

# FutureSet Systemic Risk Masterclass Series

## Masterclass 6: Recognising risk –The insurance response – helping customers build resilience

### Key takeaways

#### Systemic risks

Systemic risks are the most difficult to quantify, understand and protect against. They can be global in impact, often hitting multiple industries and countries simultaneously, with potentially devastating consequences for global supply chains and economies, impacting billions of people around the world.

#### What can the insurance industry do to better protect customers?

The insurance industry has a vital role to play in protecting society from, and making it more resilient to, the potential impacts of systemic risk. Throughout this series we have explored several actions the industry can take, including:

1. Ensuring insurance modelling reflects remote and potentially systemic risks, such as space weather.
2. Leveraging data and conducting scenario analysis to help customers understand the potential impact of systemic and other major risks, such as accelerated climate change.
3. Supporting customers to move towards forward-looking, proactive risk management, such as improving their end-to-end supply chain visibility or avoiding reliance on a single technical solution to better understand and mitigate their exposures.
4. Working with governments to explore the potential to develop new public private partnerships, given some systemic risks require a level of resources that can only be accessed by governments.
5. Developing new and innovative products and risk management solutions to fill the insurance gap, potentially exploring innovative structures like parametrics, to provide cover for components of risk e.g. cloud downtime.
6. Simplifying insurance products through involving customers in product design, addressing wording and structural complexity, or adopting new technology like digital contracts to ensure customers understand what they are covered for.

**Systemic risks** are risks that have wide-reaching consequences across the market and globe at the same time

The global commercial (re)insurance industry's **total capital base** sits at around **\$2 trillion**, and the capital markets are estimated at around **\$180 trillion**

(Source: Lloyd's - The insurance industry response to COVID-19)

The COVID-19 pandemic has caused **significant changes in customer behaviour**, including increased digital adoption and changes in mobility and consumer spending habits

Research shows that 44% of UK SMEs expect their insurers to **change their policy terms around COVID-19** and cover it in the future

(Source: Lloyd's - The insurance industry response to COVID-19)

## Thoughts from our expert panel

*The insurance world is still more in the field of exactitude; we need to assess whether this offers false comfort. Seeking to achieve exactitude in the face of uncertainty is not the answer.*

**\*Extract from his opening address\***

**Andrew Bailey**

Governor of the Bank of England

*Insurance practitioners need to be innovative in conjunction with their customers to come up with sustainable commercial solutions for all aspects of systemic risk.*

**Sian Fisher**

CEO, Chartered Insurance Institute

*Before the pandemic, we have never before seen every company waking up to systemic risk. We now have an opportunity to do something collaboratively and act as risk leaders.*

**Greg Case**

CEO, AON

*There is a renewed focus on the risk environment. The discussion is evolving into what systemic risk is next and how can we as organisations can be more resilient regarding a number of interconnected risks.*

**Typhaine Beapérin**

CEO, FERMA

*A key learning from these kinds of events in the past is that we do not spend sufficient time course correcting to make ourselves better prepared for subsequent risks... The industry needs to be more customer centric, more solution oriented and as a result more innovative.*

**Bruce Carnegie-Brown**

Chairman, Lloyd's

*Systemic risks arise from the 'butterfly defect' of globalisation'. The more interconnected we are, the more we are vulnerable to these risks... If any big player is left out of a solution, it will not be a systemic solution.*

**Professor Ian Goldin**

University of Oxford

## Relevant reading

### Systemic and other major risks:

- Lloyd's risk insight report: [Catastrophe modelling and climate change \(loyds.com\)](https://www.loyds.com/catastrophe-modelling-and-climate-change)
- Lloyd's and AIR report: [Cloud Down: Impacts on the US economy](#)
- Geneva Association paper on insurability of pandemic risk: [An Investigation into the Insurability of Pandemic Risk | Research report | Geneva Association](#)
- Lloyd's risk insight report: [Evolving Risks In Global Food Supply \(loyds.com\)](https://www.loyds.com/evolving-risks-in-global-food-supply)
- Lloyd's report: [Protecting intangible assets: Preparing for a new reality](#)

### Insurance solutions:

- Lloyd's white paper: [Supporting global recovery and resilience for customers and economies: The insurance industry response to COVID-19](#)
- FERMA position paper: [Building an EU resilience framework for catastrophic risks](#)
- Lecture by Julian Enoizi: [Public-private risk response models](#) (CII members only)
- Lloyd's paper: [Building simpler insurance products to better protect consumers](#)
- Parsyl Syndicate 1796: [Sharing risk to help deliver vaccines everywhere \(loyds.com\)](https://www.loyds.com/sharing-risk-to-help-deliver-vaccines-everywhere)

### Skills and capabilities:

- CII Assess: [Introduction to managing change](#) (sign-up required)
- Flux / CII [Innovation Starter Kit](#)
- CII [Innovation subject gateway](#) (CII members only)

### Futureset Systemic Risk Masterclasses

Delivered in partnership with the Chartered Insurance Institute (CII) and Lloyd's Market Association (LMA), the Lloyd's Futureset Systemic Risk Masterclass Series explores a number of elements of systemic risk, to support greater understanding and capability across the industry. Each masterclass combines technical content on a specific element of systemic risk with the knowledge and insight of business leaders and risk experts to help you build a body of knowledge and understanding of the systemic risk landscape.

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