Welcome to this latest edition of Inperspective; Aon UK’s review of the risk and insurance issues facing retail and wholesale companies.

In this edition we look at the current experiences for your industry when renewing insurance programmes with exclusive data from the Aon Global Risk Insight Platform (Aon GRIP™). We crunch those numbers alongside insights from our practice leaders who have identified key threats and opportunities which may be worth your consideration.

After the country enjoyed its latest Indian summer, our Weather solutions experts reveal how their practice is delivering customised, actuarially-based insurance products to help them smooth the impact of adverse conditions.

In the world of cyberspace, Jonathan Upshall reviews the latest data on worldwide incidents and discovers that the UK is now second only to the United States as hackers target our institutions and businesses. The question is, what does this mean for UK retail?

Distribution and supply chain is moving fast in the retail and wholesale markets. We assess what the influence of multi-channel operations that deliver anywhere and sell through any medium could mean for your insurance programmes.

And finally, we look at the environment for handling claims. Are injury claims going up since the advent of new legal reforms in 2013?

We value your feedback.

To ensure we are providing you with relevant and interesting content we would be grateful if you could complete a short survey at https://www.surveymonkey.com/s/RWInperspective

And as a thank you for your time, all entries will be entered into a prize draw to win a luxury hamper*.

We hope you enjoy reading this edition of Inperspective.

*Terms and conditions apply. Please see the back of the newsletter for more details.
Handbags and your sandbags

Heading into winter, the UK’s insurers have flooding on their minds, and retailers often create an accumulation of risk in catastrophe prone areas. Inperspective reviews this and other key trends with John Tollerfield and Roger Palmer.

Memorable headlines such as the tragic destruction of Brunel’s iconic Devonshire coast railway, the lengthy submergence of the Somerset levels, and parts of West London underwater as the Thames burst its banks have etched winter 2013/2014 into the collective consciousness. Now, with major flooding becoming the norm rather than the exception, John Tollerfield, Broking Director, National, at Aon Risk Solutions says insurers are reviewing their mapping of flood risk and the accumulation exposure presented by their insureds. He adds that high exposure of an insurer in flood exposed areas could lead to cover restrictions, exclusions or increased deductibles.

“Insurers are very worried about their natural catastrophe exposures. Those that have made a major play in the retail markets may have found themselves overstretched as locations where flooding is most severe deliver multiple losses,” he says. “If insurers’ mapping tools suggest the exposure is too great then they could look to exit this area of exposure.”

“The market is very different now that the old Statement of Principles between insurers and government has been torn up and the new Flood Re system is being introduced,” adds Roger. “Historically, there was an entente cordial between the two sides that flood defence spending would be maintained and insurers would continue to insure the less attractive risks, but many businesses and other properties have been exempted from the new scheme so underwriters are going back to the drawing board.”

Fire risk reminders in big sheds

For many wholesalers the risk of catastrophic flooding is secondary to fire and some major incidents in 2014 have reminded those operating larger individual premises to review their control systems. Property insurers are also likely to remind companies to check that their sprinkler systems are adequate as increasingly complex layouts and mezzanine floors sometimes rendering those fail safes inadequate.

Despite these uncertainties of an upcoming winter and arsonists continuing to target warehouses, Roger Palmer, Property Broking Director, ARS UK, National, has observed property markets that are still happy to underwrite well managed risks. “The better risks can still expect rate movement downwards and our data shows a drop of almost 5% for property risks renewing in Q2 2014. Provided you can show the locations do not present a higher accumulation of flood risk the picture is quite competitive,” says Roger.

Uncertain liabilities

Employers’ and public liability insurers were hoping to begin seeing the benefits of new legal reforms designed to curb the level of personal injury claims and the costs associated with defending them. However it remains to be seen whether these ‘fast track’ systems will deliver reduced premiums. Aon GRIP™ data shows that public liability premiums (accounted for largely in the ‘Casualty/Liability’ section in Figure 1) continue to increase with a 2.4% rise in Q2 2014. “This also has to be seen in the context of a new levy for industrial disease claims, known as the Meso levy”, adds John. “This will certainly add around 3% to all employers’ liability covers.”

Motor insurance has been equally at odds with the problem of rising claims costs and as our data shows, the market has reacted with quite a strong correction on rates. Thankfully, last year’s almost 10% increase has not been matched in 2014, but for those running large fleets, the prospect of a 4.28% average premium increase on top of previous rises would be less than welcome.

“Overall, motor has been a volatile market and fleet operators very often feel the first impact of any market corrections,” adds John Tollerfield. “Well managed risks in the retail sector can begin to see the benefits of running a tight ship as the influence of reduced claims and legal costs begins to finally take hold.”

GBR Retail and Wholesale Trade Annual % Change in rates on renewal

![Chart showing annual % change in rates on renewal for Property, Automobile, Casualty/Liability, Employers Liability/Workers Compensation]

Source: Aon GRIP™
aon.co.uk/retail-wholesale
UK up to 2\textsuperscript{nd} place on global cyber targets list

With just under 9\% of all data breach incidents in the first half of 2014 targeting retailers, Jonathan Upshall, Director, Global Broking Centre, London, reviews the latest trends as US firms face mounting threats from hackers and the UK takes an uncomfortable 2\textsuperscript{nd} place on a global list of incidents.

The giant Home Depot retail chain confirmed a substantial data breach on 9 September, with hackers apparently using the same tactic as 2013’s infamous leak at discount retailer Target.

In a move which indicates a post-breach policy kicking in, the company, which is the largest home improvement retailer in the US, promised customers who used their debit or credit cards after April 2014 free identity protection services such as credit monitoring.

Both incidents have raised the bar for retailers after the hackers’ entry into their systems was revealed as having been made via connected suppliers who access the company’s online procurement systems. “Here in the UK there have been fewer large scale incidents and nothing of the Target or Home Depot magnitude, but it’s safe to say we have seen more and more buy in from retailers who acknowledge their exposure to data breach is real,” says Jonathan. “Cyber is by far the fastest growing product across Europe and retailers are the most likely buyers.”

UK uncomfortably number 2

What should concern UK companies is the fact that this country is now easily the second largest target for hackers worldwide. The Data Breach Intelligence Mid 2014 Analysis by Country\textsuperscript{1} shows 85 incidents in the UK, ahead of 39 in Canada. To put that in context, only California whose’ economy size compares with our own, experienced a similar number (77) as the UK during the first six months of 2014.

Nevertheless, UK firms’ ability to command affordable premiums for cyber cover remains strong, contrary to the experience of US retailers. “Cyber market rates are now on the rise in the US, but here in the UK the London Market still views this as a sustainable line of business with affordable prices,” says Jonathan. “Claims history is building and Aon’s GRIP\textsuperscript{2} data shows a compound annual growth rate (CAGR) of 8.2\% on the limits being purchased by the retail and wholesale sectors between 2010 and 2013.

“We are also able to offer a customised risk control benchmarking report having accumulated a huge amount of anonymised data from our cyber risk diagnostic tool,” adds Jonathan. “Now that we have enough data we can provide a solid basis for comparison so that retailers can better understand their exposures.”

Further information on cyber and the Aon cyber diagnostic tool can be found at aon.co.uk/cyber

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\textsuperscript{1} Data Breach Intelligence Report - Source: Risk Based Security.

\textsuperscript{2} Aon Global Risk Intelligence Platform.
How will we insure the delivery drones?

While some insurances can provide perfectly adequate coverage using policy wordings written in stone, others have to move with the times. Inspectives talks to two Aon experts who see the retail/wholesale supply chain as the number one risk area in need of innovation.

Talk of ubiquitous online retailers delivering products via autonomous helicopter drones has become quite fashionable for futurologists in the retail and wholesale markets. While this may be fanciful to some it is indicative of the changing nature in the industry’s supply chain dynamics. Grant Foster, Head of the ERM Practice at Aon Global Risk Consulting, says clients are already finding their insurance programmes in need of regular review when the pace of change is so fast.

“With traditional supply chains always linear, the set up was designed to maintain a business model that manages stock between individual locations,” says Grant. “However, today’s retail model has been influenced by an explosion of connectivity. The store has become less important in a retail brand’s ability to deliver on its business model; orders and sales are coming from numerous different sources. Similarly people can have the option of click and collect, home delivery, local delivery points such as the railway station; all within a certain time frame. The concept of buying anywhere and collecting goods anywhere is the essence of multi-channel supply chain.”

How does this affect the business?

“Imagine 100 pairs of shoes need to be delivered; 80 are going to the store, 10 through a courier, and the remainder are going to unique locations, this places a strain on every part of the supply and distribution chain,” adds Grant. “As a result the risk profile of the business bears little resemblance to the old model which had fairly standard exposures. Previously the fleet motor insurance would include larger vehicles carrying higher volumes and values of content; the stores had to be bigger and had a higher footfall with the consequent public liability exposures. Now this fragmented approach creates new scenarios that need to be mapped out carefully – it’s possible that exposures will diminish in certain circumstances. For example, the new flexible model is potentially more resilient in a business interruption context.”

Non Damage Business Interruption (NDBI)

Vince West Head of the Business Continuity Practice at Aon Global risk Consulting, says non damage business interruption is one type of product that has been moving with the times, supporting retailers when incidents hinder their ability to trade. “One issue that is particularly relevant to Grant’s observations on multi-channel supply and distribution is the fact that increased connectivity has some major NDBI risks. The recent Business Continuity Institute ‘survey found that IT and telecoms outages have been by far the most common cause of disruptions. Retailers that rely on their IT infrastructure to deliver a multi-channel model are having to ensure it is robust enough to cope when systems go down.”

Vince says the emergence of NDBI products reflects a recognition that traditional BI policies were limited, particularly in the area of supply chain disruption and other non-damage exposures such as cyber. “There is clear data to support the view that non damage incidents such as supply chain disruptions are on the increase and that the average cost of these incidents is also rising. An increase in disruptions in tier 2 or below where visibility of the risk may be poor, is also contributing to business models that appear to drive cost out whilst driving risk and fragility in.

In May of this year, the UK-based Chartered Institute of Purchasing & Supply (CIPS) launched a global index, backdated to 1994, that measures the risk to supply chains. It reported that its analysis had found that supply chain risk has continued to grow since the economic crisis and reached its highest ever level last year, roughly triple the risk in 1994.

In response, we have seen new non-damage BI products being made available to clients that more closely match their business models and the increasing type of disruption that they are exposed to.

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*a Business Continuity Institute - Supply Chain Resilience Trends 2009 - 2013 surveys

aon.co.uk/retail-wholesale
Everywhere you go...

There’s an increasing body of evidence pointing to a causal link between weather patterns and profitability for retailers. Aon Benfield’s Kurt Cripps and Andrew Matson tell Inperspectives how their Weather Solutions practice is in high demand.

“There isn’t a company that I can think of that isn’t affected by weather risk in their trading,” says Kurt Cripps, Global Head of Weather (Re)Insurance at Aon Benfield ReSolutions. “We have had a prolonged summer in the UK this year with the driest September on record; it has been very challenging for retailers hoping to introduce their autumn and winter collections. This is presenting a situation where budgets in Q4 are under pressure already.”

While it’s become familiar to hear admissions from retailers and various other business sectors when profits are disappointing that adverse weather has been an influence, the direct correlation hasn’t always been so easy to prove. In early 2014, the Office for National Statistics (ONS) produced data indicting correlations between sales and temperature differences, with notable spikes during freak events such as the cold snap of January 2010, the unseasonably warm April 2011 when averages were 3.7C higher, and March 2012 when retail sales rose in tandem with thermometers.”

While the ONS data is equivocal in its conclusions Andrew Matson, Managing Director at Aon Benfield ReSolutions says the point for retailers is to understand their own unique experiences. “No single business is the same and neither should they be treated as such. This is why we are able to overlay historic weather experience against an individual company’s active results. This is very important for companies analysing the impact of weather on turnover and can be looked all the way down to daily turnover.”

For example, a selection of shops can be analysed in relation to local weather stations, postcodes and satellite data, overlaying patterns. “If for example the temperature is out of line with expectations there can be stock issues with the wrong products available, adversely affecting revenues,” Kurt adds.

So far, demand has come from retail and wholesale companies at a financial director level, with weather solutions yet to form a regular component of the corporate insurance programme. “This doesn’t come under a typical general insurance buying pattern and generally the chief financial officers are the most interested parties because of the potential it has to minimise their downside, providing comfort around their profit and loss accounts,” says Andrew. “These products pay automatically, without claims having to be made if a defined weather condition occurs so it’s a highly efficient method of hedging risk that retailers are showing increased interest in.”

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Who pays when security slips up?

The mass concentration of goods at large, often shared distribution warehouses could be contributing to a greater risk of theft as single sites are targeted. Paul Warren explains how retail and wholesale companies must be clear about precisely who’s responsible for security when the alarms go off.

Large, particularly multi-tenanted warehouse spaces are an increasingly common site amongst the UK’s retail distribution network. As the demand for click and collect, anytime, anywhere shopping shows no sign of abating, Paul Warren, Claims Consultant at Aon, says the risk profile of retailers has changed dramatically.

“It’s almost reached a point where the exposure at a retailer’s branch network around the country comprises entirely of employers’ and public liability risks, because there is so little stock at some locations. What we have now is a lean supply chain but a concentration of goods at single sites, which are being targeted by thieves.”

While the attractiveness or otherwise of retail warehouses to thieves is something law enforcement are likely to take an increasing interest in as crime shifts its targets away from the high street, Paul says the real concern for companies is the responsibility that users have over security. “In relation to insurance, this can be the difference between having a claim met in full or being denied completely; what if an incident is blamed on a failure in security? What if the guards are asleep on the job, so to speak?”

“If you are using a multi-tenanted warehouse, you most likely have no direct responsibility for employing security, but insurance policies typically include an obligation for your organisation to take adequate steps to ensure it is robust. If you cannot provide evidence of this and there is a failure in security, any loss may not be indemnified.”
Meet the experts

John Tollerfield
Regional Broking Director, Leeds, Aon

John has over 35 years in the Insurance industry, the last 7 working for Aon. As Broking Director for the North East, John has considerable experience in the understanding, programme design and placement of food and drink sector business in both Regional and London markets.

Roger Palmer
Property Broking Director, ARS UK, National

Roger has over 40 years’ experience in the London insurance market, 5 years of this is with Aon. He is Property Director responsible for Corporate Property placements in the UK. Additionally, he works with Irish colleagues to place Irish risks in the London market. Currently, and with past employers including Heath Lambert Group, Roger is responsible for designing and placing both property and cross class programmes for multi-national companies in the UK and European markets.

Jonathan Upshall
Liability Broker, London

Jonathan has 24 years insurance experience, 8 with Aon. Jon’s specialist technical knowledge and expertise relates to legal liability risk exposures faced by companies operating in the telecoms media and technology sectors. He has extensive experience advising major corporate entities’ legal and risk management departments helping them to address effectively their contractual risks, including those surrounding privacy, warranty and indemnity agreements, intellectual property rights and the like.

Dr Grant Foster
Head of Enterprise Risk Management, Aon Global Risk Consulting

Grant currently manages the Enterprise Risk Management team in Aon Global Risk Consulting in London.

Grant has wide experience of risk consulting projects, with a track record of clients across a wide range of different industry sectors, and different services including ERM design and implementation, risk assessments, business interruption & supply chain risk assessments and continuity planning.

Grant has over 10 years’ experience in risk consulting and prior to this has worked as an engineer, university lecturer and has run a small start-up company.

Grant is a chartered engineer, a member of the Institute of Risk management and has a PhD in the field of distributed systems modelling.

Vince West
Head of Business Continuity Practice, Aon Global Risk Consulting

Vince has considerable experience formulating and advising clients on their respective Business Continuity Strategies and has been engaged on Business Continuity projects with many leading organisations. His extensive experience of Business Continuity Management has been deployed across sectors including Petro-Chemical, Telecommunications, Banking, Finance and Insurance, Defence, IT, Publishing, Food Manufacturing, Regional Development and other Government Agencies.

His recent experience includes managing a full BCM programme for a large Petro – Chemical company in Brazil including training, plan development and rehearsal. In addition, Vince designed and conducted a programme of BC plan rehearsal for a Saudi Arabian Petro - Chemical company.

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Kurt Cripps
Weather Reinsurance Specialist, Aon Benfield

Kurt Cripps is a member of the treaty team within Aon Benfield and product leads the Aon weather reinsurance offering WExcess. This is the only UK regulated offering of its kind. Kurt started his career at HSBC Insurance Brokers in 2004 and joined Aon Benfield in September 2009. He has experience in casualty lines across many international territories.

Prior to joining the UK&I team in July 2009, Kurt spent 5 years in London placing APAC treaty business. Kurt is a member of the Weather Risk Management Association.

Involvement in placement of non traditional and non-subscription placements within the International Reinsurance markets and extensive participation with the Aon and RMS teams in respect of catastrophe modelling.

Andrew Matson
Director, Aon Benfield

Andrew joined Aon in 2005 and works as Managing Director in Aon ReSolutions, an area of the company specialising in providing a variety of (re)insurance and bespoke risk management solutions to a broad range of clients working closely with a number of broking teams and analytics.

He is part of the management team responsible for sale of international weather (re)insurance products through Aon Group.

Through Aon’s multiple distribution channels, Andrew and the team are responsible for the structuring of weather protection products for a variety of insurance and reinsurance clients and industry sectors as part of overall risk management strategies.

More recently Andrew’s remit has extended to Aon’s cross perimeter solutions (solutions which require the resources of more than one Aon Plc company). ReSolutions acts as the focal point for developing, producing and launching solutions for clients that require more dynamic and creative products.

Paul Warren
Associate Director, Aon Claims Consulting

Paul Warren is an Associate Director of Aon Claims Consulting. Based in Glasgow he covers all of the United Kingdom and Northern Ireland.

Paul has worked for Aon for 15 years and prior to this was a Loss Adjuster for GAB Robins. Paul has extensive experience in managing major loss insurance claims on behalf of clients with particular expertise in the manufacturing and education sectors. In addition he also now assists clients in developing their business interruption insurance programmes using his practical knowledge from handling large losses in their industries.

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Inperspective Retail & Wholesale Prize Draw Terms and Conditions

1. To enter the prize draw, simply leave your feedback on Inperspective via the following link https://www.surveymonkey.com/s/RWInperspective between 10 November and 5 December 2014.
2. Entries received after the closing date will not be accepted.
3. No purchase is necessary to enter into this prize draw.
4. One winner will win a prize of one hamper.
5. The prize is not transferable or redeemable for cash. No alternative prize[s] shall be available.
6. Only one entry per person.
7. Entry is open to UK residents over the age of 18 only. [Participants must have a full UK postal address in order to participate]. The Promoter may require proof of age [and address].
8. The Promoter accepts no responsibility for entries lost, damaged or delayed in transit. Proof of postage will not be accepted as proof of delivery.
9. Illegible, incomplete or inaccurate entries will be disqualified.
10. By entering the prize draw, the winning entrant consents to the publication of their name and photograph for promotional purposes.
11. The prize draw is not open to employees [or family members] of Aon UK Limited, its subsidiaries or any person directly or indirectly involved in the organisation or running of the prize draw.
12. If due to unforeseen circumstances the prize is not available, the Promoter reserves its right to provide an alternative prize of equivalent value at its discretion.
13. The draw will take place on Monday 8 December 2014. The winning entry will be chosen at random by an independent adjudicator.
14. The winner will be notified personally by email no later than Friday 12 December.
15. The name of the winning entrant will be available on request by writing to Nicola Collins, nicola.collins@aon.co.uk
16. The decision of the Promoter is final and no correspondence will be entered into.
17. If a prize is unclaimed after reasonable efforts have been made by the Promoter to contact the winner or, if in the Promoter’s reasonable opinion, awarding the prize to the winner may conflict with the Promoter’s Anti-Corruption Policy, Code of Business Conduct or any applicable anti-corruption laws, the prize will no longer be available to that individual without any liability to the Promoter and a new winner will be chosen at random from among the remaining eligible entries.
18. To the fullest extent permitted by law the Promoter excludes all liability for costs, charges or expenses, claims, damages and losses incurred in or connected with the use of the prize, or the winner’s inability to utilise the prize.
19. This prize draw is governed in accordance with the laws of England and Wales. By taking part you are deemed to have accepted and be bound by these terms.
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About Aon

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