Early Brexit moves provide comfort amid concerns about future of London market

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Big Interview: Liiba’s
Christopher Croft

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Lloyd’s seeks to smooth capital inflows following market-turning event

Corporation announces new measures to support syndicates following once-in-a-generation loss

Lloyd’s has unveiled plans to speed up the process of approving syndicate business plans in the aftermath of a market-turning event.

The measures were included as part of a report setting out six guiding principles explaining how Lloyd’s would respond to such an event, which produces an insurable loss so significant it results in a rapid upturn in pricing.

Lloyd’s said it would focus on shortening the review and agreement process of business and capital plans, “allowing syndicates to respond more effectively to the aftermath of a major catastrophe and enable capital to flow into the market more efficiently”.

The last clear market-changing event was caused by the World Trade Center attacks in September 2001, after which there were rate increases of approximately 40% across all classes of business. However, more than half the new reinsurance capital raised globally in the immediate aftermath of 9/11 went to Bermuda.

Jon Hancock, director of performance management at Lloyd’s, said the aim was to ensure the Lloyd’s market could “act swiftly and decisively to any future market-turning events”.

“We don’t want to impose overly burdensome requirements on syndicates or insist on any unnecessary processes or paperwork. We want to make it as straightforward as possible to raise new capital,” Hancock stated.

The six principles set out by Lloyd’s on responding to a market-turning event relate to crisis management – ensuring the market responds to a crisis effectively, pays claims as quickly as possible and remains solvent – and opportunities to support the market.

Lloyd’s also recommended managing agents consider in advance the possible implications of a market-turning event “and prepare suitably proportionate, robust and well-tested contingency plans”, it said.

Ed targets emerging market A&H growth with senior hire

Wholesale broking group Ed has appointed Roshan Choolhun as divisional director of its accident and health (A&H) and contingency business as it continues its hiring spree, writes Michael Faulkner.

Choolhun will be responsible for growing the A&H and contingency business, with a focus on developing Ed’s presence in the Middle East, Africa and Asia.

He joins from RKH Specialty, where he was a divisional director tasked with producing and broking Middle Eastern direct and facultative business.

Before that, Choolhun spent more than a decade at Chesterfield Insurance Brokers, culminating in his appointment as a producing broker with a focus on the Middle East and high-risk occupations and territories.

Andrew Wallin, Ed’s group commercial director, said: “Throughout his career, Roshan has demonstrated an exceptional ability to develop new business in emerging markets and is the ideal candidate to realise our ambitions for our A&H and contingency division.”

Choolhun’s appointment is the latest in a series of senior hires by Ed.
Early Brexit moves provide comfort amid concerns about future of London market

Insurance buyers worried about how multinational programmes will work once the UK leaves the EU

Concerns remain about the future health of the London marketplace after Brexit, but early moves by insurers to establish European subsidiaries have provided some comfort, according to Marsh’s chief executive for specialties, Roy White.

Addressing a panel discussion at the International Insurance Society’s annual Global Insurance Forum, White said clients’ main concerns were how their insurance programmes would work following the UK’s exit from the EU, the identity of the counterparty and how the transactional chain will work.

For global entities, one of the major worries is whether their multinational programme will remain seamless and operate in the same way as it has in the past.

But White suggested Brexit could act as a catalyst for a wider rethink of how the marketplace functions. “The proficiency of London in the future will determine our ability to service emerging market opportunities,” he said. “Many of the skills and qualities we have as a market will have great potency in emerging markets. My call to the marketplace is to think of the opportunities that could come to London post-Brexit.”

The executive also urged the market to be careful not to build any additional frictional costs into processes during this transition period.

He did provide some comfort to clients regarding their multinational programmes, which he said would continue to operate successfully when the UK leaves the EU. “I am confident the moves made by major carriers will mean multinational programmes can be served in the future,” he said.

Benno Reischel, head of Europe at Lloyd’s, said the market’s new Brussels-based insurance company would also mean multi-year programmes are unaffected.

“The existing situation is we are still in the EU, so all passporting and insurance policies are valid for the time being,” Reischel said. “Policies underwritten before the exit situation will be valid after the exit situation. We don’t foresee any regulator or government would disallow a claim in this scenario.

“After exit, policies will be written in Brussels. Our intention is to write business there from the January 1, 2019 renewal season, subject to regulatory approval.”

Around 5% of Lloyd’s premiums will go through the new subsidiary, but Reischel stressed Lloyd’s and the London market will continue to be able to access EU markets for the next 18 months at least. “We are very keen to see government put together a deal that will give us uninterrupted continued access to the EU market,” he said.

The European commercial insurance market is expected to grow by £10bn ($13.02bn) during the next five years, Reischel said, adding Lloyd’s will gain the confidence of local markets by having a presence on the ground in Brussels.

Areas of opportunity for the market in Europe include liability, driven in part by environmental issues, new technologies, marine, aviation and transport and emerging risks such as cyber, as well as political and credit risks, he added.

Karen Briggs, UK head of Brexit at KPMG, said companies were at various stages of preparedness for the UK’s departure from the EU, ranging from very prepared to those that are still waiting to see what will happen. “It should be seen as a catalyst to rethink business and deal with issues such as low productivity and the emergence of new technologies,” Briggs said.

She added regulatory guidance needed “urgent attention”, particularly on issues such as how Solvency II authorisation will work post-Brexit and how long-term contracts will be treated.

‘Many of the skills and qualities we have as a market will have great potency in emerging markets. My call to the marketplace is to think of the opportunities that could come to London post-Brexit’

Roy White
Marsh
The biggest challenge facing the London market is not ‘Uberisation’ but its inability to come up with a solution for its customers’ main risks, the chief executive of Lloyds says.

“London’s biggest challenge is shaping products customers actually want.”

The biggest threat facing the London market is the recent ‘Uberisation’ of the insurance market, which the chief executive of the London & International Insurance Brokers’ Association (Liiba), says is over-hyped.

Liiba, which represents 21,000 insurance brokers and industry experts, said: “The view in the market is, ‘It is just a ride-share service with self-driving cars.’ But you would have to be pretty naive to think that the market has changed that much. We are seeing a lot of new entrants, new risk profiles and new customer expectations. Insurers are having to change their risk profiles. And, if you are an end broker dealing with the client, which our members are, you cannot demonstrate that all the insurers on the risk are Uber compliant, you are exposed to significant penalties and will be required to produce the London & International Insurance Service Board’s (Liisa) insurance.

It is a situation which, according to Croft, could be “a big issue for many years to come.”

“The challenge for London, as an insurance market, is to shape the products customers actually want.”

“Fatca. An extreme example of this is having something that people can laugh at you. The view in the market is, ‘It is just a ride-share service with self-driving cars.’ But you would have to be pretty naive to think that the market has changed that much. We are seeing a lot of new entrants, new risk profiles and new customer expectations. Insurers are having to change their risk profiles. And, if you are an end broker dealing with the client, which our members are, you cannot demonstrate that all the insurers on the risk are Uber compliant, you are exposed to significant penalties and will be required to produce the London & International Insurance Service Board’s (Liisa) insurance.”

Indeed, one of those issues just outside the association’s top three priorities and one which cannot be ignored is the Foreign Account Tax Compliance Act (FATCA) legislation which has obtained that exemption.”

Liiba lobbying is important for its members. But Liiba is now seen as an ongoing challenge for brokers without a hope of ever achieving its objectives. “The situation is pretty close to the moment. And getting that message across is a challenge. The Treasury has been very good about it and is helping us. They have spoken to their counterparts in the US but, at the moment, the Treasury Department can’t really do anything about the issue because the Treasury administration had to make some key decisions.”

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Pakistan: JIT seeks official investigation of Sharif

The Joint Investigation Team (JIT), formed by Pakistan’s Supreme Court to investigate corruption allegations against the prime minister, Nawaz Sharif, and his family, submitted its findings on July 10.

Among several damaging conclusions, the JIT found the Sharif family had accumulated wealth that could not be explained by their declared income. The report went on to recommend an official investigation against Sharif by the National Accountability Bureau, the country’s primary anti-corruption body.

Although opposition figures have called on Sharif to resign, senior leaders of the ruling Pakistan Muslim League-Nawaz (PML-N) party have vehemently disputed the JIT’s findings. The Supreme Court will decide on the next steps in the investigation when it meets on July 18.

Pressure for Sharif to resign will intensify in this case, but he is still unlikely to do so. The exception is if the PML-N leadership forces him to resign, having calculated his continued premiership will derail the party’s re-election prospects in the 2018 general election.

However, the more likely scenario is Sharif will remain in power while the government becomes increasingly preoccupied with his survival and defence. This will detrimentally affect the government’s broader functioning, triggering a state of policy paralysis in most sectors apart from efforts to improve electricity supply ahead of elections.

Corruption allegations could curtail Temer’s Brazil presidency

Indictment threatens improving business environment, economic recovery and progress of pension reform

Serious corruption allegations against Brazil’s president, Michel Temer – the prosecutor-general has formally indicted him before the Supreme Court – are threatening to cut his presidency short, with the speaker of the Lower House, Rodrigo Maia, being mentioned as a potential substitute.

This has severe implications for Brazil at a time when the business environment is showing substantial improvement and the economy appears to be getting out of recession. More critically, the approval by Congress of important pension reforms, promoted by Temer as the central agenda of his administration, appears highly unlikely, as the crisis is undermining his support base in Congress.

Temer’s setback has seriously undermined the cohesion of the ruling coalition; the alliance of the Partido da Social Democracia Brasileiro, Temer’s party, and the Partido do Movimento Democrático Brasileiro has stayed with serious reservations, but with new serious corruption allegations against Temer emerging, the president of the PSDB is indicating his party is likely to leave too.

The chances of an interim government taking over are increasing, but it would be unlikely to maintain the momentum of the reform drive; political uncertainty would delay restoration of business confidence until a new government is elected in October 2018.

Libya: LNA’s victory against Islamic State in Benghazi reduces violent risks for commercial assets in the city

Field Marshal Khalifa Haftar declared victory on July 5 in the battle between the Libyan National Army (LNA) and Islamist militias and Islamic State for control of the eastern city of Benghazi.

The LNA offensive Operation Dignity has caused extensive damage to the city centre and displaced approximately 90,000 people since it began in May 2014.

Although fighting continues in isolated pockets of the city’s Sabri district, the LNA will probably consolidate its control over the city in the coming weeks. This will reduce violent risks at key commercial assets, including Benina International Airport, where commercial flights were to resume on July 15, and at Benghazi seaport, where engineers are assessing damage to infrastructure.

Although major fighting is at an end, both targeted and collateral death and injury risks in Benghazi are likely to remain high for the foreseeable future. Western Libyan forces have frequently accused the LNA of turning a blind eye to Islamic State operations to strengthen their own position against rivals.

Accordingly, hundreds of Islamic State fighters are likely to have escaped Benghazi, despite the intensity of fighting. Although some of them are likely to have joined up with Islamic State remnants around Bani Walid and in the Fezzan, others will remain in the east to train and launch attacks.

Bolivia: PCC raid kills five

On July 13, suspected members of one of Brazil’s largest organised crime groups, the Primer Comando da Capital (PCC), assaulted a luxury jewellery store in the business district of Santa Cruz, Bolivia’s commercial hub.

The raid, carried out with M16 assault rifles, left five people dead, including a police officer, and was the second high-profile incident involving suspected members of the PCC this year.

These incidents provide an early indication of a shift in criminal activity by the group, from drug trade logistics and related enforcement activities to specifically targeting Bolivian-based commercial assets for robbery.

The PCC has a culture of violence and its recent assaults in Bolivia indicate it is able to obtain assault rifles and other firearms for use in the country. Businesses and cargo drivers who are victims of assault will face a high risk of death or injury as a result.

Somalia: pirates fail with attacks

Four piracy incidents involving Somalia-based pirates were reported last month, all unsuccessful.

Two of the attempts were defeated by the presence of onboard armed security guards. One of the attempts involved pirates using a mother ship.

The reported sinking of a tanker on June 27 is assessed not to have involved piracy.

An al-Shabaab jihadist attack on a Puntland military post on June 8 indicates a deteriorating security environment onshore, which works to the advantage of would-be pirates.

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Reinsurers must better understand their portfolios as risks become more intertwined

Reinurers must improve their understanding of their risk exposures in an increasingly interconnected world, industry experts have warned.

Speaking at an event at Lloyd’s, industry experts said recent years had seen an unprecedented shift in the risk landscape, with non-correlated risks becoming increasingly intertwined. This has proved problematic for reinsurers in understanding their exposures.

Adriano Bastiani, head of casualty facultative for global clients, North America at Munich Re, said: “In an increasingly connected world, corporates and their net-works need to prepare for more unpredictable ‘black swan’ events, which are caused when a local event produces a ‘butterfly effect’ and unleashes a cascade of further events through the network, impacting numerous corporates along the way,” Basi added.

Jamie Bouloux, chief executive of EmergIn Risk, a London-based risk management software company, said: “Companies have to create a culture that embraces change,” Bouloux said.

Risk management was central to this, he continued. “People can be the biggest contributors to managing risk but also the biggest flaw in this, and become risk themselves,” he said.

Bouloux said companies needed to take an innovative approach to their risk management to ensure it addresses the increased exposures in an interconnected global economy.

Brown & Brown reports organic growth slowdown

US broking group Brown & Brown opened the results season, reporting a slowdown in organic growth in the second quarter of the year, writes Michael Faulkner.

The Florida-based group booked fees and commissions of $464.7m for the three months to the end of June, representing 1.6% organic growth compared to the same period last year. But growth was lower than a year ago, when the broker booked organic revenue growth of 2.6% in the second quarter of 2016.

Profitability also declined. Income before income taxes for the second quarter was $108m – down 0.9% compared to last year. Ebitdac (earnings before interest, income taxes, depreciation, amortisation and the change in estimated acquisition earnout payables) for the second quarter edged down 0.5% to $150.6m, while the Ebitdac margin shrank 1.2 points to 32.3%.

J Powell Brown, Brown & Brown’s president and chief executive, said: “We are pleased with our quarterly results and year-to-date performance.”

Patria Re swoops on Berkley Re for divisional director

Lloyd’s special-purpose syndicate Patria Re has added two underwriters to its team in London, writes Michael Faulkner.

Nicolas Benardout has been named divisional director at the reinsurer, having joined from Berkley Re UK, where he was most recently head of property treaty.

He is joined by Jack Bunting, an assistant underwriter at Berkley Re. Bunting will become assistant underwriter for Patria Re’s international property treaty business lines.

Patria Re, which underwrites Latin American reinsurance at Lloyd’s, is managed by Ironshore International’s Pembroke Managing Agency. Launched in 2016, it was the first Mexican insurer to join the Lloyd’s platform.

“The Patria Re Lloyd’s SPA [special-purpose arrangement] has built a broad and diverse portfolio based on established Patria Re relationships,” Chris Brown, Pembroke strategic partnership director, said. “Nick and Jack’s expertise will enable the SPA to continue to build on the robust foundation that has been established.”