in online financial fraud during the pandemic and the sudden collapse of electronic payments processor Wirecard in June, amid allegations of large-scale fraud and the arrest of the company's chief executive, have sent shockwaves around the financial world and further afield.

The alleged accounting malpractice and failure of compliance by such a large financial services provider such as Wirecard, which was also a fully licensed German bank, is expected to have significant repercussions for the banking and insurance sectors both in the short and long term.

There are also direct implications for the development of the electronic trading platforms envisaged by Lloyd's, a key element in the market's modernisation programme, in terms of the reliance of such trading platforms on the global e-payment sector.

The global payments ecosystem has undergone significant changes in recent years, with new solutions and providers entering the market almost daily, according to Oliver Werneyer, chief executive and co-founder of Imburse Payments, a payment services provider and connector that allows businesses access to the global payments system, regardless of technology.

Werneyer says while there are larger providers that cover multiple markets, a lot of the technology and the providers tend to cater to local markets and requirements, leading to massive fragmentation in the payments industry. "This has been a direct response to the changes in business models that emerged over the past decade and changing customer behaviour and payment preferences," Werneyer says.

"There is no sign this growth is going to slow down," he adds. "Quite the opposite."

Expansion

Given the pace of expansion, regulators have viewed the payment ecosystem with great concern for some time now and have tried to balance their responsibility to protect markets and consumers with avoiding stifling innovation. "This has been a nervous compromise for them in the past decade, always slightly favouring innovation and giving the industry a lot of leeway to grow," Werneyer says.

However, with the recent developments regarding Covid-19 and the Wirecard scandal, regulators

'With the intervention of the regulators and the change in their stances beyond just traditional cashflows comes a potential slowdown in the number of new solutions or providers, and a reduction in truly innovative technologies'

Oliver Werneyer
Imburse Payments

have suddenly become a lot more cautious. There is a renewed sense among regulators that innovation was given too much of a free rein and they now must take a more hands-on approach to protect all market participants. This does not mean no innovation will take place, Werneyer points out, but it will be more measured and, possibly, slower.

In the wake of the Wirecard scandal, new regulations governing payment services providers and e-money institutions are expected to have an impact on insurers, particularly ones with multi-product and multi-channel offerings and operations that stretch across several jurisdictions.

In the UK, the Financial Conduct Authority (FCA) has already raised concerns about the risk to customers. Indeed, the FCA was one of first regulators to act by suspending the operating licence of the UK subsidiary of Wirecard.

The sector is now subject to intense scrutiny and probable regulatory intervention by the FCA and other regulators around the globe. It is understood the FCA is already in the process of introducing new electronic payment processing requirements, which all businesses within the payment services sector will be obliged to act on, to enhance the protection of customers.

The challenge for the insurance sector is that these developments occur at a time when, according to Deb Smallwood, founder and chief executive of Strategy Meets Action (SMA), the pandemic has underlined the importance of digital platforms and payments to insurers and brokers in terms of the enablement of sales and the delivering of an enhanced service to policyholders. SMA is a North America-based strategic advisory firm, which work exclusively with the insurance sector on digital transformation.

In particular, the pandemic has accelerated a trend within the sector to transform inbound and outbound payments by moving away from physical paper checks and payments and creating digital experiences and virtual digital payment capabilities.

"Digital payments are crucial to delivering a highly tailored customer experience, as well as improved operational performance," she says.

To address the governance issues around e-payments, insurers will need to focus on building solutions that can connect easily with other service providers and build this into a real-time risk management capability for their business. Werneyer says information about the status of cashflows is a critical element of information that will allow insurers to anticipate, detect and scope the risk events and take quick action to avert, reduce or insure.

For example, a unified and standardised reporting capability, will not only empower insurers to manage risk betters, but will also evidence this and keep the FCA in the loop. "The opportunity of deploying in the cloud is not really a prerequisite to make this work, but contributes immeasurably to the scalability, security and reliability of these solutions, which is what most large organisations need," Werneyer says.

Governance risks

In the current regulatory environment, insurers cannot afford to be blind to governance risk and especially unforeseen risks. According to Werneyer, the FCA expect companies to be informed about the risk they are exposed to, keep a record of these risks and implement plans to reduce, transfer or insure the risk.

Insurers, therefore, will need to have this information at their disposal and be able to use it to assess and scope the risk and have a plan in place to mitigate these risks. "Showing the FCA is critical in any engagement with it and, in cases where things do go com-

'Digital payments are crucial to delivering a highly tailored customer experience, as well as improved operational performances'

Deb Smallwood
Strategy Meets Action

pletely pear-shaped, being able to show what has been put in place will be considered by the FCA in a positive light in terms of effort to avert," Werneyer said.

All carriers, from personal lines to large corporate risk insurers, are equally exposed. For example, the FCA does not really distinguish between the impact of its regulatory interventions on consumers and their impact on businesses. "The FCA's responsibility is to ensure an orderly and efficient market and to make sure that the various parties are protected. The FCA's recent interventions are not necessarily reflective of a consumer focus, but rather that it is consumers that have been affected by certain market failures and thus need to be protected further. Consumers are just more likely to want and adopt newer, untested solutions, and thus are more likely to end up in situations where they need regulator support or protection," Werneyer says.

Looking ahead to the next three to five years, Werneyer sees a clear trend of regulators taking a much tougher stance in the global payment space. He anticipates that the requirements for new entrants will be higher, new disclosures and reporting on existing providers will become more onerous and the speed of intervention will increase.

As Werneyer sees it, the impact on Lloyd's and the London market are limited at the moment. These markets, he says, are slow in adoption and always concerned about scalability, security and reliability, which normally excludes new solutions for a significant period from serious consideration or deployment.

"This means it is unlikely the Lloyd's or London market companies have deployed anything too new in terms of payments providers or new technologies that might leave them exposed," Werneyer adds.

Now, while this might sound like good news, it is not, he argues. The fact the industry was slow to adopt new processes and technologies is not a moment of celebration, rather a moment of reprieve. "With the intervention of the regulators and the change in their stances beyond just traditional cashflows comes a potential slowdown in the number of new solutions or providers, and a reduction in truly innovative technologies," he says.

The other challenge Lloyd's and London market insurers with their global outlook have to consider is the number of regulators that govern their activities is already quite high and possibly increasing. And these regulators do not tend to all think the same way, Werneyer says.

This means processes and technologies that are acceptable in one jurisdiction might not be in another. "Insurers that are truly multi-product, multi-channel and cross-jurisdiction also need to think multi-provider to be best equipped to adhere to all the regulatory requirements. This requires a rethink of how companies are built. Only then will they be able to recapture the freedom to choose, deploy and grow regardless of the stance or guidelines from regulators," Werneyer says. ■

Wirecard's collapse amid allegations of fraud is likely to see regulators increase scrutiny of e-payment firms
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ANALYSIS

Portfolio underwriting is central to the survival of the London market

A portfolio approach to underwriting can provide the rigorous risk analysis and sustainable returns required to enhance the London market's competitive position, a new study suggests

Richard Clarkson
Willis Towers Watson

Strong portfolio management is becoming an increasingly important tool in the London market to deliver underwriting profit, according to a study published by Lloyd's and Willis Towers Watson.

Good active portfolio management allows insurers to systematically improve the different parts of their book; it means they can fix issues, prevent new issues and work towards outperformance.

Our research shows the top-quartile performers in the benchmarking study had, on average, a loss ratio of 56% and a combined operating ratio of 98%, compared to an average of 103% across all Lloyd's participants[1]. Bottom-quartile performers, by contrast, had a loss ratio of 65% and a combined operating ratio of 106%.

Lloyd's and Willis Towers Watson conducted the study of senior executives and underwriters in the London market to better understand the impact of portfolio management on business performance, which included Lloyd's market organisations representing 75% of Lloyd's gross written premium[2].

Portfolio management improves execution capabilities on underwriting results (especially as investment income declines through low yields)

Modernisation challenge

First-class underwriting performance is a critical foundation upon which Lloyd's strategy to build the world's most advanced insurance marketplace is based. The highest underwriting standards are essential to protect customers, the market's reputation, the Central Fund and Lloyd's credit rating, as well as ensuring the long-term sustainability of the Lloyd's market.

When seeking to improve performance, it is important to recognise underwriting is more than risk selection and pricing. It requires a comprehensive set of capabilities across hard and soft skills, at the heart of which is rigorous portfolio management.

Portfolio management improves execution capabilities on underwriting results (especially as investment income declines through low yields). It overcomes the operational fragmentation that is still typical in carriers. It improves allocation of the portfolio as capital moves towards quality, reducing cost of capital relative to peers. It creates confidence about which adjacencies to move into and when and it protects insurers against macro value chain compression trends.

Despite this, relatively few companies have looked in depth at what constitutes best-in-class portfolio management and what advantages there are to adopting best practice. This is particularly relevant for underwriting, where the roles are evolving to become more rounded, managing portfolios rather than being just single-class specialists.

Boosting performance

We consider there to be three strategic drivers affecting the London market today: performance remediation, market modernisation and culture, including skills needed in the future. Portfolio management is a critical capability that operates across all these drivers and will become even more important as insurers move to adopt new business models as the market modernises.

As the needs of clients evolve and company boards look for partners to help them navigate and manage complex risk issues, strong and mutually beneficial relationships become increasingly important. The long-term finan-

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ANALYSIS

cial health of the market brought about by sustainable returns over time, achieved via careful portfolio management, will help insurers invest in and respond to the challenge of enterprise in today's complex risk environment.

Furthermore, as a market, we need to have skilled individuals who know how to interpret and then drive action in their businesses, and those same businesses need to be able to identify and develop this talent. Raising the focus and improving how we all execute portfolio management across our market is increasingly essential in how we run our businesses and develop our plans for the future.

Portfolio management supported by more accurate data makes a huge difference to today's market. Going back over the past 20 years, this most recent set of renewals would have seen blanket market pricing across various business lines versus what we have today, which is very specific pricing to each client depending on loss record, portfolio composition, strength of management team and broader corporate relationships.

Every organisation has a different starting point in its journey. The report findings will hopefully benefit Lloyd's market participants by describing what constitutes a strong portfolio management capability.

Good active portfolio management is more than being able to react quickly to emerging issues within a book of business. The best practitioners are forward-looking, but use the past to inform and influence decisions and are proactive in looking for new opportunities and threats. ■

Richard Clarkson is head of London market consulting at Willis Towers Watson

1) The average loss ratios and combined operating ratios are based on the 2018 calendar year and have been weighted by gross written premium. The overall (weighted) average combined operating ratio across all Lloyd's participants was 103%.

2) Excluding special-purpose arrangements, special-purpose syndicates, life syndicates, reinsurance-to-close syndicates and monoline syndicates.

What 'good' portfolio management looks like

In the study, 72 attributes of portfolio management were identified and used to create an overall performance index. For participating Lloyd's syndicates, this performance was compared to their 2018 profitability (based on publicly available data), helping to establish a clear link between good portfolio management and the likelihood to deliver sustained underwriting profit.

The 72 attributes were then grouped into 12 categories under three key dimensions: granularity, agility and coherence. The study identified six of these categories as particularly significant for outperforming organisations that have successfully developed an effective portfolio management framework, which are the areas we recommend other insurers should also focus on:

- **Granularity:** respondents from outperforming companies reported this was done well or very well. There is a higher level of confidence in Lloyd's syndicates with more than £500m in gross written premium compared to other outperformers in this category.
- **Data and technology:** outperforming companies reported they were very satisfied with their existing tools, aside from the use of data science for unstructured data. But they were confident in its improvement.
- **Spreadsheets:** outperforming companies had limited reliance on spreadsheets. Syndicates with more than £500m gross written premium had slightly less reliance than smaller syndicates.
- **Plan testing:** outperforming companies expressed confidence in robust plan testing and satisfaction in scenario modelling.
- **People skills:** outperforming companies do well or extremely well in developing portfolio management skills and are satisfied in the level of skills in their businesses. They are also confident in further improvement in two years. Lloyd's £500m-plus gross written premium syndicates are generally more confident.
- **Speed:** £500m-plus premium syndicates can identify and respond to issues within a day to a fortnight, with impacts seen shortly after. Smaller syndicates respond within a fortnight. Younger syndicates are also faster, dependent on size again.

Portfolio managers and portfolio management functions are responsible for the speed of response in identifying issues through to a successful remediation. Our survey shows there is a wide range of capability in the London market in this respect. Only a quarter of respondents said they could deploy a solution to a business issue that has been identified by portfolio management within two weeks, and then see a result within a month. ■