

MARKET

FOR BESPOKE INSURANCE SPECIALISTS

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DETAIL

F1 teams turn to the
Lloyd's market for
insurance solutions
that are as finely
tuned as their cars





FROM THE EDITOR

WELCOME TO THIS ISSUE OF MARKET

Lloyd's reputation for taking on highly specialised risk is well known and nowhere is this better demonstrated than in the world of Formula One. For F1 teams, the inherent risk in transporting hundreds of people and many millions of pounds worth of equipment around the world safely and on time requires specialist solutions. Likewise, race organisers need to think about the safety of competitors, spectators and officials, as well as insuring against problems such as event cancellation.

This complex risk landscape means that the F1 industry turns to the Lloyd's market for the cover it needs. You can read all about it in our feature, which starts on page eight.

This September, we will remember the tenth anniversary of 9/11 and mark the lives of those who died in the tragedy. That day was also hugely significant for the insurance industry and the Lloyd's market in particular.

September 11 acted as a catalyst for reforms at Lloyd's, such as the establishment of contract certainty and the Franchise Performance Directorate. Our feature starts on page 14.

You will notice some changes to the next issue of *Market*. The magazine will have a fresh look and some new regular features – including your letters and emails. Please send your comments on this issue's features to shelly.ford@lloyds.com. Enjoy the issue.

Shelly Ford
Editor



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Lloyd's on track for SOLVENCY II implementation

REGULATION

Lloyd's has relaunched lloyds.com/SolvencyII, its Solvency II website. It is now easier to navigate and features clearer and more detailed information about the projects.

ONLINE TUTORIAL

Users can now take part in an online tutorial, which guides them through the evolution of the Solvency II framework, its structure and its implementation. The Chartered Insurance Institute recognises the tutorial and has accredited it for 15 CPD points.

MARKET COMPLIANCE IS CRITICAL

The successful implementation of Solvency II at Lloyd's depends on managing agents achieving Solvency II standards to ensure the FSA's approval of Lloyd's internal model. The team will continue to make sure that no one is left behind and will take measures to ensure this is the case.

Paul Appleton, Senior Manager of Lloyd's Market Finance, says: "Although, generally, good progress is being made towards compliance by the market, there are a significant number of agents that are behind where they need to be. Lloyd's will assess their positions in the autumn and, if necessary, apply prudential measures in respect of the 2012 year of account to drive accelerated progress.

"These measures are necessary, as we cannot allow the non-compliance of an agent or small group of agents to jeopardise Lloyd's securing internal model approval."

> MORE

lloyds.com/solvencyII

GETTING HACKER-PROOF

LLOYD'S NEWS

At the start of the year, *Market's* feature on digital risk revealed that 30% of businesses had experienced an attack on their IT network. Since then, the audacious hack attack on Sony has heightened fears among risk managers over the huge potential cost of data breach.

Sony's loss from the recent security breach has been estimated at £105m and, although that is at the high end of the spectrum, the average cost of a data breach in Europe in 2010 was still a not-insignificant £1.9m. And Sony is not alone; hacker attacks seem to be hitting the headlines almost every day.

CYBER CRIME ON THE RISE

Hostile cyber attacks on companies accounted for nearly a third of all UK data breaches in 2010 – up from about 22% the year before – and the incidents are becoming more expensive.

Market participants are increasingly offering products to help businesses deal with these emerging risks. CFC Underwriting, for example, offers a standalone cyber insurance product that includes cyber, privacy and social-media-related risks. The cyber part covers third-party liability and first-party losses, the cost of restoring data and even business interruption loss of revenue.

"Data represents a whole new world of liability risk," said Graeme Newman, a specialist MGA at CFC. "Businesses in Europe increasingly recognise that they must manage it in the same way as their other big liability exposures."

> MORE

lloyds.com/digitalrisk



Don't let them bite

PRODUCT NEWS

Many parts of the world are not sleeping tight. In fact, they face a growing bedbug problem. Infestations are on the rise, causing hoteliers, landlords and businesses major difficulties.

According to a recent survey by the US's National Pest Management Association and the University of Kentucky, one in five Americans has had an infestation or knows someone who has encountered bedbugs at home or in a hotel.

In response to the parasite's resurgence, Lloyd's underwriters have teamed up with insurance broker Aon and Global Excess Partners – an innovator in new insurance products – to develop a comprehensive bedbug insurance solution for travellers and the hospitality industry.

"Previously, the cost of bedbug elimination and replacement of infested property was excluded in property insurance policies," said Al Tobin of Aon. "Only hotels with loss-of-attraction coverage on their policies had any protection for lost business resulting from taking rooms out of service."

The new bedbug insurance policy will cover lost revenue resulting from fumigating rooms, as well as paying for the cost of eliminating the infestation. Individual property owners or large corporates, such as hotels or cinema chains, can purchase the cover.

Business or leisure travellers will also be able to purchase cover against the risk of bringing bedbugs home from a conference or overnight stay.

"Most people don't realise that they can bring bedbugs back from a hotel stay when on a business trip and infest their home," said Tobin. "The policy can be sold as corporate travel coverage or to individual travellers as an add-on to their travel insurance."

Unfortunately, bedbugs are more difficult to treat than cockroaches, ants and termites. They can live for a year or more without eating and are able to withstand temperatures from almost freezing to 50 degrees Celsius.

They are not known to transmit disease to humans, but their bites leave itchy welts and can cause an allergic reaction.

> MORE

lloyds.com/bedbugs

THIS ISSUE IN NUMBERS

£107M

The average budget of a Formula One team in 2010. For more, see our feature on F1 insurance on page eight

17 YEARS

Livestock underwriter Emma Stamper was just 17 when she took her first job in the insurance industry. She talks to *Market* on page seven

5,000

The number of hours given up by Lloyd's Team Challenges volunteers last year. See page 18 to find out how you can make a difference

1948

The earliest year that data on Lloyd's accounts is available in *Statistics Relating to Lloyd's 2011* (see opposite page)

THE NUMBERS GAME

LLOYD'S NEWS

Statistics Relating to Lloyd's 2011 is now available, with new features that make analysing the Lloyd's market easier than ever before.

The guide contains summary financial statements for all active syndicates and detailed statistics on Lloyd's capacity, premium income, loss ratios, membership, Lloyd's agents, syndicates, brokers and all major lines of business.

Analysis Manager Markus Gesmann and his team have added new features to the latest edition. An analysis page is now provided for each syndicate, giving a history of net and gross premium income, combined ratios, Lloyd's market share and key performance ratios by class of business.

"This additional information on each syndicate is really important," Gesmann said. "All the statistics are broken down by class of business. This enables the reader to get a much better understanding of the business and performance profile of syndicates."

Gesmann believes that the guide's easy-to-use format provides a powerful tool to analyse and compare syndicate performance. "Previously, one would have to switch between syndicate reports to make comparisons," he said. "Now it's all on the same page, so there's a level of transparency that wasn't there before."

Last year's edition had a relatively small claims section, which has been updated for the 2011 version. "We've added claims triangles that help

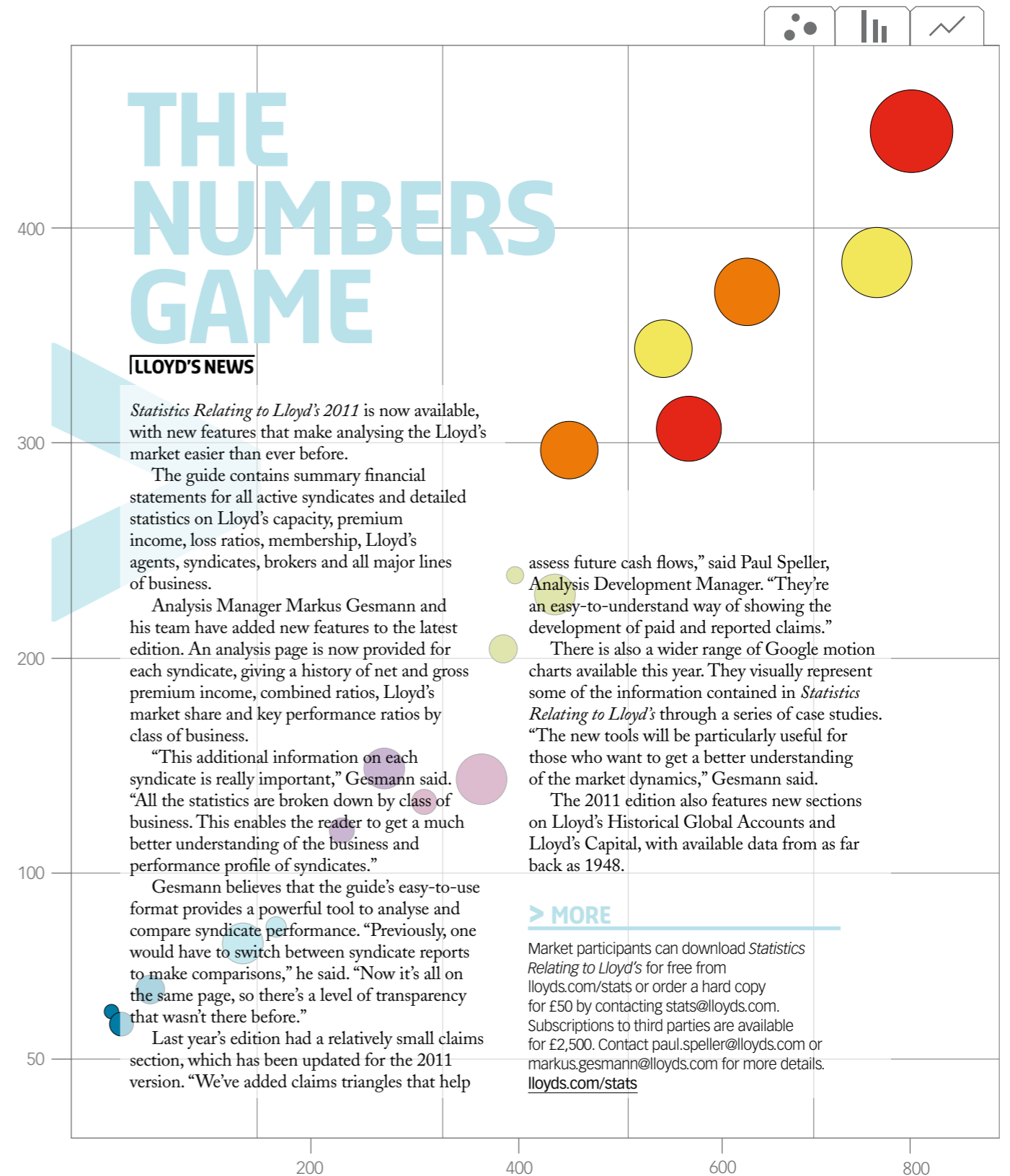
assess future cash flows," said Paul Speller, Analysis Development Manager. "They're an easy-to-understand way of showing the development of paid and reported claims."

There is also a wider range of Google motion charts available this year. They visually represent some of the information contained in *Statistics Relating to Lloyd's* through a series of case studies. "The new tools will be particularly useful for those who want to get a better understanding of the market dynamics," Gesmann said.

The 2011 edition also features new sections on Lloyd's Historical Global Accounts and Lloyd's Capital, with available data from as far back as 1948.

> MORE

Market participants can download *Statistics Relating to Lloyd's* for free from lloyds.com/stats or order a hard copy for £50 by contacting stats@lloyds.com. Subscriptions to third parties are available for £2,500. Contact paul.speller@lloyds.com or markus.gesmann@lloyds.com for more details. lloyds.com/stats





The new Market needs you

MAGAZINE NEWS

The next time you pick up your copy of *Market*, you will notice some changes to the way the magazine looks and feels. After conducting a survey of more than 400 readers – and conducting face-to-face interviews with selected underwriters and brokers – Lloyd's flagship magazine will respond to the needs of market members more than ever before.

As well as being redesigned from back to front, future editions of *Market* will need your opinion. The new-look magazine will, for the first time, feature readers' letters and emails, allowing your contributions and comments to be heard. If there is anything in this issue that you want to have your say about, then please get in touch.

Market would also like to continue to encourage readers to send in ideas for features or interviews. Whether it is an innovative new product, an industry issue that concerns you, or a case study that shows the London market at its innovative best, the magazine's editors will be happy to hear from you.

Keep an eye out for the new-look *Market* from the middle of November.

> MORE

Send your letters and comments to shelly.ford@lloyds.com



Welcoming the world

For Lloyd's, emerging markets in Asia, Latin America and other parts of the world are increasing in importance. In an effort to engage with these markets and promote greater levels of co-operation between London and Lloyd's overseas representatives, the International Markets team recently revamped its annual representatives conference.

According to Jose Ribeiro, Director, International Markets at Lloyd's (left), this year's conference looked beyond the Corporation.

"In the past, the reps conference has been a mainly internal event, with very little engagement with stakeholders and the market," Ribeiro said. "This year, for the first time, we opened up the conference to the market."

The second day of the conference – held on 27 and 28 June in London – was given over to a number of surgeries where managing agents and brokers could drop in and talk to Lloyd's experts.

In total, 32 delegates representing 24 territories travelled to London for the conference. "It was a great opportunity for our representatives to meet with brokers and underwriters who would not ordinarily be on their radar," said Kevin Reeves, Head of Operations, Lloyd's International Markets.

The conference included panel discussions on what the UK Government has been doing to help the market overseas. Government representatives said that they would welcome more interaction from individual brokers and managing agents.

EMMA'S ARK

Emma Stamper, Managing Director of Crowe Livestock, insures animals ranging from whales to chickens



Q. How did you become a livestock underwriter?

I started work in a livestock brokerage firm at 17 and worked my way up. In 1996, I set up Crowe Livestock, an underwriting agency based in Norfolk, because by then I had married a local farmer and the daily commute to London was too far.

Q. What do you love about your job?

There is a different challenge every day. Because each risk is unique, our policies are bespoke. I spend a lot of time travelling around the world meeting farmers to hear what their individual needs are and I love being able to create cover for them that didn't previously exist.

About 60% of our business is coverage for traditional farm animals, but we also insure more unusual ones, such as deer and crocodiles. Exotic aquatics, such as dolphins and killer whales, are an important part of our portfolio, while about 20% of our business is from insuring animals in transit, particularly high-value breeding stock.

Q. Are they expensive?

Bulls and cows can be extremely valuable because they have been bred over generations to develop high-quality meat and milk. Bulls are regularly valued at about \$250,000 but can be worth up to \$1m. Dolphins are \$500,000 and killer whales can cost up to \$10m.

Q. What's the most unusual risk you've underwritten?

We insure zoological shipments every day, so nothing is unusual – think of an animal and we've probably insured it!

Q. What about the conditions in which they are shipped?

Animal welfare is at the heart of what we do. Every risk we underwrite must meet our standards for the treatment of animals. The majority of our underwriters and claims team members have a degree in animal sciences and our company is a member of all the major worldwide animal transportation and welfare groups.

Q. What is the biggest change you've seen in the livestock business?

The size of farms has grown massively. Fifteen years ago, an average dairy farm size was about 400 cows; now there are farms of more than 40,000. This is a reflection of the challenges facing governments, farmers and investors to feed our ever-expanding population, no matter how remote or harsh the climate. Within the next five years, Vietnam will have the largest dairy farm in the world. Who would have thought it?

Q. What is the advantage for your business of being at Lloyd's?

Lloyd's worldwide licences have allowed us to expand into 42 different countries. It is the best underwriting platform in the world, as far as we're concerned. Without its global reach, we would have been very restricted.

Crowe has been part of Amlin since 2009. This has furthered our relationships and capabilities not only within the Lloyd's marketplace, but also with other underwriting platforms around the world. **M**

> MORE

crowelivestock.com



RISK AROUND EVERY CORNER

Formula One relies on the Lloyd's market to cover its high-octane thrills

WITH ITS HEADY mix of glamour and risk, Formula One is one of the premier events in international sport. However, planning and preparation presents many challenges for teams and organisers. They must move high-value, cutting-edge equipment quickly between far-flung locations, while at the same time ensuring the safety of everyone involved.

This can be a real headache for organisers, but for Lloyd's, considering and underwriting this sort of risk is all in a day's work – and has been for the past 20 years.

CULTURE OF SAFETY

"Formula One is a quality global brand that attracts big-name sponsors and hospitality to Grand Prix in some 19 countries," says Karen Ellis, Managing Director of specialist Lloyd's

PHOTOGRAPH/ Kevin Necessary, Gallerystock



motor sport broker Ellis Clowes. "With so much at stake, risk management has to be spot on."

"The strong culture of risk management and safety in Formula One clearly makes the sport attractive to Lloyd's underwriters," says Richard Rainbow of broker Jardine Lloyd Thompson. "All elements are included, not just the safety of spectators but the safety of the competitors and everyone else taking part."

The biggest exposure for race organisers remains the crowd. Fast cars and their close proximity to spectators make motor sports relatively risky, but protecting drivers and spectators is paramount and the improved accident record for Formula One has borne this out. Despite the significant improvements in track and car safety, however, catastrophic accidents are still a possibility.

The most serious accident in motor sport history was the death of 83 spectators when debris from a crash flew into the crowd at the 24 Hours of Le Mans motor race in 1955.

BAHRAIN AND JAPAN ELEVATE CANCELLATION RISK

The postponement of the Bahrain Grand Prix and recent natural catastrophes have raised awareness of the risk of cancellation in sport

This season's opening Grand Prix in Bahrain, which was called off because of ongoing civil unrest in the country, was not insured at Lloyd's. However, political risk insurance is available for sporting events and demand is expected to increase.

The main cause of cancellation is typically related to weather. For example, torrential rain shortened the Malaysian Grand Prix in 2009 and threatened it again in 2010. Last year's volcanic ash cloud also

led to the postponement of the Japanese Motorcycle Grand Prix, as many teams were unable to travel to the race.

The recent earthquakes in New Zealand and Japan are also a reminder that natural disasters can lead to events being cancelled. This year's Japanese Motorcycle Grand Prix, for example, was postponed for the second year in succession because of the quake and subsequent tsunami.

Race organisers, governing bodies, sponsors and hospitality companies already buy event cancellation insurance for a number of Formula One Grand Prix. Transmission failure insurance is also available at Lloyd's to cover broadcasters' lost revenues

"The high-risk nature of motor sport and the large sums involved lend themselves to the Lloyd's market"

While such disasters are now thankfully rare, there have been a number of more recent accidents involving race officials. A wheel struck and killed a marshal at the Australian Grand Prix in 2001, just months after

another marshal died in a similar incident at the Italian Grand Prix.

MONEY TALKS

Formula One is also a highly commercial venture, according to Tim Nagle, a director at Ellis Clowes. There are millions of pounds of sponsorship at stake and teams operate under intense time pressure, working with cutting-edge – and often hazardous – technology.

"Teams just have to deliver," Nagle says. "If they can't get the car on the starting grid, they face fines from the sport's governing body and potentially claims for breach of contract from sponsors."

Lloyd's has been underwriting liability insurance for Grand Prix races and teams for more than 20 years, says Tim Butcher of insurer QBE. "Lloyd's has the flexibility and expertise to put together the levels of cover that other insurers find too challenging," he explains. "And the high-risk nature of motor sport and the large

if, for example, a key satellite goes down.

"Lloyd's underwriters' insurance is bespoke, and can be purchased to cover cancellation as a result of natural catastrophes, terrorism, civil unrest or outbreaks of disease," says Chris Rackliffe of Beazley.

"Cancellation insurance is particularly relevant as Formula One expands into new territories such as India and Korea," Rackliffe adds. "New circuits are supported by the sport's governing body, but there is a higher risk associated with them. For example, the inaugural Korean Grand Prix in 2010 was at one point in doubt when the track struggled to meet safety standards in time."

INSURING THE OLDSMOBILES

Not content with sitting on the sidelines, some motor sport enthusiasts go the extra mile to collect and race their own classic and historical cars

So-called heritage motor racing has grown in popularity in recent years, according to Adrian Hardy, Director of Motor Sport at Lloyd's broker Ellis Clowes. Historical race events, such as the Silverstone Classic and the Goodwood Revival, have been largely immune from the economic downturn and are attracting ever-larger crowds and numbers of entrants.

"Heritage racing is very different to F1," says Hardy. "Heritage cars are usually high in value, but

owners don't take the same risks when racing them as they do in other motor sports.

"The standard of racing is more gentlemanly – contact between cars is definitely frowned upon. And while intrinsic values can be high, the cost of rebuilding cars is generally much lower."

The challenge of insuring cars valued in the millions of pounds as they hurtle around the track doesn't put off Lloyd's underwriters. Daniel Wood of Pembroke Managing Agency specialises in providing transport and storage insurance for classic cars.

"The value of some vehicles used in heritage racing can reach the tens of millions, easily exceeding the value of modern-day F1 cars," he says. Two years ago, a Bugatti

Type 57S Atlantic sold for an estimated £30m, while TV and radio presenter Chris Evans paid £12m last year for a rare Ferrari 250 GTO with a racing pedigree.

"Classic cars are much like fine art in the way they are collected, handled and shipped," says Wood, who is a keen heritage racer himself. "That is why they are often underwritten by syndicates such as Pembroke that specialise in fine art."

Many drivers buy on-track insurance and personal accident cover to protect their cars and themselves when racing. Lloyd's underwriters also provide key-man insurance for important employees, such as chief executives and celebrities, who race heritage cars.

sums involved lend themselves to a subscription market like Lloyd's."

LOGISTICALLY SPEAKING

With 20 races spanning the world, teams and organisers have to ship large quantities of high-value and fragile equipment around the globe. Lloyd's underwriters insure the transport and storage of cars, spare parts and equipment, as well as growing levels of hospitality.

A Formula One team's costs have increased with developments in technology and the growth of hospitality, but the sport's logistic skills are second to none. "F1 teams look after their equipment because they need to make sure it reaches its destination in perfect condition," says Daniel Wood of Pembroke Managing Agency. "Failure to do so obviously has racing implications, but there will undoubtedly be financial consequences if the team cannot race."

The international nature of Formula One is a particular challenge for insurers because some countries require insurance to be placed in the local market. The liability and contingency insurance for Grand Prix in Brazil and South Korea, for example, must be placed with local insurers, but it would be typically reinsured back to specialist underwriters in the London market.

Lloyd's recognised brand and global licensing is also helpful, according to Nagle, especially in the emerging markets into which the sport is expanding. "Lloyd's has an instantly recognisable brand and there is faith in

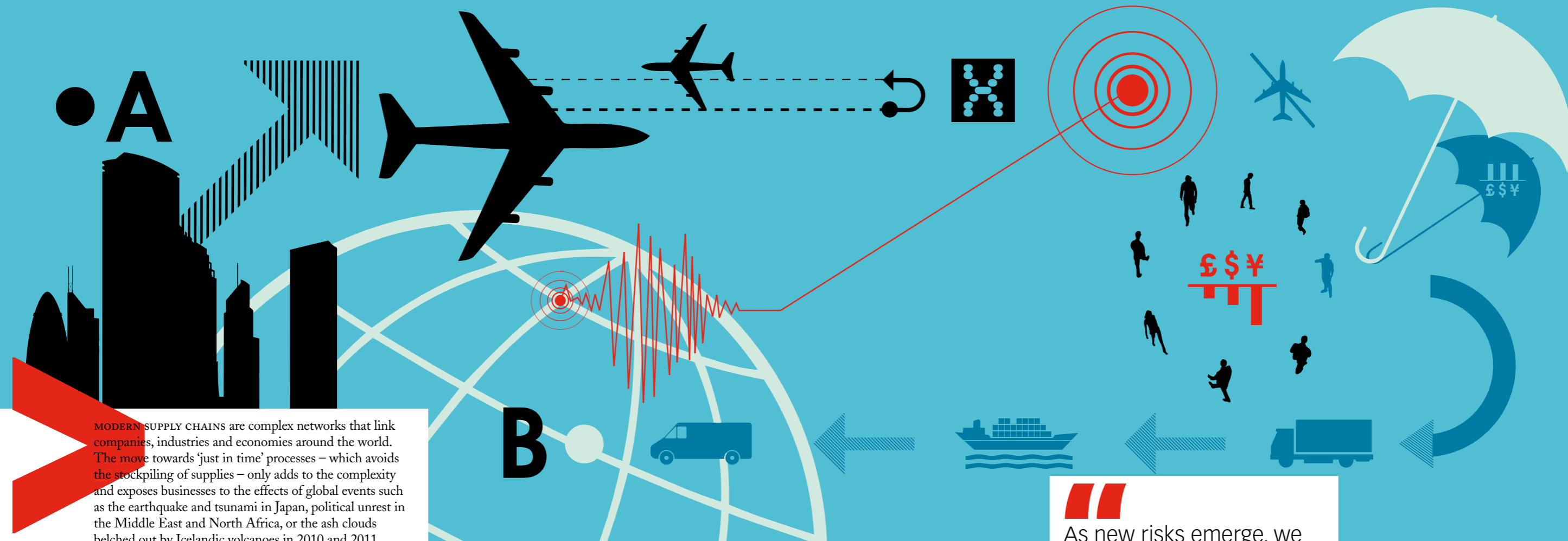
the Lloyd's name that claims will be paid," he says. "It is good to be associated with a brand that has stood the test of time."

Rainbow agrees. "The market has a reputation in Formula One for taking a common-sense approach," he says, "and being able to think outside the box and develop considered insurance solutions based on the unique risks inherent in the sport." ■

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pembrokeunderwriting.com
qbeurope.com
ellisclowes.com





X MODERN SUPPLY CHAINS are complex networks that link companies, industries and economies around the world. The move towards 'just in time' processes – which avoids the stockpiling of supplies – only adds to the complexity and exposes businesses to the effects of global events such as the earthquake and tsunami in Japan, political unrest in the Middle East and North Africa, or the ash clouds belched out by Icelandic volcanoes in 2010 and 2011.

Events of this nature present a huge headache for risk managers and supply chain insurers alike, largely because products covering this type of disruption have not – until recently – been specialised enough.

Businesses will suffer because the criticality of supply chains – and the increased risk that comes from that – has not always been fully appreciated. Diversity of supply has, in many cases, been exchanged for the price advantage of a single-source supply, with stockpiles either reduced or designed out.

And even those fortunate enough to have business interruption policies in place may find that they are not covered for the full extent of the damage, as their insurance was simply an afterthought attached to an existing property damage policy.

RESPONDING TO THE CHALLENGE

According to Paul Culham, Active Underwriter of Marine and Special Risks at RJ Kiln & Co., insurers need to offer bespoke services to their clients. He admits that, in the past, business interruption insurance was too often considered to be an add-on, without sufficient thought given to the specifics of the policy. However, he thinks that this approach is slowly changing.

“We take the view that business interruption insurance has its own dynamic and should be treated as its own class of business,” Culham says. “Usually, business interruption insurance is structured in such a way that you pay out a fixed amount for so many days with an excess of so many days, but maybe that’s not how business interruption losses are accruing.”

He thinks that insurers need to spend time looking at how the losses add up. “Is it a set amount over a number of days; is it more of a lump sum payment? There needs to be more thought in terms of how business interruption actually pays its indemnity.”

ILLUSTRATION / Adam Pointer

“As new risks emerge, we are constantly looking at how risk management can be improved”

To this end, Kiln created a trade disruption insurance product that plugs many of the gaps that Culham highlights. “It addresses the way the indemnity is paid, but also pulls the various triggers – whether it be political risk, credit or even things like earthquakes and physical damage – into one policy,” he explains.

Kiln is by no means alone in its efforts. Last year, Marsh worked on the development of a supply chain policy for non-damage business interruption – a key area of risk for clients, according to Caroline Woolley, EMEA Property Practice Leader at Marsh.

“As one size does not fit all, we have worked with several insurers on bespoke cover and non-damage cover with alternative triggers,” she explains. “You can’t always predict the next big business interruption event, so we focus on the effect rather than the cause. As new risks emerge, we are constantly looking at how risk management can be improved.”

ASSESSING THE DAMAGE

While the Japanese earthquake and tsunami may trigger a raft of new business interruption products, they have also raised issues regarding the assessment of losses, which can create problems when claims are made. Insurers are advising risk managers to undertake exhaustive reviews that look at all exposures in advance, so that the insured and the insurer understand the potential level of loss up

front and can then amend policies accordingly. It is a crucial task, but one that is too often neglected, Woolley says.

“Business interruption is usually the unknown part of a loss and not enough attention is given to it at the early stages of a claim,” she says. “The expectations of the parties involved can therefore drift apart, causing conflict later.”

“Many clients find it difficult to meet the proof-of-loss requirements of insurers in relation to business interruption, but we can provide claims preparation assistance under a claims preparation clause. However, we would always rather have open discussions with insurers and agree a methodology up front if we think that a problem may arise.”

The potential impact of events in a globalised world has forced all companies to consider their position in relation to suppliers, dependencies and potential interruption. Existing policies will have to change and there needs to be further innovation surrounding the creation of new products.

Kiln’s Culham believes that insurers are now ready to meet this challenge. “The industry is already reacting to pressure from customers,” he says. “We’re developing

bespoke insurance products to deal with the pressures within a modern supply chain.”

> MORE
kilngroup.com
uk.marsh.com

CHAIN REACTIONS

The market is addressing gaps in cover as supply chain disruption becomes increasingly common in a globalised world

Enduring legacy

Ten years on from 9/11, we look at the tragedy's impact on the Lloyd's market

“
The insurance industry had never had to cope with an event that touched it so personally

”

SEPTEMBER 11, 2001, reshaped the world. It affected entire populations and precipitated conflicts in the Middle East and elsewhere that have led to further loss of life.

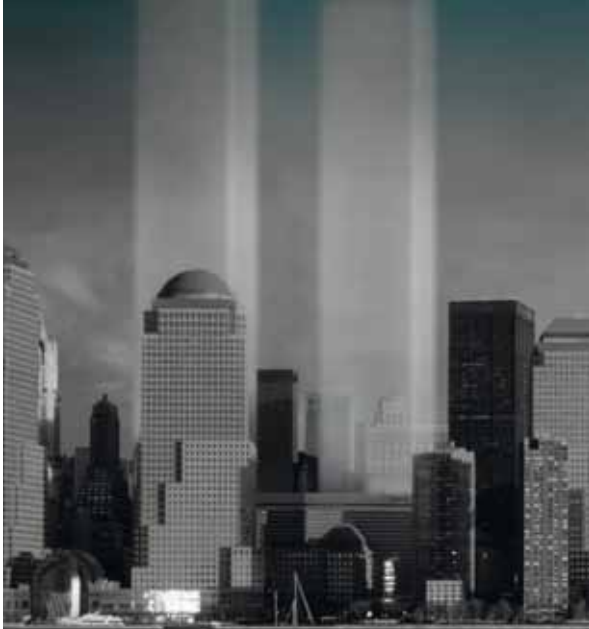
For the international insurance industry, 9/11 was a personal and professional disaster on an unprecedented scale. Many hundreds of colleagues lost their lives, with companies such as Marsh and Aon – which had offices in the Twin Towers – experiencing the pain with particular severity; their memories live on through dedications such as Marsh's online memorial site and Aon's Memorial Education Fund. The attacks represented the second-largest loss in Lloyd's history, surpassed only by Katrina and the 2005 hurricane season.

Julian James, CEO of Lockton International, was Lloyd's Director of Worldwide Markets at the time of the attacks. Lloyd's took the responsibility of leading its members,

brokers and policyholders against a tide of uncertainty, he says. “There was a tremendous amount of unsettled feeling across the whole global financial system, underpinned by the high emotion caused by the tragic loss of so many people. The insurance industry had never had to cope with an event that touched it so personally.”

Led by Chairman Sax Riley, the executive team at Lloyd's took swift action, aware that, while the tragedy continued to unfold, business somehow had to go on. “It was a massive challenge,” James says. “Among all this chaos, people were quoting prices for risks on September 12. Lloyd's renowned qualities came to the fore. Claims were paid relatively quickly and it supported policyholders and brokers by getting products up for sale again. Lloyd's was one of the few solid pillars of the financial system in the aftermath of the tragedy.”

IMAGING / Rachel Creame



ESTABLISHING A CULTURE OF DETAIL

The 9/11 attacks became a catalyst for Lloyd's to tackle one of the defining industry issues of the past decade: the quest for contract certainty. Julian James explains: "It first came to the forefront at a conference in New York in 2000, where former FSA Chief Executive John Tiner and I spoke. He raised the issue of the importance of contract certainty, famously using the expression 'deal first, detail later'." This explained how verbal agreements were made without the finer points of a policy being written down on a paper contract.

The publicity surrounding contract certainty intensified after 9/11. This was largely due to New York real estate developer Larry Silverstein's claim that the attacks were two events rather than one, and therefore insurance companies should pay out double. This showed the potential for costly confusion if 'deal first, detail later' continued to take precedence over a solid contract.

For the next five years, Lloyd's pushed contract certainty, following challenging demands mandated by the FSA. These were to ensure that slips were compliant with London Market Principles in 99% of cases and, ultimately, to achieve upwards of 85% contract certainty and appropriate evidence of cover within 30 days of inception by 2006.

The baton has since been passed to the Market Reform Group (now the London Market Group), which has driven processing reform across Lloyd's and the London subscription market as a whole. Business processes are now becoming seamless, with electronic placement, claims, endorsements, accounting and settlement all possible using tools such as ACORD messaging standards, which reduce the need to carry paper around the market.

"The FSA – and Brit Insurance CEO Dane Douetil, who led the Market Reform Group from January 2006 to January 2008 – deserve a lot of credit," James says. "There has been significant progress and it was something that really had to be dealt with."

Robert Childs, Chief Underwriting Officer and Chairman of Hiscox USA, points out how resourceful and flexible the market became. "David Gittings – now the Lloyd's Market Association CEO – was the regulator at the time within Lloyd's," he says. "Gittings authorised syndicates that had always been controlled by the size of their stamp to go beyond their plan and overwrite. That flexibility allowed syndicates to mitigate their losses from 9/11."

Meanwhile, urgent action was needed in order to get claims paid quickly. "The aviation hull losses were settled within two or three weeks," explains James, "but there were issues with other regulators as well."

In the weeks following 9/11, James was part of a team that negotiated a path around US collateral regulations to help speed up the payment of claims. The rules regarding 'alien' reinsurers would have forced the market to pre-pay its entire reinsurance loss gross of any reinsurance recovery into trust within 45 days. "No financial institution in the world would be capable of meeting these obligations; stock markets had 25% of their value wiped off overnight," James says. "But the regulators allowed Lloyd's extra time, which improved liquidity and enabled claims to be paid expeditiously."

NEW ERA OF SECURITY

The market's focus on claims intensified, leading to the creation of a centralised claims office to coordinate responses under the stewardship of Jeremy Pinchin, who was appointed in January 2002. "Lloyd's did a superb job in getting the first two sets of loss estimates out in the months immediately after 9/11," says Pinchin, who is now Director of Claims at Hiscox.

His department devised a market claims strategy that would leave a lasting legacy. Around the time of 9/11, Lloyd's was developing the Franchise Performance Directorate – now the Performance Management Directive (PMD) – which would create a department responsible for the day-to-day management of the market by supervising syndicates' business plans and claims behaviour.

"Many of the strategies relating to financial benchmarking, inward claims and outward reinsurance recoveries that were developed in the post-9/11 period have become standard practice within the PMD," Pinchin adds. "The large loss processes that Lloyd's carried out after the recent Chilean and Japanese earthquakes were directly informed by the lessons learned from 9/11." The attacks also helped Lloyd's face up to contract certainty, another major insurance issue (see panel, left).

There is no simple answer to the question of what legacy 9/11 has left on Lloyd's and the international insurance market. Emotional scars inevitably remain, while determination has shone through. "9/11 brought into sharp focus the need to have better governance processes, a better way for the market to manage its aggregate risk and a better way centrally to supervise the market," James adds. "It also reminded the world of the role that Lloyd's plays, of what it is really good at, which is paying out when disaster strikes and showing leadership in crisis." ■

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Risk, rates and responsibility

Lloyd's market members expect rates to go up in the summer renewals

IT HAS BEEN an exceptionally tough start to 2011 for insurance and reinsurance companies around the world. According to estimates, the flooding in Australia, the New Zealand earthquake and the quake and subsequent tsunami in Japan will cost the reinsurance industry alone about £27bn.

In addition, two hurricane experts in the US have predicted an above-average storm season this year. Philip Klotzbach and Bill Gray of Colorado State University have correctly predicted above or below-average seasons in 21 of the past 29 years.

TOUGH TIMES

If that weren't enough, leading modelling agency RMS has increased its estimates for the amount of inland damage a hurricane in the US would cost, which could increase demand for reinsurance and affect how much capital reinsurers hold against potential losses.

"The market has felt a lot of pain from the tragedies in Australia, New Zealand and Japan," says Jonathan Turner, Chief Executive of Brit Reinsurance. "We anticipate some substantial pricing correction in these territories and it should be an interesting set of upcoming negotiations."

Brit Reinsurance, for example, has four earthquake-specific programmes in Japan and those contracts all come up for renewal this summer. "Underwriters are going into a landscape that's very different from the one of 12 months ago," Turner says. "Taking that into account, we think there should be a significant rise in rates."

At a recent conference, Lloyd's Chief Executive Richard Ward warned that the next big natural catastrophe would hit the industry's capital unless rates rose significantly.

"Rates should rise," he said. "Prices are dangerously low at present. Clients may

think they are getting a bargain, but the fact is that they are buying security. The insurers that write unprofitable business are inevitably the first to collapse when disaster strikes."

Richard Carver, Underwriting Director at Brit Reinsurance, thinks the fact that these disasters occurred outside the US is significant when it comes to the future pricing of rates for non-US insurers and reinsurers.

"Recent catastrophe events in the US – such as Hurricane Katrina – largely affected domestic insurers there," he says, meaning that the large amount of reinsurance business outside the US that goes through Lloyd's was relatively unaffected. "But these more recent catastrophes have been primarily reinsurance losses, with international reinsurers taking a significantly bigger hit."

THIS YEAR'S MODEL

RMS's new version of its Windstorm product will also affect the reinsurance industry. "This version has changed some of the factors that generate the claim events, the upshot being that the theoretical loss cost for landfall hurricanes has increased," Turner says. "So the loss we could potentially incur changes overnight." To help with this, Lloyd's has devised a set of Realistic Disaster Scenarios to stress test individual syndicates and the market as a whole.

Turner thinks the way forward is to be disciplined when underwriting new business and renewing contracts. "We're here to pay those big losses," he says. "But, at the same time, pricing has to change. Underwriters should be negotiating prices that reflect the risk they're taking on." ■

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britinsurance.com/en/reinsurance.aspx



Time for teamwork

VOLUNTEERING CAN BE more rewarding when you are part of a team. That is why hundreds of market participants give up their time for Lloyd's Community Programme's Helping Hands initiative, organising Team Challenges to support charities and community groups in East London.

Team Challenges take place on one day during the working week, taking underwriters and brokers out of the office environment and their comfort zones. In 2010, a combined total of 763 volunteers from Lloyd's Corporation and the market took part in 36 Team Challenges and provided more than 5,000 hours of volunteer time.

This year, volunteer groups from Beazley, BMS, Catlin, Hiscox and QBE – among others – have all taken part in successful Team Challenges.

In the past, teams have decorated community halls, cooked and served breakfast for the East End's homeless and created garden space for schools. Teams from the market have also designed and built a sandpit area for a nursery in a city farm on the Isle of Dogs and encouraged students at a local school with their interview skills.

Apart from supporting the local community and the sense of achievement that comes with volunteering, the Helping Hands Team Challenges also help the volunteers bond and are a fun day away from the office.

This year, for example, XL Insurance set up Team Challenges at locations including Stepney City Farm and Tower Hamlets Cemetery Park, events that were also part of the company's sixth Global Day of Giving.

"It felt good to make a collective difference for the community, have fun and build links with XL colleagues in the process," said Maree Maylon, Global Mobility Manager HR. "I gave my time and energy, but managed to keep all of my fingers – despite being let loose with a saw. It was a really positive experience all round."

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The Helping Hands initiative is always looking for new groups to take on a Team Challenge. If your company is a member of Lloyd's Community Programme, please email natalie.tickle@lloyds.com or call +44 (0)20 7327 6144 to find out more. lloyds.com/helpinghands

WHEN A LIFE CHANGES

BEN WILSON IS a familiar and well-respected underwriter in the London market, leading the Power & Utilities Team at Torus. On 27 December 2010, however, his life changed forever.

Falling 50 feet from a third-storey window, he severed his spine, compacted vertebrae in his neck, broke five ribs and punctured both lungs.

He was taken by air ambulance to the Royal London Hospital, where he underwent life-saving surgery. Six months later, he is at the Royal National Orthopedic Hospital in Stanmore, learning how to adapt to life as a wheelchair user.

Following Wilson's accident, the response from friends and colleagues in

the market has been nothing short of phenomenal. The outpouring of concern and the wish to do something tangible to support him and his family prompted the decision to set up the Ben Wilson Trust to help Wilson and others like him.

After members of the market suggested producing a 'slip' for companies to sign up to, the Trustees have recently opened a pledge book. Lloyd and Partners, R K Harrison and Miller have already made substantial donations.

A website has been set up that gives more information, including updates on Wilson's continuing rehabilitation. Also on the site is a pledge button for individuals to make a donation should they wish to.

Successful fundraising events have already taken place and a Grand Ball will be held in London on 12 October.

Wilson has not only shown tremendous courage and determination in adapting to his new environment, but also the desire to help others. This is why the Trust will be donating half of its proceeds to Wilson's chosen charities. As he himself says, "I'm looking forward to being on the other side of rehab and doing all I can for people who are going through the process and to try to help them along the path."

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tfillingham@torusinsurance.com
btwilson.com



Working it out

Aon Hewitt's Jacqueline Heron talks about her role as a mentor for East London students

LLOYD'S COMMUNITY PROGRAMME'S 'Ready for Work' initiative supports the development of students from Tower Hamlets and Hackney schools by offering them the chance to be mentored by professionals from the market.

The programme aims to help 15-to 18-year-old students from East London to develop skills to get a job. It also gives students exposure to an office environment, allows them to experience life outside their borough and challenges them to travel independently to their mentor's office.

It is a big commitment for both the volunteers and the students. They both have to dedicate an hour every fortnight to the project and tutoring continues for the whole academic year.

A VOLUNTEER'S STORY

Jacqueline Heron, Business Improvement Director at Aon Hewitt, was keen to help. "I'd previously trained as an executive coach, so I was really keen to get involved," she said.

Heron believes that anyone can be a mentor. "The most important thing is that you have a genuine interest in people and that you're flexible," she said. "A good

sense of humour and the ability to put yourself in the shoes of a 15-year-old is important, too!"

The sessions can involve anything from educational games – which are designed to get the students thinking about their interests in a fun way – to setting out a CV or discussing how to act in an interview. Heron's latest pupil is interested in art and design, so for one of their more creative sessions, Heron took her mentee on a tour of London's Victoria and Albert Museum and showed her some of the world's greatest art.

The rewards of working on the scheme are not just for the person receiving the advice. "It's brilliant when you have a few sessions, where you're really able to help someone and give them the confidence to realise their own potential," she said. "I feel very proud to be part of the project and it's great for companies that are usually quite removed from this type of environment."

> MORE

To get involved in Lloyd's Community Programme's 'Ready for Work' scheme, visit lloyds.com/readyforwork

EVENTS

9-15 SEPTEMBER

Monte Carlo Rendez-Vous, Monaco

The annual gathering of more than 2,500 reinsurance professionals marks the beginning of the annual negotiation process prior to renewals. Lloyd's Chairman Lord Levene and Lloyd's CEO Richard Ward will attend and host a cocktail reception on 12 September.

17 SEPTEMBER

Open house, London

Lloyd's will once again open its unique building, in the year of its twenty-fifth anniversary, to members of the public.

29 SEPTEMBER

ILLCA event, Milan

The annual networking event from Lloyd's Italy and ILLCA – the Italian Association of Lloyd's Correspondents – offers underwriters and brokers the chance to develop new business in the heart of Milan. A gala dinner will follow in the evening. To register your interest, contact carola.pisani@lloyds.com

1-5 OCTOBER

CIAB Insurance Leadership Forum

The annual gathering of senior industry executives who are members of the Council of Insurance Agents and Brokers. Lloyd's Chairman Lord Levene and Lloyd's CEO Richard Ward will attend.

2-5 OCTOBER

FERMA Forum, Stockholm

The Federation of European Risk Management Associations brings together risk management groups from 17 countries. Lloyd's will announce selected participants for its Professional Development Initiative and run workshops throughout the biannual conference. For more information, contact erik.borjesson@lloyds.com or benno.reischel@lloyds.com

For further information, email events@lloyds.com or visit lloyds.com/events

VIEWPOINT

RICHARD WARD

Lloyd's Chief Executive



“ We are making an astonishing difference to children's lives ”

VIEW from the

The market will carry on making a difference to communities in East London

WARD ROOM

LLOYD'S COMMUNITY PROGRAMME is one of our hidden jewels. It inspires volunteers in the Corporation and the market to deliver projects ranging from sports events for disadvantaged children to reading partners and mentoring.

Together we are making an astonishing difference to these children's lives. In the past five years, the market has donated more than **55,000 volunteer hours** in East London at a value of about £1.5m in staff time. Last year alone, more than 1,400 volunteers from the market joined the programme and 800 young people benefited from a weekly reading or IT partner or a one-on-one student mentor. It is an achievement that has already been recognised with four Dragon Awards – and we have now been shortlisted for a fifth.

I am a volunteer myself and recently refereed at a sports event for more than 600 children in Tower Hamlets. I watched volunteers arrive in a mood of altruism and leave in one of exhausted exhilaration. It was clear that the benefits were not all one way – 98% of our volunteers say they would recommend joining the Community Programme to colleagues.

Our goal is to recruit more than 1,500 volunteers by the end of 2011. This work doesn't just touch the lives of young people. More Team Challenges are on the way, from painting schools and creating community gardens to providing nourishing meals for homeless people in Whitechapel.

Last month, the Organisation for Economic Co-operation and Development (OECD) published a report showing that UK pupils were among the least likely to overcome low-income backgrounds and go on to become high achievers – Britain was ranked 28th among 35 leading economies.

The report highlighted the critical role that developing children's confidence plays in their success. For more than 20 years, Lloyd's and the market have been working with local schools to do just that.

So while politicians, teachers and think tanks ponder the causes of the OECD findings, we will carry on making a tangible difference to their lives today.

If you want to find out more about how you can help Lloyd's Community Programme, please contact Hannah Payson in our Community Affairs team at hannah.payson@lloyds.com or give her a call on +44 (0)20 7327 5484.

Lloyd's has a long tradition of helping disadvantaged people. Our volunteer programme is one way of giving something back to London, the city that is synonymous with our market and central to our success.

We would really like you to join us. **M**

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www.lloyds.com/community