

# Premium View

For insurance companies

Issue four | January 2014

Firstly, we would like to wish you all a Happy New Year 2014.

This edition provides a useful retrospective of 2013 and an outlook for 2014. There is a summary of our 2013 Global Risk Management Survey response from your sector, offering some insights into what they have been saying about insurance and risk management specifically for your industry, and our joint Industry Practice Leader William O’Kelly provides opinion on the market conditions you might expect in 2014.

## What the markets will be focusing on for 2014

Based on a round of reinsurance renewals at 1 January 2014 characterised by flat renewal premiums and the absence of significant adverse claims development during 2013 we anticipate a favourable renewal climate for insurance companies in 2014. We expect that the current ‘flight to quality’ effect in the FI market will continue to make insurance companies’ risks particularly attractive to FI underwriters. They will however be keeping a wary

eye on the many regulatory pressures on insurance companies, in particular the FCA’s continuing series of thematic reviews and the growing regulatory focus on product providers as well as sales practices, in investigating mis-selling issues. This plays out in your responses to Aon’s latest Global Risk Management Survey noting that our respondents’ perceived number 1 risk is ‘Regulatory / legislative changes’.

### Insurance market overview

#### Current status

<b>Capacity</b>	<ul style="list-style-type: none"> <li>■ The effect of claims activity is more than balanced by continuing in-flow of new capacity</li> <li>■ The move away from higher risk FIs by some markets has led to a concentration of more capacity in a shrinking pool of ‘attractive’ FI risks</li> </ul>
<b>Coverage</b>	<ul style="list-style-type: none"> <li>■ No ‘burning issues’ at present</li> <li>■ Some markets attempting to impose rate increases on risks with perceived broadening of coverage</li> </ul>
<b>Rates</b>	<ul style="list-style-type: none"> <li>■ Over capacity in the FI market is evident at both primary and excess levels</li> <li>■ This means that it is possible to drive competition even on large ‘capacity’ placements</li> </ul>
<b>Claims</b>	<ul style="list-style-type: none"> <li>■ Claims from early in the financial crisis are being paid but with less overall impact to the primary markets than initially feared</li> <li>■ Excess markets are beginning to pay out on these claims, but so far without any impact on pricing</li> </ul>

#### Future issues

<ul style="list-style-type: none"> <li>■ As the overall market continues to soften, we anticipate further rate pressure for FI underwriters</li> <li>■ Client differentiation will be continue to be important in securing capacity</li> </ul>
<ul style="list-style-type: none"> <li>■ Maintaining breadth of wording remains a priority as continuing financial scandals impact the market</li> <li>■ Changing ‘shape’ of claims (ie regulatory driven settlements) will drive demand for more responsive policy language</li> </ul>
<ul style="list-style-type: none"> <li>■ Growing number of potential lead markets (and lack of cohesion in the FI market) will continue to drive competition</li> <li>■ Risk differentiation supported by industry specific data remains a key factor in achieving the best results</li> </ul>
<ul style="list-style-type: none"> <li>■ Potential for carriers to seek to avoid claims on technical points means specialist wording review is essential to policy efficacy</li> </ul>

## Insurance and Investment Sector – Risk Survey

### Rankings

#### Insurance, Investment and Finance Top 10 Risks

- 1 Regulatory / legislative changes
- 2 Increasing competition
- 3 Economic slowdown / slow recovery
- 4 Damage to reputation / brand
- 5 Failure to innovate / meet customer needs
- 6 Growing burden and consequences of corporate governance / compliance\*
- 7 Business interruption
- 8 Weather / natural disasters\*
- 9 Failure to attract or retain top talent
- 10 Asset value volatility\*

The Insurance and Investment sector findings from Aon's 2013 Global Risk Management Survey have illustrated that while the more traditional top risks of 'Regulatory / legislative changes'(1), 'Increasing competition'(2) and 'Economic slowdown / slow recovery'(3) remain in the highest spots, there are also some fast-growing risks, such as the 'Failure to innovate / meet customer needs' which has gone from 'not-ranked' to the top 5 in the space of five years and 'Failure to attract or retain top talent' which, in the same amount of time, has risen from 'not-ranked' to the top 10, and is now predicted to be amongst the top 5 in 2016, with only half of the industry respondents claiming they are ready for it. (Overall, the industry's confidence in its readiness for the top 10 risks has fallen by 8%). It is perhaps not surprising then that, to mirror the top 10 rankings, those risks which have resulted in most financial loss are – in order – 'Regulatory / legislative changes', 'Increasing competition' and 'Economic slowdown / slow recovery'.

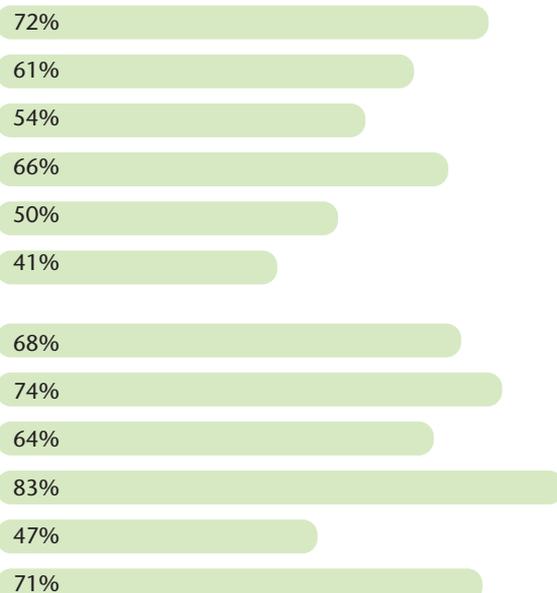
*\*Risks in Top 10 unique to Insurance, not present in Overall or 'Banks Report' Top 10*

### Projected top 10 risks (2016) and current industry 'readiness'

#### Insurance, Investment and Finance Top 10 Projected Risks in 2016

- 1 Increasing competition
- 2 Regulatory / legislative changes
- 3 Economic slowdown / slow recovery
- 4 Failure to innovate / meet customer needs
- 5 Failure to attract or retain top talent
- 6 Political risk / uncertainties
- 7 Growing burden and consequences of corporate governance / compliance\*
- 8 Capital availability / credit risk
- 9 Commodity price risk
- 10 Computer crime / hacking / viruses / malicious codes\*
- 10 Exchange rate fluctuation\*
- 10 Third party liability\*

#### Plan in place or formal review undertaken



*\*Risks in Top 10 unique to Insurance, not present in Overall or 'Banks Report' Top 10*

Alongside this, it is interesting to note that the risk of 'Asset value volatility' has fallen considerably from 2011 to 2013, and this corresponds with the statistic that 71% of companies suggest they are prepared for said risk; and could indicate why the risk does not even feature on the projected statistics for 2016.

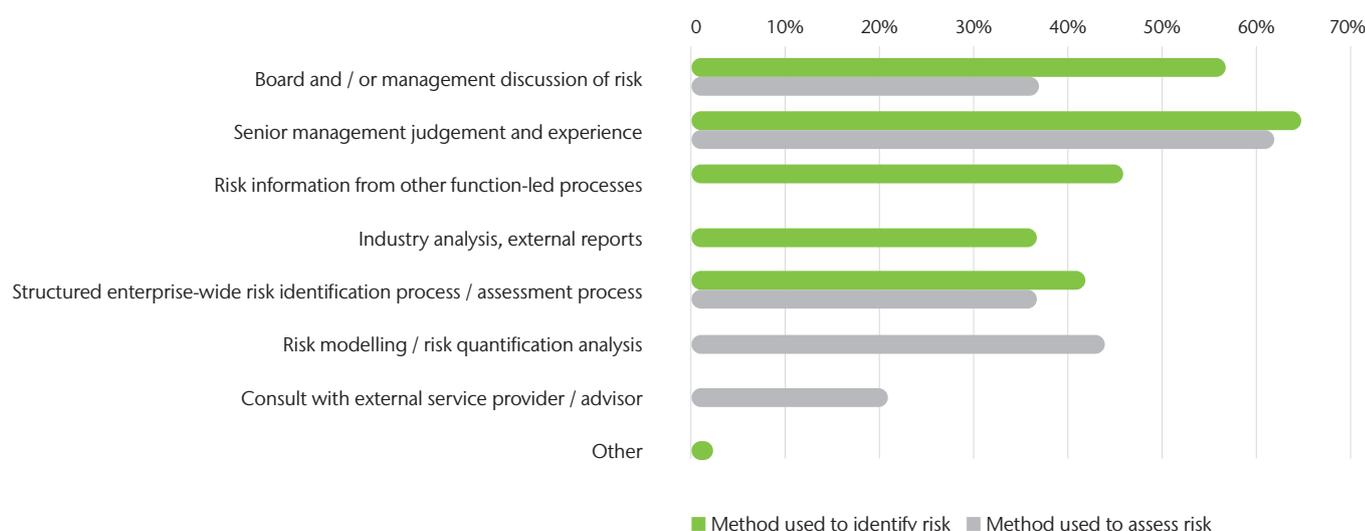
The three areas of risk for which the industry is least 'ready' (ie no plan in place or formal review done) are 'Globalization / emerging markets' (38%), 'Harassment / discrimination' (33%) and 'Distribution or supply chain failure' (29%). Related to their relatively low rankings of 35, 46 and 39 respectively, this could indicate they are simply not high enough on the Board's agenda to require a formal plan or review.

## Major risk identification and assessment

The below graphic illustrates responses given by the industry to the questions “What is the primary method(s) you use to **identify** the major risks facing your organization” and “What is the primary method(s) you use to **assess** the likelihood and potential impact of major risks?”

The survey indicates that senior management experience is most heavily relied upon when it comes to both identifying and assessing risk, which is as to be expected. However, it is interesting, but not highly surprising to note that ‘Board and / or management

discussion of risk’ is also used often in the identification of risk, but less so in the assessment of the risks than the assessment by ‘Risk information from other function-led processes’. In all, the Insurance and Investment sector reflects the overall results other than one particular area; that they are significantly more likely to use a ‘Structured enterprise-wide risk identification process’ in the identification and assessment of risks than generally reported by all industries.



## Determination of appropriate limits and insurer selection

In line with the overall results, Insurance and Investment companies mostly rely on ‘Management judgment and experience’ (60%), ‘Broker or independent consultant’ (50%) and ‘Benchmark against peers’ (40%), and although only 10% undertake a specific study or structured workshop, they do perform some form of ‘Quantitative analysis or metrics’ to determine what limits of insurance should be purchased.

Respondents were also asked for their opinion on the question “How important are the following to you in your choice of insurers?” Unlike the overall results for all industries, ‘Claims service & settlement’ was not the most important and it would appear that ‘Financial stability / rating’ is the most valued. Also in the top 3 is ‘Value for money / price’ which is unsurprising (however it has dropped from the number 2 spot in 2013, perhaps indicating that clients are beginning to value quality of service above a low price.)

Insurance & Investment sector	Rank	Overall Results (All sectors)
Financial stability / rating	1	Claims service & settlement
Claims service & settlement	2	Financial stability / rating
Value for money / price	3	Value for money / price
Industry experience	4	Industry experience
Long-term relationship	5	Capacity
Capacity	6	Long-term relationship
Flexibility / innovation / creativity	7	Flexibility / innovation / creativity
Speed and quality of documentation	8	Ability to deliver a global program
Ability to deliver a global program	9	Speed and quality of documentation
Risk control and engineering	10	Risk control and engineering

## Who's who in our team...



This edition features one of the key members of our Insurance Company Practice:  
**Rachel Ketland.**

**Current role:** Client Manager

**Years experience:** 10 years

### Which living person do you most admire and why?

I can't say that there is one particular person I most admire, as one person very rarely embodies all the qualities in the 'perfect' person, but someone who stands out is Rosalind Franklin who amongst other things contributed to our understanding of DNA structures at a time when female scientists were not commonplace.

### What single thing would improve the quality of your life?

I have a 50 minute train journey to work and feel like I spend a lot of time travelling each day, I came across this blog from a trader once who said, "the only truly valuable thing in life is time. It is the only thing that is not replenishable." I would agree with that! Although I would not want to live closer to the office, having the extra time each day by a shorter journey would improve the quality of my life.

### What is the most important lesson life has taught you?

To "get some perspective" – I think it is all too easy to get bogged down by the stresses and strains of daily life and when this happens I try and ask myself whether the particular problem I'm dealing with will still be in an issue in 5 years, 1 year or even next week, depending on the nature of the problem. A lot of the time the answer is no.

### Who would you invite to your dream dinner party?

I would have Gordon Ramsay to cook the food (as long as he doesn't swear at the guests!), Prince Harry for the entertainment and Audrey Hepburn to add some glamour.

### If you could have any job in the world, which one would you want?

It's not that I don't enjoy my current role – especially meeting and speaking with my clients, but sometimes I think I might prefer something more visually creative. The idea of being a florist appeals to me and I think it would be satisfying to create something tangible that will brighten up someone's day.

## Forthcoming event

### Aon Annual Insurance Company Forum 2014

12 March 2014 from 1:00pm

Barber Surgeons' Hall, London EC2Y 5BL

To register please email [julia.pescud@aon.co.uk](mailto:julia.pescud@aon.co.uk)

## Past event

### Aon's D&O Conference 2013 Boardroom Risks

It was good to see so many of you at our recent D&O event in London to address the concerns of trends in D&O facing ever-increasing regulatory requirements.

Assessing the risks facing the boardroom, the event took place in the City of London with keynote speakers including **Vivian Robinson Esq. QC**, author of *The FCPA and the UK Bribery Act: A Ready Reference for Business and Lawyers* and **David Bermingham**, one of the NatWest Three and author of *A Price to Pay*.

We partnered with Ace and AIG to provide the latest key trends in D&O, discussing the importance of the Board's understanding of the individual risks facing them personally, as well as facing their companies in order to understand whether they are adequately covered.

We hope to host another similar event later this year.

