

CorporateLiveWire

INSURANCE & RISK MANAGEMENT 2018

VIRTUAL ROUND TABLE

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Introduction & Contents

The Insurance & Risk Management Roundtable features 7 experts from around the world. Key topics include recent regulatory changes, digital disruption, the potential implications of Brexit, cyber security, and emerging trends. Featured countries are: Australia, Peru, United Kingdom, and the United States.



James Drakeford
Editor In Chief



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Meet The Experts



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I have worked in the insurance industry for 25 years in a variety of different roles. My career started in Royal insurance in the direct personal lines arms. During my time at RSA I was fortunate to have gained experience in many different divisions including Construction, Engineering and Renewable energy and the Global sales team. Following RSA I spent some time managing the South West region for Liverpool Victoria with responsibility for the commercial book. Whilst a majority of my career has been in the composite market the last eight months has been spent with Accelerate Underwriting, a MGA specializing in non standard commercial combined business and schemes.



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David Farrell heads the Insurance Law and Litigation Groups of Goldrick Farrell Mullan.

He studied Law and Commerce at the University of NSW and has been in practice since 1984. David has built a reputation as a leading Australian lawyer in the areas of insurance and commercial litigation.

He has acted for insurance companies, banks and large corporations as well as for small businesses and individuals. David regularly appears in the Supreme and District Courts of NSW, the Supreme Court of the ACT and the Federal Court of Australia. He has also been engaged in interstate cases in Western Australia, South Australia, Victoria and Queensland.

David has experience in insurance claims arising from damaged underground services (both gas and electricity), supply and application of chemicals, accidents at building sites, fires caused by electrical faults or installation of equipment, undermining of building foundations, failure of cladding applied to office buildings and defect claims involving entrances, doors and lifts of office buildings. He has experience in litigating contract breaches involved in such incidents and is an expert on drafting and interpreting indemnity and insurance clauses in contracts. He can provide advice on the meaning and extent of cover under insurance policies and the effect of additional cover clauses, exclusion clauses, dual insurance issues, cover notes and multi-layered insurance facilities.

He can advise and assist on all aspects of commercial or insurance disputes and his many years of experience enables him to provide proactive legal audits for clients to avoid costly disputes and litigation.

His approach is to attempt to resolve disputes on a commercial basis where possible with extensive use of private negotiations and alternative dispute resolution. Where this is not possible David and his team of litigation lawyers can provide a cost effective litigation service to enforce our client's rights.

David also acts for employers and employees in drafting employment contracts and advising in relation to separation and redundancy issues.

David is based at the firm's Sydney Head Office and also attends the Canberra office regularly to meet clients and attend Court.

Meet The Experts



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Walter's practice focuses on complex insurance litigation, counseling and reinsurance arbitrations and expert witness testimony. As the head of the firm's insurance coverage practice, Walter offers clients more than 25 years of experience managing insurance-related issues, including program audits, policy manuscripting, counseling, litigation and arbitration. He works with companies in a diverse range of industries, including financial services, consumer products, food and beverages, chemicals, real estate and municipalities.

Walter is admitted to practice before a variety of courts and arbitral bodies across the United States and abroad. He litigates insurance coverage and bad faith disputes around the nation. These matters involve a variety of insurance contracts, including professional liability, first party property, general liability insurance policies, cyberinsurance, and various reinsurance agreements.



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Principal partner of Osterling Abogados, where he has developed his entire professional career. He directs the areas of Insurance and Reinsurance, Dispute Resolution and Corporate Law of the firm. He is widely recognized for his skill as a lawyer and as an arbitrator, for the settlement of disputes in civil and commercial matters. Represents a broad portfolio of important companies in the industrial, energy, banking and insurance sectors.

Despite the complexity of the Peruvian insurance market, Enrique dominates all the regulatory and commercial aspects of this sector and advises the majority of leading companies in this field that operate in the country, in complex litigation and arbitration as well as in non-contentious matters. It has a great capacity to handle disputes and complex claims related to discussion of coverage, misinterpretation of policies and liability risks (civil, professional, D & O, E & O, CAR), among others. To date he has resolved claims for more than 1500 million dollars.



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Simon is a Dip CII qualified professional with over ten years' experience working in London and Regional Insurance markets. Having gained a 2.1 honours degree in Business Studies Simon's career started at Hiscox, during which time he wrote professional indemnity, financial lines and commercial risks. Subsequent moves have seen him focus on Technology and Cyber Risks at CNA and most recently QBE where he was the Senior Technology and Cyber Underwriter. A frequent speaker at industry and client sponsored events, Simon's breadth of knowledge and underwriting ability ranges from the very small to the multinational risks seen in the London Market.



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Carol Lyons is co-chair of McMillan's Financial Services Regulatory Group. She advises clients on a variety of corporate/commercial matters, including mergers and acquisitions, corporate reorganizations, contract procurement, and formation of strategic alliances. Carol specializes in working with clients in the insurance industry and her practice includes assisting insurers and reinsurers with transactions and regulatory matters. Carol is Chair and sits on various Committees of a leading Canadian reinsurance company that is a subsidiary of a multi-national reinsurer, past Corporate Secretary of two Canadian property and casualty companies, Advisory Board Member and Audit Committee Member of an Ontario insurance reciprocal and participates on various charitable boards.

Q1. Can you outline the current insurance regulatory landscape in your jurisdiction?



Paul Wordley

The UK has a 'twin peaks' system of regulation. The Prudential Regulatory Authority (PRA), which is part of the Bank of England, promotes the safety and soundness of insurers, and the protection of policyholders and The Financial Conduct Authority (FCA) regulates how these firms behave. The regulatory landscape in the London Market is a strong one with a new wave of regulatory initiatives beginning to impact Britain's insurance sector. In February 2018, the Insurance Distribution Directive came into force and the PRA has this month begun issuing a series of consultations on technical issues.



Enrique Ferrando Gamarra

The main Peruvian legislation in insurance is the Insurance Contract Act (Law 29946) in force since May 2013, and the General Banking and Insurance Act – Law 26702, (the General Act). On the other hand, the Superintendence of Banking, Insurance and Private Pension Funds (SBS) has issued rules related to multiple insurance matters, such as (i) distribution, (ii) payment of losses, (iii) premium payment, (iv) reinsurance contracting and (v) registration of auxiliaries and intermediaries, among others.

Contrary to the Common Law legal framework, legal precedents are not relevant in our jurisdiction, unless there is a specific legal disposition in such regard.

In order to become an insurer in Peru, the insurance company must be authorised by the SBS. For this registration, the insurer has to file an application before the SBS with all the requirements listed on both the Insurance Contract Act and the General Act, providing information related to his shareholders, directors and managers, financial information of his own and from his related companies, among other documents and data required by the SBS.

Regarding the solvency requirements for an insurance or reinsurance company, for Q4-2018, an insurance company must have as minimum capital: (i) PEN 4,963,698.00 (£1,156,839.46 approx.) for an Insurance Company that operates in one branch (life or general risks); (ii) PEN 6,823,254.00 (£1,590,227.58 approx.) for an Insurance Company that operates in both branches (life and general risks); (iii) PEN 17,371,111.00 (£4,048,511.13 approx.) for an Insurance and Reinsurance Company; and (iv) PEN 10,547,857.00 (£2,458,283.55 approx.) for a Reinsurance Company.

There are also rules regarding the "Solvency Patrimony" and "Effective Patrimony", both are formulas applied to measure the amount of the insurer's assets in order to determine if such assets will allow him to fulfil with his obligations. The General Act also requires from the insurer to constitute Technical Reserves and to back up their total associated obligations towards the insurance business with assets and investments.

On the other hand, to commercialise insurances policies, they must to be registered before the SBS, who shall approve the General Conditions of such policies.

Finally, there is no special tax provision for insurance companies in Peru. The insurer shall be subject to the general taxation regimen, paying the 30% of their profits.

"The regulatory landscape in the London Market is a strong one with a new wave of regulatory initiatives beginning to impact Britain's insurance sector."

- Paul Wordley -

Q1. Can you outline the current insurance regulatory landscape in your jurisdiction?



Carol Lyons

In Canada, responsibility for law-making is shared among the federal government and the governments of 10 provinces and three territories (“provinces”). Under Canada’s constitution, there is a division of powers between the federal and provincial governments. The federal government makes laws for the whole of Canada in respect of matters assigned to it by the constitution. Likewise, a provincial legislature has legislative jurisdiction relative to the subject matters over which it has been assigned by the constitution. In the context of insurance, this jurisdiction is shared but somewhat compartmentalised. For example, the federal government has jurisdiction over the prudential regulation (e.g. solvency and governance) of entities that are authorised federally to provide insurance products (“insurers”), while the provinces have authority over the market conduct (e.g. point-of sale activities, policy coverage, etc.) of insurers carrying on business in their jurisdictions. In the case of insurance providers that are provincially-incorporated, the province in question regulates the entity with respect to prudential matters as well as market conduct.

Unlike the rest of the Canadian provinces, which are common law jurisdictions, Québec is a civil law jurisdiction. The general principles of Québec insurance law are contained in the Civil Code of Québec.

As a result of the shared constitutional jurisdiction, there is a federal insurance regulator, the Office of the Superintendent of Financial Institutions (OSFI), and each province also has its own insurance regulatory authority; for example, the Financial Institutions Commission in British Columbia, Alberta Treasury Board and Finance, the Financial Services Commission of Ontario and l’*autorité des marchés financiers* in Québec. The provincial insurance regulators are typically government agencies that report to the Minister of Finance of the provincial government. Even though an insurer may be federally-incorporated (or federally authorised, in the case of a branch of a foreign insurer) – and hence under OSFI’s jurisdiction – in order to carry on business in a province, the insurer must also obtain a license to carry on the business of insurance within the province.



David Farrell

Australia has a federal government system. Commonwealth government bodies and legislation regulates the Australian insurance industry. The Australian Prudential Regulation Authority (APRA) is the regulator of the insurance industry. The main legislation it administers are the Insurance Act and the Insurance Contracts Act. APRA has responsibility for general insurance, life Insurance private health Insurance, superannuation and authorised deposit taking. Insurance companies hold licences issued by ASIC. The Privacy Act also impacts on the insurance industry due to the amount and sensitivity of the information that insurers hold about their customers. There is separate regulatory oversight of the Privacy Act.



Lisa Brennan

GDPR, Solvency II and insurance distribution directive have and will continue to impact the insurance market. GDPR was probably less of a challenge than it was made out to be and most firms and customers have embraced the concept and moved on. IDD has a number of facets which impact in different ways. As a company if you have a robust training and education programme and embrace personal development in your employees then the training and competence aspect will already be best practice. Equally the rules surrounding AR’s and introducer appointed reps will in the main already be compliant and the wider use of IPID’s will satisfy the increased awareness around product governance and suitability.

Q2. Have there been any recent regulatory changes or interesting developments?



Paul Wordley

As well as on-going regulatory challenges, the UK's exit from the European Union could affect insurance regulation, in particular in relation to Solvency II. The PRA has undertaken a number of consultations recently relating to technical issues and as well as the Insurance Distribution Directive coming into force, Brexit is the new main regulatory headache for the insurance market. The PRA recently published a supervisory statement (SS2/18) setting out how it will authorise and supervise "third-country" insurance branches in the UK. The FCA is currently carrying out a market study into the wholesale insurance broker market and we are still awaiting the final report. In the meantime the FCA and PRA have continued work on extending the Senior Manager and Certification Regime to insurers, and the PRA's Senior Insurance Managers Regime now has an implementation date of 10 December 2018.



Simon Calderbank

We have seen a large amount of regulatory change in 2018 with the release of two new laws in the UK. These laws address different topics that overlap slightly and have a direct impact on how companies address cyber risks. They are, respectively, the Network and Information Systems Regulations 2018 (NIS) which concerns the security of networks and information systems and the digital data they contain; and the General Data Protection Regulation (GDPR) which concerns the processing of all personal data.

Those affected by the NIS are deeply impacted, however the GDPR's impact affects a wider audience. GDPR has become a hot topic, discussed not only in insurance circles but across all businesses, as it focuses on the personal data that is collected and processed by all companies. It applies several regulations with which companies need to comply. Non-compliance with these regulations carries the risk of potentially heavy fines and penalties.



Enrique Ferrando Gamarra

Recently, new rules for taking out reinsurance and coinsurance have entered into force. These new rules allow insurers to incorporate two new types of agreements in their reinsurance contracts.

This new regulation allows a clause in insurance and reinsurance contracts enabling the insurer to pay the loss when the reinsurer pays first (such as "pay when paid" provisions). This clause, however, could only be agreed in fronting operations when the insurer transfers the 100% of the risk. This is an exception to what is established in the Insurance Contract Act that states that insurance contracts cannot be subject to reinsurance contracts.

Likewise, the new rules allow Peruvian insurance companies to hire financial reinsurance ("Fin Re"). In order to enter into a Fin Re, Peruvian insurers must obtain an authorisation from the SBS and the Fin Re's operation will be subject to it continuous evaluation.

"Those affected by the NIS are deeply impacted, however the GDPR's impact affects a wider audience. GDPR has become a hot topic, discussed not only in insurance circles but across all businesses, as it focuses on the personal data that is collected and processed by all companies."

- Simon Calderbank -

Q2. Have there been any recent regulatory changes or interesting developments?



Carol Lyons

In Ontario (Canada's most populated province), the new Financial Services Regulatory Authority (FSRA) is expected to become fully operational in April 2019. It will replace the existing Financial Services Commission of Ontario (FSCO) which regulates, among other things, insurance in Ontario. The creation of the FSRA resulted from a public review of FSCO's mandates commissioned by the Ontario Minister of Finance in 2015. The FSRA is a new, independent regulatory agency established by legislation with a mandate to improve consumer protections in Ontario. Its stated intention is to be "an innovative, self-funded regulator capable of responding to the dynamic pace of change in marketplace, industry and consumer expectations". In addition to property and casualty insurance and life and health insurance, the FSRA will regulate credit unions/*caisses populaires*, loan and trust companies, mortgage brokers, health service providers (related to automobile insurance) and pension plan administrators.

A current major focus of financial services industry regulators in Canada is the fair treatment of consumers. In September 2018, the insurance regulatory authority of Ontario, the Financial Services Commission of Ontario (FSCO) – soon to be replaced by the Financial Services Regulatory Authority as indicated above – issued the final version of its guideline entitled Treating Financial Services Consumers Fairly. This guideline applies to insurers in addition to the other financial services entities regulated by FSCO in the province. It came on the heels of a guideline released the previous day jointly by the Canadian Council of Insurance Regulators and the Canadian Insurance Services Regulatory Organizations entitled Conduct of Insurance Business and Fair Treatment of Customers, this joint guidance being geared specifically for the insurance industry (e.g. insurers and insurance intermediaries). The Canadian Council of Insurance Regulators is an association of insurance regulators made up of the Superintendents of Insurance of each Canadian province and territory (13 in all) and a representative of the federal Office of the Superintendent of Financial Institutions.



David Farrell

In addition to looking at loan issue, the Banking Royal Commission is investigating the operation of the insurance arms of the major Australian Banks particularly group life insurance and disability insurance bundled with superannuation policy both with respect to pricing and claim handling. The Royal Commission is still sitting, but based on the comments made by the Commissioner, its recommendations are likely to include a more aggressive approach by the banking regulator which is likely to have an effect on APRA's approach to insurance.



Lisa Brennan

The insurance distribution directive has added some additional challenges to the schemes arena in that brokers and insurers must take a closer look at the suitability assessment requirements. It is no longer the case that a scheme can be set up simply because a broker feels there may be a need for that scheme, full and proper research must be carried out in order to ensure that schemes are fit for purpose and have the necessary features and benefits for the end client. In addition, the IDD brings in new product oversight and governance arrangements, again ensuring that everyone involved in the build and distribution of schemes has carried out proper research into the identified target market.

"The Canadian Council of Insurance Regulators is an association of insurance regulators made up of the Superintendents of Insurance of each Canadian province and territory (13 in all) and a representative of the federal Office of the Superintendent of Financial Institutions."

- Carol Lyons -

Q3. Are you noticing any new trends in terms of business models and strategies?



Paul Wordley

UK insurers can't stand by the wayside and watch the InsurTech and Brexit juggernauts roll by. Both these elements will dictate their ultimate survival in the UK market. Even under a veil of uncertainty many insurers need to restructure, move teams, head offices and alter the way in which they do business to accommodate the changes. The issue of contract continuity is still to be resolved and many of the market associations have contacted the Prime Minister to voice their opinions. There is still some doubt as to whether UK insurers will remain licenced to pay claims in a few EU countries without an agreement in place.



Simon Calderbank

Awareness of cyber risks has continued to build over the last five years. Executive boards are now awakened to the potential threats and financial damages that could arise from a cyber incident. As such, companies have largely been focusing on protection over the last few years; building a metaphorical wall of technology around themselves in an attempt to thwart cyber-attacks. However, a cyber-aware company culture and staff is equally, if not more, important. In fact, it is crucial and companies now ensure cyber training firmly forms part of their risk management strategy. The reason being is that most cyber incidents involve a human element, so staff awareness and controls can really help reduce the likelihood of a cyber incident and its severity.

Of course, hackers will always try to find a way and are constantly changing strategies. So, strengthening that wall by building even more layers of protection, along with greater staff training and awareness means businesses can fortify their defence in order to be as prepared as possible.



Carol Lyons

(i) Digitalisation and the internet: Technology in the context of insurance (insurtech) has been a topic for discussion for some time, and many insurers are working on digitalising the whole insurance process (from point of sale to claims settlement). This is in order to correspond with other emerging areas of financial technology (fintech) and address the modern needs and preferences of consumers.

(ii) Expansion of fintech activities: Efforts are being made by legislators and insurance regulatory authorities to provide more flexibility to insurers to carry on fintech activities. For example:

Legislation has been introduced by the Canadian Federal Government that would expand the scope of permitted activities that may be undertaken by insurers, including by (a) removing the requirement for regulatory approval in order for insurers to engage in certain technology-related activities, (b) adding certain activities relating to the design, development, manufacture and sale of technology as activities that insurers may specifically engage in, and (c) expanding an insurer's powers to engage in certain networking activities.

In Ontario, the board of directors of the new Financial Services Regulatory Authority (FSRA) has recognised that regulators must adapt to become more agile and responsive in light of the emergence of new technologies, business models, products and services. In its April 2018 Progress Report, the board of FSRA stated that its initial strategic framework includes key enablers to ensure "effective, adaptive, agile and modernised financial services regulation" and its strategic direction includes the promotion of "innovation and competition".

Q3. Are you noticing any new trends in terms of business models and strategies?



David Farrell

Most major Australian Banks are moving out of the insurance industry which will have an impact on life insurance and the total and permanent disablement insurance sectors over the next two years with some new opportunities for exiting insurers and new entrants. The general insurance sector has been dominated by local Australian insurers, whereas overseas insurers are taking up an increasing market share in the business insurance sector.



Lisa Brennan

There has been a significant rise in the number of business acquisitions within the industry of late and we have seen the consolidators increase in size and footprint considerably – particularly those backed by PE. Insurance brokers are facing difficult times in a market which is experiencing pressure in terms of increased regulation and premium competition meaning that the safety of a consolidation offers them operational efficiencies they cannot achieve alone. This can offer both opportunities and challenges for insurers as the broker market narrows and independent brokers become few and far between. These independent smaller operators however then have an opportunity to explore opportunities within niche markets offering a more personalised customer experience and speciality products

Q4. Are there any compliance issues or potential pitfalls in risk management that firms need to be cautious about?



Simon Calderbank

It is important for companies to diversify their points of defence, but it is also important to diversify providers too. Building options and contingencies into daily operations allows an incident to be mitigated quickly and efficiently.

Tempted by cost savings, some companies may look to hold all their data in one location or access only over one channel, but this only provides a greater jackpot for anyone attempting to obtain that data illicitly. Segregation of data and systems along with restricted access points is one of the most effective ways of making it difficult for any hacker to access valuable data. In addition, monitoring these access points so as to alert the company of any unauthorised access attempt means that plans to reduce or neutralise its impact can be actioned faster and the likelihood of a loss is mitigated.

Q5. How does the current economic climate and market conditions impact portfolio risk appetite and tolerance?



Paul Wordley

Continued uncertainty surrounding the country's proposed exit from the European Union, and the lack of clarity on the future position of the financial services industry and its continuing ability to conduct business on the European continent has made for a focus on protecting that ability. From an appetite and tolerance perspective most incumbents had been considering the Brexit scenario in their conditions in previous years but what had not been expected was the down-to-the-wire nature of Brexit negotiations which have themselves made it difficult for businesses to set out risk appetite and tolerance levels with confidence. This has necessarily caused some businesses to divert resources to planning for the unknown, with the necessary overall reduction in bandwidth and a cooling effect on short and midterm risk appetites.

Q5. How does the current economic climate and market conditions impact portfolio risk appetite and tolerance?



Simon Calderbank

Currently, larger companies recognise that not having a cyber insurance policy could be financially detrimental, be it today or in the future. So, there is a willingness to purchase protection against cyber threats, which in turn assists with the development of the market. However, smaller sized companies – perhaps under the false impression that they are “not interesting” to hackers – are less likely to purchase such a product.

In addition to the above, there are other factors that renders its implementation difficult. For example, insurers competing for primary positions tend to include non-cyber related coverages such as system failure. More conscientious insurers cannot compete here, as although the broker understandably looks to get the best deal for clients, the increasing number of related claims to this risk leaves it largely unquestionable, and it is only a matter of time before the insurance market decides it cannot continue to take the weight of this risk.



David Farrell

Premium pressure in the Directors and Officers segment is expected due to the Banking Royal Commission and the likelihood of a recommendation by the Commissioner that ASIC take more matters to court rather than entering into binding undertakings and penalty settlements and the prospect of class actions arising from the conduct exposed in the Royal Commission.

Q6. What are the biggest challenges currently facing the insurance & risk management industry?



Simon Calderbank

In short: silent cyber. That is to say, cyber is intertwined in everything we do and cyber coverage is contemplated, to a certain degree and without specific mention, in many of the policies that are currently purchased. This was fine 10-20 years ago as companies were not harvesting huge volumes of data back then.

Today, however, data volume, client awareness and the law have advanced further than these coverages can reach, leaving companies exposed and needing to consider and price these risks separately. There are some claims currently under discussion that bring into question silent cyber, the outcomes of which will potentially change the face of wordings and coverage going forward for all lines of insurance business.



Enrique Ferrando Gamarra

The biggest challenge in the Peruvian Insurance Market is the lack of a culture on taking out insurance. It is unusual for Peruvian citizens to be aware of the risks around a determinate property or business and, therefore, the use of insurance coverage is not common.

According to APESEG (The Peruvian Insurance Companies Association), only 3.2 % of the households in Peru are insured. Also, in Q3-2018, total premiums represented 1.7% of GDP, a low number compared with other countries of LatAm (the percentage of Chile, for example, is 4.2%).

However, the bright side of this reality is the opportunity for current Peruvian insurance companies (and for any new company who is planning to operate in Peru) to have a broad market not yet explored.

Q6. What are the biggest challenges currently facing the insurance & risk management industry?



Walter J. Andrews

The exposure to data breaches and related cyber security incidents is the biggest risk management challenge. Insurers in the US alone received \$2 billion in premium for cyber insurance policies in 2017, making it the fastest growing insurance segment. 170 different US insurers reported selling some type of cyber insurance. Yes, cyber-crime costs are projected to reach \$2 trillion by 2019, and the average breach costs over \$7 million. There is a serious question as to whether insurers can actually weather that storm and recover their expected losses in premium. The current products appear to be grossly under-priced – due to the competition – given the exposure and the numerous gaps in the coverage provided. New entrants into the market place make it even riskier. There is likely to be some contraction in that area in the future.



David Farrell

The biggest challenge will be dealing with the new regulatory environment that will result from the Banking Royal Commission. While it is concentrating on the large banks the comments about the regulators taking companies to court hearings will be a significant challenge as it is likely to affect all regulators of industry including insurance.

Q7. What areas of risk management are most frequently neglected?



Simon Calderbank

We often see simple issues such as controls on removable media usage not being exercised. Restricting access to USB ports can reduce the possibility of staff taking data outside the business as well as viruses and malware being introduced to the systems. Companies that need these tools to operate should ensure automatic scanning of removable media prior to any data transfer.

Also, we see more complex issues, yet often fundamental, such as constant improvement of planning being overlooked. Understanding what to do following a Cyber incident, regardless of your level or type of employment in the company, is critical in reducing the impact of any incident. Having playbooks with plans and clear roles and responsibilities which have been regularly tested and modified is crucial. Those involved in the response process should also have specific expert training to hone skills and make the response innate.



Walter J. Andrews

Risk managers and insurers have a really bad track record in predicting “black swan” or truly catastrophic events. By attempting to focus on predicting extreme events, risk management professional often end up neglecting the more predictable events. And, also, by focusing on the predictability of the event rather than the consequences, risk managers often underinsure the consequences of such catastrophic events. In that vein, risk managers also fall prey to the mistake that if a risk can’t be quantified, then it can’t be managed. That appears to often be the case in the cyber security space where the vast majority of companies are underinsured with respect to a catastrophic cyber security incident even though it is predictable that such an incident will, indeed, occur.

Q8. How is digital disruption transforming the insurance sector?



Paul Wordley

Having new innovators in the industry is forcing the 'old guard' to either get in on the new technology or fear being left behind. In the past, regulation and product complexity have been barriers to entry for new entrants but not anymore. Insurer business models have had to adapt with the new technology. The emergence of so many InsurTech players is creating a very exciting time in the progress of the insurance industry and the customer is now coming back into the driving seat. They are voting with their feet and trying out new apps and technologies that suit their lives better and are at the price and level of service they expect. At the heart of all these new technologies are people who want to do things differently, to better the customer experience and make insurance more accessible for all. This all equates to less form filling and better customer outcomes. Insurance companies that move swiftly and decisively and embrace the new technology are likely to be those that flourish.



Enrique Ferrando Gamarra

Digital disruption is transforming the insurance sector allowing new ways to hire insurances for customers. The pioneer in this field is the company called "Hello Zum" – which after only a few months of operations has already grown exponentially, acquiring clients such as Scotiabank and Sanna (health services company), when they originally started offering car insurance by the end of 2017. In February 2018, they issued the first 100% digital car insurance policy in Peru.

Although it appears that similar products have not yet been launched on the market, insurance companies such as Rimac and Pacifico has developed apps where insurance-related information is available, showing that it is probably only a matter of time before to see them either developing an InsurTech product themselves or outsourcing it.

In Peru there are rules on the use of digital policies. This scenario will open doors for insurTech technologies to be developed in our country. Also, there are rules related to the purchase of insurances through the internet, telephone or other communication channels.

Regulations already in force in Peru allow insurers to use their own digital platforms. However, they are currently allowed to offer mass insurance only (individual or collective).



Walter J. Andrews

Younger and more tech-savvy purchasers of insurance want to use digital touchpoints for their insurance purchases. Those portions of the traditional insurance industry that don't adapt will lose business. Customers want simplicity—digital shopping, for example. They want 24-hour access and quick delivery, easy access to clear, relevant information about a product's features, particularly in relation to pricing, and innovative, clear services designed for the digital age. They want "smart" contracts. And, they have the same expectations whatever the service provider, insurers included. Also, by digitising their existing business, carriers can remove significant costs, further increasing customer value. That can be true for both underwriting and claims handling. Again, those that lag behind these initiatives will also lag behind in profitability.



Lisa Brennan

There is no doubt that digital disruption will benefit the sector in many ways. We must however be careful to ensure that a one size fits all approach is not taken. Whilst a slick and efficient way of managing business is essential it is also increasingly important to remember that every client is an individual. We can of course identify some common denominators among end customers however there will always be an exception to the rule and this is where traditional underwriting comes into its own. Where digital will play an increasingly important role going forward is in analytics. Being able to identify patterns and trends is what will help us drive efficiencies in insurance in the future enabling the industry to look closer at risk control and management and helping prevent loss rather than just being there to pick up the pieces

Q9. To what extent can traditional insurance businesses turn threats into opportunities?



Simon Calderbank

In fact, it is the response services that are most prized when it comes to a cyber incident. Immediate action is required. An insurer that partners with a well-recognised crisis response team can offer superior coverage, in as much as it will follow the risk management strategy as far as possible and be able to offer tangible services at every point: pre-incident, event response and post-incident. These services can even help a company shape the protections they enforce. Also, purchasing a cyber policy that is difficult to understand poses a threat in itself. Insurers should work to structure policies in such a way that each facet or angle of the risk is clearly covered and understandable to the insured. What we do at TMHCC is clearly mark a structure to our policy by building on three pillars: people, processes and technology – this walks the insured through every aspect of coverage in clear language.



Walter J. Andrews

Digital technologies that give rise to ever-increasing amounts of data and ever more penetrating insights might make for more accurate pricing of risk, but they also help mitigate risk, reducing premiums. Take auto insurance, for example. Forward collision avoidance, blind-spot assist, and adaptive cruise control are already fitted in many new cars, making vehicles safer. Already, 20% of vehicles globally are expected to come with safety systems by 2020, reducing the number of accidents and thus the value of personal auto insurance policies. Autonomous self-driving cars could become ubiquitous in the next two decades, at which point liability is likely to shift from individual drivers to manufacturers. In the United States, it has been estimated that auto insurance premiums could decline by as much as 25% by 2035, due to the proliferation of safety systems and semi- and fully-autonomous vehicles. The same shift toward risk prevention is apparent in other sectors. In the home, sensors can send an alert to the owner if a risk of flood is detected, automatically shutting off the water system if there is no response, and in commercial properties, connected devices on manufacturing equipment can give owners early warning of maintenance requirements. Smart devices that monitor health are also increasingly popular. There are two main effects. Data from connected devices can be used to assess risk more accurately. But it also may be a powerful tool to lower risk—to prevent accidents in the home, reduce maintenance and downtime, or improve health.



David Farrell

Insurers are embracing digital models in consumer insurance products both in product delivery to consumers, and claims handling. Marketing to consumers is strongly based on digital platforms.



Lisa Brennan

MGA's are a prime example of businesses that have been able to identify and capitalise on gaps in the insurance market. The composite insurers have shown themselves to be less agile and adaptable to the changing needs of brokers and customers, whereas the MGA can move quickly through this offering a bespoke solution to the broking sector. Where MGA's fully come into their own is when they are able to specialise in a certain sector or niche and offer a product not available to brokers through the standard big insurers. In addition, they tend not to be tied down by impractical and cumbersome computer systems and legacy business enabling them to offer an innovative approach to trading.

Q10. How can digital decision making be effectively used for insurance and risk management?



Simon Calderbank

We are seeing the use of Artificial Intelligence (AI) by many of our larger insureds. This intelligence helps gain understanding on who should be logging into the systems at what time, and can be a great way of detecting whether those using the system are who they claim to be. For example, if an employee logs on at 8.30am every day from a specific IP address, and for some reason logs on at 3.30am from a different IP address, then it can be quickly flagged and investigated. There may well be a perfectly logical explanation but monitoring and AI gives the company the opportunity to investigate and explore the situation.



Carol Lyons

Today, personal lines insurers are turning to big analytics, artificial intelligence and telematics to assist them with risk assessment, pricing models and claims fulfilment. As in other jurisdictions, Canadian insurers are finding that the landscape for underwriting and servicing personal lines insurance is transforming. Along with the use of artificial intelligence and automated attendants, the long-term future of existing underwriting processes (including the human element involved) are being brought into question. With the improved availability of data sets to analyse risk behaviour, insurers can assess potential insureds more quickly and easily – which may even lead to an increase in customised coverage and the development of new types of insurance products.



Walter J. Andrews

The next few years will make clear the tremendous value to be created by digitizing insurers' current businesses, as well as the imperative to innovate. The next years will demonstrate the need for significant investments in IT and a change in perspective whereby IT becomes a strategic function and not just a cost centre. The future will make clear how important it is to use the new capabilities required to take full advantage of IT's potential, including automation, advanced analytics, and blockchain. In fact, it has been reported that Venture capitalists globally invested \$2.6 billion in InsurTechs in 2015, and nearly \$1.7 billion in 2016. That investment is not being made naively. That is clearly the future and traditional insurers will have to adapt in order to be competitive.

Q11. Are there any areas of digital innovation where companies should proceed with caution?



Enrique Ferrando Gamarra

The data protection is the area of digital innovation where companies should proceed with caution. Data protection is –since a few years ago – a main agenda in various legal areas, this is not an exception when we are referring to insurance and risk management.

Peruvian Law has a relatively new regulation on data protection and is applicable to insurance companies. Insurance companies, due to its business, use customer information in multiples sensitive areas. The new regulation requires to insurance companies not only to register its data base, but to implement protective measures in order to avoid any leak of information.

Penalties for breach to the data protection obligations could reach up to 100 UIT (£93,000 approx.).

“Peruvian Law has a relatively new regulation on data protection and is applicable to insurance companies. Insurance companies, due to its business, use customer information in multiples sensitive areas.”

- Enrique Ferrando Gamarra -

Q11. Are there any areas of digital innovation where companies should proceed with caution?



Walter J. Andrews

While the blockchain technology promises to drive efficiency or reduce costs, it has certain inherent risks. It is imperative that firms understand these risks and the appropriate safeguards in order to reap the benefits of this technology. In addition, it is important to understand the evolution of regulatory guidance and its implications. Digital or “smart” contracts may be susceptible to security breaches and improper administration. Contracting parties or the network administrator will need a strong control process to amend existing smart contracts. Moreover, there will have to be extreme due diligence in monitoring and identifying glitches in smart contracts. And, there is no legal precedent governing the enforcement of a smart contract as opposed to physical contracts. That creates a significant level of uncertainty in an industry for which the contracts have had a longstanding and substantial degree of legal certainty. How will they be enforced in the future?

Q12. In an ideal world what would you like to see implemented or changed?



Paul Wordley

There is a clear move and recognition by the regulators towards improving the ethical standing and face of financial services companies. Regulation has and continues to develop and implement initiatives such as SMCR as a means by which employers recognise and reward staff for exhibiting the right behaviour and experience for their job. The glass ceiling in respect in respect of both gender and ethnicity remains an issue of behaviour and conduct, pay and treatment should be recognised as means not only attracting the right people but also by also of ensuring retention and development of staff. An ideal world will offer opportunity for all and a work place in which diversity of thought and inclusivity are welcomed.



Enrique Ferrando Gamarra

The current Peruvian Insurance Contract Act is engineered mostly for consumer insurances. This is a problem for greatest risks since the Insurance Contract Act does not give insurers the possibility to make agreements specifically design for a determinate risk. Peruvian Insurance Law should open the possibility for insurance contracts between specialised parties to be freely agreed in all of its conditions.

The pro-consumer provisions on the Insurance Contract Act are designed to protect not specialised parties during their contact with insurance companies. However, there are certain insurance operations between two specialised parties that do not require such protection. Instead, the protection could result in a contingency for the insurer who will be charged a larger premium for the coverage.



Walter J. Andrews

I think that carriers should issue more robust cyber insurance policies without the gaps in coverage that exist today. This risk is too important for policyholders to accept coverage that is not more complete and thorough. Clients who buy the insurance under the impression that they will have coverage for future cyber security incidents may be very disappointed when they find out that they do not have full coverage. And the brokers and insurers need to be more transparent about that lack of coverage. If the premiums need to be increased in order to provide better coverage, then that should happen so there is a full alignment of interests and coverage expectations between policyholder and insurer.

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