Economy-related hazards are top of executives’ risk priorities, according to a new 360 Risk Insight report.
From left: HRH The Duke of York and Chairman of Lloyd’s Lord Levene

Lord Levene urges city to challenge and ask questions

NEW YORK CITY DINNER
Transatlantic cooperation and leadership from insurers were the two major themes of the second annual New York City Dinner in June. HRH The Duke of York joined more than 160 representatives from the US and UK insurance and financial services industries at the event hosted by the Chairman of Lloyd’s, Lord Levene.

The city dinners are designed to emphasise the importance of insurance to the wider economy and the role of Lloyd’s within this, as well as being an excellent opportunity to bring together distinguished and expert individuals from the worlds of insurance, business and academia.

In his welcoming speech, Lord Levene highlighted the importance of insurance industry leadership and the role of Lloyd’s in this, as well as being an excellent opportunity to bring together distinguished and expert individuals from the worlds of insurance, business and academia.

In his welcoming speech, Lord Levene highlighted that the insurance industry is a healthy and that, in the face of the wider financial crisis, Lloyd’s had survived by sticking to what is good at and showing strong leadership.

He said: “We focused on providing specialist insurance and not being lured into the exotic products that have been the downfall of a number of our competitors. At Lloyd’s, we went ‘back to basics’ and it is my belief that the financial services industry now needs to do the same. Markets and products must be more transparent. There has to be a culture where everyone is prepared to challenge and ask questions rather than one that is driven by excess.”

Lord Levene also contributed to the debate about how the financial services industry should approach ‘the long road back to normality’. He said that it is important for insurers not to avoid difficult discussions over crucial changes that need to be made within the financial services sector and warned against the temptation of protectionism.

HRH the Duke of York, in his role as the UK’s Special Representative for International Trade and Investment, spoke about focusing on the strong bond that exists between New York and London. “Together we combine the best of our respective skills in drive, entrepreneurial spirit, energy and pace. We need to use these attributes to work together to put in place a new architecture to address shortcomings and stimulate growth.”

Echoing Lord Levene’s earlier words, the Duke of York said: “Tonight’s dinner illustrates the crucial role that the Lloyd’s insurance market continues to play on the global stage and, especially in the US. It has survived for over three centuries by sticking to a mantra of prudence and risk management.”

A highlight of the event was the presentation of the Lloyd’s Gold Medal for Saving Life to the captain of US Airlines Flight 1549, which safely landed in the Hudson River last winter.

PREPARING FOR SOLVENCY II
see page 8

CFC LENDS A LIFELINE TO LIFE SCIENCES
NEW PRODUCT
It can cost more than £100m and take more than ten years of clinical trials to bring a new drug to market. During this time, a life science business researching a product can be exposed to a multitude of risks that could disrupt and severely delay development.

CFC Underwriting has launched BioSureance R&D following brokers’ requests to create a more complete solution to the diverse risks faced by companies developing new drugs and medical technology.

Underwriter Andrew Tamworth said: “The policy is unique because it brings together diverse aspects of cover in one policy. One of its key features is that it covers R&D stock throughout the supply chain, extending to disruption that may occur to servicing companies, such as outsourced laboratories and testing facilities. It also covers (flexible first loss) business interruption and damage caused by ideologically motivated attack.”

Tamworth adds: “It would have been very difficult to develop such cover and write these risks without bringing together the combined expertise of multiple syndicates.”

The policy is 100% backed by the market and applies worldwide to reflect the international scope of life science firms’ activities.

FROM THE EDITOR
WELCOME TO THIS ISSUE OF MARKET
Changing global risk priorities is the key theme of this issue. Following the publication of the 360 Global Risk Priorities and Preparedness report, which surveyed more than 570 board-level executives worldwide, we look at some of the findings and how they chime with the views of risk specialists.

We speak to Dan Trueman about climate change data and the boundaries of insurability.

We speak to Dan Trueman about climate change data and the boundaries of insurability.

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Jason Woolfe
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Managing editor
Consultant editor
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About us 02 03
www.lloyds.com MARKET Issue Three 2009
Market extends global reach

**INTERNATIONAL MARKETS**

A new agreement between global broker Marsh and Lloyd's insurers is expected to bring a new stream of business to the Lloyd's market from around the world. Marsh has established a team in London that will identify global demand for consumer and small- and medium-sized business insurance. The broker's offices around the world will then be given binding authorities to write business on behalf of Lloyd's. Enrico Bertagna, Lloyd's Regional Manager for Europe, said: “One of the key challenges for Lloyd’s is to enhance our ability to write business locally in continental Europe. To "binding authorities are a cost-effective way of localising underwriting without having to set up an underwriting hub in each country."

Such market tools help local clients to gain access to the Lloyd's market and can also provide policy wordings in their own language. The new facility already has a range of binding authorities in place covering trades from acupuncturists and art studios to zoos. These deals should generate between US$40m and $60m in premium income over the next three or four years and the aim is to double the number of these authorities over the next 18 months. "As insurers, we feel the effects of climate change a lot more than most." Ward, chief underwriting officer at Catlin, said. "Underwriting decisions are backed by hard facts, and the Catlin Arctic Survey will provide detailed data needed by scientists and politicians that should help them make better decisions," Hadow added. Further to Catlin's support, Lloyd's also provided funding for the survey. A spokesperson for Lloyd's said: "As insurers, we feel the effects of climate change a lot more than most. And in the current climate of financial instability and more immediate threats, it is essential that we continue to focus on learning about the greater long-term threats posed by risks such as climate change."

| CLIMATE CHANGE |

A team of arctic explorers, that endured more than two months of gruelling arctic conditions, has returned from an expedition to advance scientific understanding of how climate change is affecting the polar sea ice. Funded by Lloyd's insurer Catlin, the team survived extreme cold and even the threat of polar bears during the 73 days they spent crossing 434km of floating arctic sea ice on foot. Led by polar explorer Pen Hadow, the team collected data vital to determining whether climate change will cause a greater seasonal melting of sea ice, potentially spelling the end to the Arctic Ocean's permanent ice covering. With temperatures as low as –46 degrees Celsius, the conditions were said to be some of the worst experienced by Hadow in his 18 years of polar experience. Forced to return several weeks early – and falling short of the North Pole – the team still made some 1,500 measurements and 16,000 observations concerning the depth of snow and ice and the sea temperatures. Initial findings were that the average depth of sea ice was just 1.8 metres, surprising scientists who had expected to see older and thicker ice, said Hadow. Scientists now have the data to publish their initial at the December UN Climate Change Conference in Copenhagen. Catlin supported the team’s efforts to obtain accurate and impartial data on the sea ice because global warming is an issue that directly affects insurers and policyholders, he said. "Underwriting decisions are based on hard facts, and the Catlin Arctic Survey will provide detailed data needed by scientists and politicians that should help them make better decisions," Hadow added. Further to Catlin’s support, Lloyd’s also provided funding for the survey. A spokesperson for Lloyd’s said: “As insurers, we feel the effects of climate change a lot more than most. And in the current climate of financial instability and more immediate threats, it is essential that we continue to focus on learning about the greater long-term threats posed by risks such as climate change.”

| THE BOUNDARIES OF INSURABILITY |

The risks involved in cutting-edge technology are hard to quantify. The boundaries of insurability will be in the future? 

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**AON TO JOIN BIBA BOARD**

The British Insurance Brokers' Association (BIBA) has appointed Robert Brown, CEO of Aon Corporate and Affinity, to its board. Brown said: “There are many challenges facing the broking sector over the coming years. For some, it is simply to survive. For others, it is to emerge from the recession in a position of strength. For the industry as a whole, there are issues we all face, such as regulatory changes. As the voice of the UK broking industry, BIBA will be at the forefront in ensuring our concerns are aired and heard.”

**GETTING THE MESSAGE**

It is now easier and faster to find information from Lloyd’s Market Bulletins. The bulletins are the formal way of advising the Lloyd’s market about business-critical issues. There have been some major improvements in the way that you can access the information, including a new dedicated search facility. The whole archive dating back to 1990 has also been put online. www.lloyds.com/bulletins

**DOING BUSINESS IN PORTUGAL**

Lloyd’s has received an establishment licence in Portugal that will allow Lloyd’s underwriters to appoint coverholders to write establishment business in the region. Lloyd’s now has a branch in the country, which is Europe’s ninth largest domestic non-life market, and wrote £17.6m of non-life gross premiums in 2008. www.lloyds.com/portugal
BUSINESS PILOT UNDER WAY FOR LLOYD’S EXCHANGE

BUSINESS PROCESS

The Lloyd’s Exchange messaging hub is now a reality. Twenty participants have so far set up on the system to exchange messages between pairings. The Lloyd’s Exchange is being developed to allow market participants to share risk information electronically, using common ACORD data standards. At present, multiple connections — including peer-to-peer and online trading platforms such as RISK – have resulted in a ‘spaghetti’ model, which is both costly and inefficient. The Lloyd’s Exchange, delivered by IBM, aims to simplify this.

The team behind the Lloyd’s Exchange stresses that it is not intended to change the way business is transacted, but rather to provide electronic messaging to support the business process. The aim is to remove the need for multiple connections with other market participants and to ensure one standard is enforced. It should also make electronic trading more accessible to players that have not yet fully committed to placing business this way.

Lloyd’s Exchange is being trialled through four phases to test and improve its usability and identify how the Lloyd’s Exchange will best operate before it goes live. Phase 1, which began in May, consisted of a technical and business pilot. The technical pilot involved two steps: first participants sent a message to the Lloyd’s Exchange and successfully received a synchronous transmission between participants if they wish to do so. Shami Biswas, the Lloyd’s Exchange Project Lead, said: “It was great to see the first message exchanged over the Lloyd’s Exchange during the business pilot. It was a satisfying step to see the project come to life.”

Taking part in the initial testing are a number of carriers and brokers (see box below). Others have asked to participate in a later phase of the pilot. More than half of the Lloyd’s market, by capacity, has shown interest, with the company market also represented. The Lloyd’s Market Association and International Underwriting Association have both backed the initiative, with the London and International Insurance Brokers’ Association encouraging its members to participate.

Of the Phase 1 participants, 10% decided to take up the free Starter Connection Pack (SCP) with the vast majority preferring to invest in their own connection devices, which enables organisations to develop further and get to the end goal of straight through processing.

Developments continue with Phase 2, which began on 1 August and includes a further 19 organisations – taking the total using the Lloyd’s Exchange to almost 40. By the time Phase 3 starts, there will also be a new version of placing standard – ACORD 2009 1 – which will come into force later this year.

Anyone interested in learning more or wanting to get involved in the pilot should check the website and contact the team.

MORE

www.lloyds.com/lloyds-exchange

PHASE 1 PARTICIPANTS

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<th>Lloyd’s Carriers</th>
<th>Cross-market Carriers</th>
<th>Company market Carriers</th>
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<td><strong>Chaucer Syndicates Limited</strong></td>
<td>Brit Syndicates Ltd/Brit Insurance Limited</td>
<td>Liberty Mutual Insurance Europe Limited/Liberty Syndicate Management Limited</td>
<td>London Market Insurance Brokers Limited/Miller Insurance Services Limited</td>
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<td>Tysers &amp; Co Ltd</td>
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<td><strong>QBE Insurance Europe Limited</strong>/QBE Underwriting Limited</td>
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How has the value of intellectual property (IP) assets grown in recent years and why is it important for companies to protect it?

IP’s value has grown massively. Whereas historically a patent was the way that people derived underlying value from something, now IP can represent as much as 70% of a company’s balance sheet.

Intangible assets in general, of which intellectual property is one of the key classes, are becoming increasingly important. Intellectual property as a sub-class is very broad in the way we define it. When people think about IP, they think about patents, but it also includes brands, trademarks, trade secrets and topography rights, among others – all the fundamental things that make up “the way we do things in this company”.

What does IP insurance cover an organisation for?

We look at where intellectual property in its broadest sense – patents, trademarks, brands, trade secrets – is protected in a court of law. We then indemnify a business for its loss of revenue in the future.

We accept that insurance is only part of the answer. What we’re trying to do is provide a risk transfer solution for the things that fall outside of a firm’s ability to protect itself. When a firm manages its copyright and trademarks, keeps them safe and gets them registered, what it can’t do is totally manage all the risks that come into that. And that’s where insurance is appropriate.

For which sectors is IP protection most important?

IP is right across the board. We used to think it was just the ‘new economy’ but it is just as important for manufacturing firms. The types of companies that first started to approach us came from the technology and the life sciences sector. That was the obvious trend a year ago but now it is everything – from a chip-making cardboard coffins in Canada to standard technology companies or people who are looking to protect a brand or trademark. We’re seeing tiny firms with one key piece of information they want to protect, through to massive firms that have identified many key aspects of their portfolios they want to look at.

What proportion of UK companies have IP insurance?

As the amount has grown far less than 1% is covered by intellectual property protection, but that number is going to have to change in the new economy, with the importance of intellectual property and the way firms perceive it.

How important is IP cover for a company compared with directors & officers or product liability insurance?

I would say it’s essential and things like enterprise risk management have been key in this. If firms actually look at their own business risks, the things that are keeping the CFO and CEO awake at night are their IP. A lot of businesses are coming to us and this is a massively growing class. The enquiries started off as a trickle and are now a flood.

Why is the Lloyd’s market a good place to undertake IP cover?

The thought leadership that is behind these types of products at Lloyd’s combined with Lloyd’s historical ability to provide unique and intelligent solutions to real problems, mean that this is exactly the kind of thing that Lloyd’s should be doing.

MORE

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Countdown to SOLVENCY II

The market is ahead in its preparations for the new EU regulatory regime

THE EUROPEAN PARLIAMENT has given Solvency II its blessing and work has begun in earnest to get the Lloyd’s market ready for a new, harmonised EU-wide regulatory regime.

Solvency II replaces the current EU solvency margin requirements for insurers originally set out in the 1970s, and revised in 2002 under Solvency I. The successor – Solvency II – is a thorough overhaul of the regime and aims to provide better regulation, deeper integration of the EU insurance market, enhanced policyholder protection and improved competitiveness of EU insurers.

MARKET PREPARATIONS

All market participants are now expected to assess their readiness for the new regulation. Alistair Evans, Head of Government Policy and Affairs at Lloyd’s, says: “Managing Agents are undertaking a gap analysis to enable them to assess their state of readiness and discover where further work needs to be done.”

Lloyd’s has welcomed the EU’s adoption of the directive. “We have been aware for quite some time that Solvency II is coming,” says Evans. “The original Commission proposal goes back to July 2007, and we’ve had regular discussions with the various EU institutions to ensure a good outcome for the Lloyd’s market. Our focus in Europe is now on commenting on the proposed detailed Level 2 (see box, left) implementing measures.”

In addition to the individual requirements for managing agents, a number of Corporation project teams have been set up to help the market prepare. Each team will focus on a different aspect of Solvency II, covering areas such as communication; meeting the requirements of the internal model; calculating regulatory capital; and accounting and tax issues. They will also consider the implications for the Society of Lloyd’s in terms of risk management, governance and disclosure, as set out under Pillar 3 of the directive.

Lloyd’s is working closely with the LMA, which has its own Solvency II working group. “There’s a significant amount of work currently being done by the market,” says Pat Hakong, Head of Financial and Regulatory Policy at the LMA. “This work is being coordinated by Lloyd’s Solvency II project teams, with input from the LMA Solvency II working group. This includes responding to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) consultation papers on Level 2 measures and determining the practical impact of these proposals.”

Once the finer details of the directive have been agreed under Level 2 implementing measures, the FSA is expected to outline its approach to the supervision of Lloyd’s and the wider UK insurance market under Solvency II. It is thought that Solvency II will apply to Lloyd’s in a similar way to the FSA’s existing Individual Capital Assessment (ICA) regime, with the Society of Lloyd’s acting as a central coordinating body.

While there are many challenges associated with the new regime, Hakong thinks the market will adjust well, as it has done in the past with other regulatory developments. “It coped very well when the ICA regime was introduced a few years back, and the market worked well with Lloyd’s then on its implementation,” she explains. “The market and the LMA are working very closely with Lloyd’s on [Solvency II] and generally it is going well.”

All parties are pleased with the progress to date and are working well towards the next milestones.

Four level process

There are four levels to achieving full implementation of Solvency II:

LEVEL 1 Framework Directive – sets out the key principles, including implementing powers for detailed measures at Level 2

LEVEL 2 Implementing Measures – involves developing more detailed implementing measures prepared by the Commission following advice from the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

LEVEL 3 Guidance – CEIOPS works on joint interpretation recommendations, consistent guidelines and common standards. CEIOPS also undertakes peer reviews and compares regulatory practice to ensure consistent implementation and application. This will be ongoing from 2009 to 2011

LEVEL 4 Enforcement – more vigorous enforcement action by the Commission is underpinned by enhanced cooperation between member states, regulators and the private sector.

The three pillars of Solvency II

The ethos of Solvency II rests upon three objectives or pillars:

PILLAR 1 Financial strength and security

PILLAR 2 Governance and risk management

PILLAR 3 Disclosure and transparency

Calculating the impact

Quantitative impact studies (QIS) are intended to assist managing agents with the design of the detailed financial requirements with which insurers must comply under Solvency II.

Q4, which started to be implemented in 2008, has helped managing agents gain a better understanding of the principles of Solvency II and the basis for calculating solvency capital requirements. It will also help them gauge the potential impact of the new regulation at a syndicate level and assess the robustness of internal models.

Last year’s involvement in Q4 was also an opportunity for the market to influence the outcome of the Solvency II project. Due to its unique structure, Lloyd’s has kept a close eye on the development of the directive. It has been in regular contact with the European Commission and Parliament, the UK Treasury and Financial Services Authority and industry associations.

Q5 is expected to put Level 2 recommendations to the test in 2010.

Key dates to implementation

2009 Framework Directive adopted

2010 Q5 has been tentatively scheduled for April 2010. This is expected to put Level 2 recommendations to the test

2011 Adoption of Implementing Measures

2012 Transposition of the Directive into national laws by October

You can find updates on Solvency II at www.lloyds.com/Lloyds_Market/Solvency_II
According to a new report, global business leaders see risk management climbing up the corporate agenda, while economy-related risks overshadow more traditional ones.

As the world slowly starts to recover from what is believed to be the worst economic crisis since the Great Depression, companies’ attitudes to risk have changed dramatically. Unsurprisingly, economic issues have taken centre stage, occupying the minds of senior executives around the world and pushing other risks down their priority list.

Lloyd’s teamed up with the Economist Intelligence Unit to carry out a survey of more than 570 board-level executives worldwide and found there was a significant level of unpreparedness and overconfidence from a range of industry and company sizes. The research looked into attitudes to risk across five key categories: economic, regulatory and market risk; business and strategic risk; political, crime and security risk; environmental and health risk; and natural hazard risk.

The findings were published in the 360 Global Risk Priorities and Preparedness report in July. Among the global top ten priority list (see box), all risks are either directly or indirectly related to the economy.

Corporate liability and reputational risk could be viewed as indirectly related to the financial crisis, while project delivery risk is also arguably directly linked to the external economic and financial environment. With the economic downturn biting hard and corporate confidence hitting new lows, companies’ risk appetite has been pointlessly reduced, while risk management has climbed up the corporate agenda.

According to the research, half of the companies say that they expect to reduce their risk appetite over the next 12 months. “This raises the question of whether the pendulum could be swinging too far away from a willingness to take risks, particularly as we look to an eventual upturn,” says Rob Mitchell, Managing Editor, the Economist Intelligence Unit.

For the time being at least, risk in general is becoming a broader topic of discussion. Whereas before, risk management was seen more as a support function, now it has been brought into the boardroom. As Mitchell explains: “There has been more focus on ensuring that boards have appropriate levels of expertise, including in the non-executive arena. One of the things we’re seeing is the appointment of board-level risk committees. In the past there weren’t too many of those.”

Despite that, the economic focus means that companies may be taking their eyes off other important risks, which are now seen as lower priority. As a result, Mitchell says that there is a concern about the economy sidelining a lot of very important risk categories such as environmental risks, natural hazard risks and climate change.

In fact, the survey asked companies how prepared they are to manage risks, and there is a split between economic risks that businesses say they are not prepared for and other risks, such as terrorism and climate change, for which they claim they are. Mitchell points out: “So it’s not the case that these have become less of a priority because companies are well prepared to deal with them, but more as a result of their focus on economic and macro issues.”

Regional variations

Although the economy dominates the risk agenda across all regions, there is greater divergence regarding political, crime and security risks as well as environmental and health risks. It appears that less developed companies are more concerned with those risks in comparison with their more developed counterparts.

China, in particular, has a greater focus than anybody else on environmental and health risks (especially pollution). There is also an indication that the news agenda may be driving risk assessment which, according to the report, could limit businesses’ ability to plan for the future. As Mitchell explains: “In south Asia, we saw terrorism high on the priorities list, I suspect as a response to recent attacks in Mumbai.

Companies are looking at what has happened in the recent past, which, in many cases, may not be the best thing to do. They are narrowing their view of risk by focusing on things that have already happened rather than looking at the risks that could specifically affect their business in the long term.”

Global top 10 priorities

As the pendulum could be swinging too far away from a willingness to take risks, the news agenda may be driving risk assessment which, according to the report, could limit businesses’ ability to plan for the future. As Mitchell explains: “In south Asia, we saw terrorism high on the priorities list, I suspect as a response to recent attacks in Mumbai.

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Lesson on risk assessment

Furthermore, companies’ tendency to focus excessively on cost-cutting and operational efficiency during a downturn can backfire, compromising future growth. “I think the biggest source of risk that is being underestimated today is the risk associated with our own moves to survive,” says Eamonn Kelly, Chief Executive of Global Business Network, a business consultancy. “From cost-cutting and centralisation to focusing on core operations, all of the recommended measures to see us through a downturn in fact reduce organisational resilience and ability to adapt.”

Please turn over to read the opinions of risk leaders.
SURVEY FINDINGS ARE IN TUNE WITH INDUSTRY VIEWS

Risk opinion leaders give their perspective on the 360 Global Risk Priorities and Preparedness report findings

The high priority given to risks associated with the credit crunch and subsequent economic downturn is to be expected, according to Dr Roger Barker, Head of Corporate Risk at insurer Beazley. “In 2007, the focus was very much on what you might term ‘proper’ risk – things like natural catastrophes or climate change, property and casualty. In 2008, Beazley noticed a marked shift to financial concerns – for example, investment performance or capital availability.”

The dominance of economic risks means that the highest of environmental, health and natural hazard risk are relatively low on the global priority list, raising the question as to whether companies are sidelining other, vital risks in their efforts to navigate through the current downturn. “In a downturn, organisations become more cautious and inward-looking, with a tendency to stop looking over the horizon and concentrate on survival. All of this suppresses the appetite for risk,” she adds.

The perception of which risks are most significant changes all the time, says Adrian Lewers, Head of Political and Trade Credit Risk at insurer Beazley. “In 2007, the focus was very much on what you might term ‘proper’ risk – things like natural catastrophes or climate change, property and casualty. In 2008, Beazley noticed a marked shift to financial concerns – for example, investment performance or capital availability.”

The report also suggests that multinational companies should develop a common language around risk, and such efforts are already under way, says Julia Graham, former Chairman of AIRMIC. “This was recognised by the International Organisation for Standardization and British Standards Institution with a set of new standards and a risk vocabulary soon to be published.”

But board directors must rely more on common sense, according to Dr Roger Barker of the ICD, “Is it possible to have a common language for risk? A board need not be overly technical, rather it needs to be intuitive, and take a common sense approach to identifying risk. The lack of sophistication should not distract from the need to identify and mitigate risk. But turning risk management into a technical discipline could result in a risk management function that fails to influence board decision making.”

Companies should have a sensible framework, assign responsibilities and focus on what really matters, says Graham. “But don’t try to manage everything,” she adds.

But organisations must keep an eye on the longer term and ensure that decisions taken now do not undermine or disable them when the business outlook improves and they want to emerge fit to capture new opportunities, Graham warns.

“One tendency with risk is that executives can be excessively focused on newspaper headlines rather than taking a longer term view. Executives are inclined to chase specific risk issues rather than focus on the core priorities of their business and protect them from a suitably wide range of risks,” she says.

“Companies do become more risk averse in a recession as their focus turns to managing their cash flow, particularly when considering investments in capacity, such as research and development or future expansion,” Barker says. “But they are also watchful of a potential uptick in the economy, and the risks of not investing for that,” he adds.

The report also concludes that executives should be mindful of the long term, but notes that companies in all sectors and regions are now paying greater attention to risk.

The apparent lack of board level risk oversight at many banks has made boards more aware of their risk-related responsibilities, agrees Barker. “Before the crisis, some directors did not regard risk oversight as one of their main responsibilities. Now it is clear that it is,” he says.

Mitigation of exposures has improved almost beyond recognition in the last five to ten years, says Beazley’s Lewers. “There is definitely much more focus on risk and much more awareness.”

THE LANGUAGE OF RISK

www.lloyds.com
Looking Out for the Perfect Storm

Are insurers making heavy weather of hurricane forecasting?

Hurricane Ike was the fourth storm in recent years to rip through the Gulf of Mexico when it hit the US last year. It killed hundreds of people and left homes, factories and oil installations in tatters. At a cost of US$13bn, Ike is estimated to have caused the world’s third most expensive insured loss after the 9/11 terrorist attacks and 2005’s Hurricane Katrina.

But it also challenged the notion that a hurricane’s power to damage property is a function of wind speed alone. The was important because it demonstrated that the breadth and depth of a storm is also a crucial factor in terms of the damage caused. This creates difficulties for insurers and reinsurers trying to predict the cost of a storm. This is illustrated by the fact that Ike, a category two storm, destroyed 46 oil platforms and damaged 20 more. However, very big, moving hurricane-force winds up to 120 miles from its centre, and it moved relatively slowly. It wrought devastation over a huge area for a longer time, creating more damage than expected.

Indeed, long-term forecasts for the past few years have been inaccurate and too generic to have any real meaning. This has underlined the view that realistic disaster scenarios need to be seen as hypotheses and not as predictions, because very little can be known about a storm until it hits.

**Forecasting**

Insurers plan for the coming windstorm season up to a year in advance – yet meteorologists’ seasonal forecasts are less accurate the earlier they are made. Accuracy improves for forecasts made in the summer, partly by this time, insurers have written much of their business and have made decisions about how much reinsurance to buy.

Climatologist Matthew Swann, a catastrophe modelling analyst at Hiscox, says that even if a particular forecast predicting only a few hurricanes were trusted, the risk that a big storm could cut its way through any book of business would remain. Swann says insurers view forecasts as a fascinating experimental product but one without information that (re)insurers can use meaningfully to protect themselves.

Seasonal forecasts don’t make it into Hiscox’s business planning process. Instead, Swann uses catastrophe models that take into account factors such as the decadal change in Atlantic surface sea temperatures. He says: “The decadal change affects pricing but seasonal forecasts don’t. This is because we don’t think there’s enough skill in the forecasts.

“The macro economic conditions are also very important in the pricing because if access to capital is reduced, it costs us more to take on a risk. It’s a big factor,” Swann says its could be decades – if ever – before the forecasting skill level rises to a point where (re)insurers could use it for business planning. As he says: “We also watch the forecasts because we want to know if the skill is improving.”

Matt Washington, Head of Aggregation and Reinsurance for Ascot Underwriting, says a recent predisposition to a peril and its frequency will determine how Ascot views a risk, but adds: “Nothing is a more important than a comprehensive knowledge of the risk itself. This is where our (re)underwriters’ knowledge of the insured and their operations outweigh a statistically valid, although frighteningly uncertain, view of the season’s hurricane risk.

“Also, what value is the knowledge of hurricane frequency when a client may have poor risk management and fire suppression protocols? This means that our greatest risk is not the impending storm, but the physical and moral hazard of the assured.”

Rob Stevenson, Group Head of Exposure Management at Kiln, also states that forecasts have no impact on business planning. He says, “They only predict the number of events, not where or whether they will make landfall. We are in the process of planning our business now for next year and there are no forecasts yet available.”

Stevenson says the easiest way to try to correlate a storm with its cost is by using catastrophe models. He adds, “The hurricane ‘event set’ contains thousands of events that try to represent the range of occurrences that could take place. Every loss is different and you have to treat it as such.”

A new tool aims to cut through much of the complexity. The Willis Hurricane Index, a product from the global broker Willis for the 2009 hurricane season, aims specifically to enable risk transfer for offshore Gulf of Mexico exposures, with its concentration of expensive, mobile assets with complex ownership structures. The index measures three publicly available types of data to end time. They are a storm’s maximum sustained wind speed, the radius of the hurricane force winds and the speed at which it is moving.

The result is a number, usually between about 10 and 35, which grades the storm’s severity. The higher the number, the worse the expected damage. The tool was calibrated using historical loss data. Willis wanted to encourage new sources of capital to enter the Gulf of Mexico market, where recent heavy losses have reduced capacity and pushed up prices.

Adam Beatty, Executive Vice President in Willis Capital Markets and Advisory, says its simplicity aims to draw in capital from non-expert sources, such as hedge funds. He says: “They don’t have to get into the underlying details about the business – they don’t need the underwriting expertise. It’s a kind of cut-through to the pure catastrophe risk only.

“A forecast is predictive, whereas this tool measures a storm as and when it happens. It has no view on the likelihood of that storm happening; it just measures it. So it is completely different from forecasting.”

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**MORE**

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See also 360 Risk Insight report: Climate Change and Security at: www.lloyds.com/news
LCP SEeks 1,000 Volunteers

Lloyd’s Community Programme (LCP), which gives individuals in the market the opportunity to carry out voluntary work in areas neighbouring the City, is looking for new recruits.

There were 900 volunteers last year from across the market, but LCP is looking for as many volunteers as possible to work in Lloyd’s local communities. “Now in our 20th year, LCP is looking to break through the 1,000-volunteer mark, and with the new school year just under a month away, this is the ideal time to sign up,” said LCP Chairman Nick Furlonge.

The bedrock of the LCP’s work is the Reading and Number Partners Programme, where volunteers from across the market help local children with reading and maths. But LCP volunteers are also involved in other work, such as promoting sport and arts in the local community, according to Furlonge. A recent cricket coaching programme culminated in six schools competing in a final at the Brit Oval.

LCP volunteers can also mentor schoolchildren, which takes as little as one hour a month of their time. Volunteers help children to cope with GCSE exams and to take their first steps towards finding work.

Twenty years after LCP was established, the challenges facing East London boroughs have not gone away, according to Vicky Mirfin, Community Affairs Manager at Lloyd’s. “Our projects are challenging, rewarding and enjoyable, which brings huge benefits to the individuals involved, as well as to the employers who support them.”

“We have great fun,” says longest-serving supporter

Gill Nichols, Lloyd’s Community Programme’s longest-serving volunteer, has helped many children with their reading since she first signed up in 1995. Gill, who is the Learning and Development Manager at Liberty Syndicates, currently helps 11- and 12-year-olds to improve their reading at Bethnal Green Technology College in Tower Hamlets. She also coordinates LCP’s reading scheme for volunteers who do not have access to a reading scheme at their own company. Gill said she finds great satisfaction in developing a friendship with the children taking part in the LCP programme, who are all from neighbouring boroughs. “We have great fun with the children, and we all go out once a year on a day trip together,” Gill said, recalling days out to the London Eye, Tower of London, London Aquarium and even a night out to see boyband Westlife.

“The voluntary work, which takes less than two hours a week over lunchtime, or once a fortnight for partnering volunteers, also offers a welcome break from the hustle and bustle of work, according to Gill. “The scheme gives me a different perspective on life,” she said.

“The children often say that it is a different world when they cross over from Middleton Street into the City, and the same is true for me.”

All pupils brought away from the event a strong sense of teamwork as well as respect for their opponents

Sportscover described the event as “bustic but great fun,” adding that “it represents the ethos of our business and allows us to work with kids in the area.” LCP board member John Spencer commented that the event was a great way of celebrating the LCP’s “longstanding and deepening ties with these schools through sport” and a sign that, 20 years after its foundation, the LCP is continuing to go from strength to strength.

To find out how to volunteer, call Natalie Tickle +44 020 7327 6144 or visit www.lloyds.com/community

HUNDREDS OF CHILDREN from schools in East London proved they could give Olympic athletes a run for their money when they took part in the Lloyd’s Games – the biggest event ever to be hosted by the Lloyd’s Community Programme (LCP). The action-packed day, organised in honour of the LCP’s 20th anniversary, took place at Mile End Park Leisure Centre and Stadium and involved more than 500 children from 13 schools in Tower Hamlets.

The children, aged between eight and ten, took part in eight different Olympic sports, including track and field events, football, hockey, handball and volleyball – the highlight being a multi-sport relay final. The end of the day saw each child presented with a Lloyd’s Games Medal, with the winning team taking home sports equipment worth £500.

Not only did the event give the children an opportunity to meet new people and participate in a range of activities, but it also taught them some key skills, as Bronagh Nugent, Headteacher of winning school English Martyrs, explained. “All the pupils were encouraged to develop a healthy attitude towards sport as well as competition,” she said.

“They brought back from the event a strong sense of teamwork as well as respect for their opponents.”

With more than twice the number of children competing than in any previous LCP event, the support of 80 volunteers from across Lloyd’s was crucial to the success of the day. Assistant underwriter Ben Wiggins from Lloyd’s insurer

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Visit the Lloyd’s shop for exclusive gifts and Lloyd’s branded merchandise, including new additions to our ranges of specially designed business items and personal accessories for both gentlemen and ladies. Lloyd’s 2010 diaries will be available in the Autumn. Lloyd’s diaries are renowned worldwide as among the most prestigious corporate gifts available. They are handcrafted in the finest leather and may also be personalised.

To find out how to get involved, visit www.lloyds.com/community or email communityaffairs@lloyds.com
The Lloyd’s Cycling Club at John O’Groats
ranging in experience from complete beginners through to long-term riders. The club’s main aim is to help others by raising money for charity, while the members also benefit from improved health and teamwork.

If the plane had landed 400 yards to the left or right we would be facing another 9/11.

Hudson pilot receives rare award for courage

The Lloyd’s Gold Medal for Saving Life has been awarded for the second time in 173 years. This distinguished badge of honour, which recognises acts of courage in the saving of lives, was presented to airline pilot Captain Chelsey ‘Sully’ Sullenberger III by HRH the Duke of York and Lord Levene at the New York City Dinner in June. Captain Sullenberger was widely praised for safely ditching US Airlines Flight 1549 into the freezing Hudson River earlier this year after the aircraft suffered a bird strike. All 155 passengers escaped serious injury thanks to Sullenberger’s masterful emergency landing. Lord Levene said: “It doesn’t bear thinking about, but if the plane had landed 400 yards to the left or the right, we would have been facing another 9/11.”

Sullenberger’s skill as a pilot was complemented by his courage in the heat of the moment. On landing the plane in the river, he walked twice up and down the plane after every passenger was off to verify there was nobody else left on board. Lloyd’s established a medal to recognise acts of courage at sea in 1836. The medals’ title went through various iterations to reflect the bravery encountered in other spheres. In 1974 it became the Lloyd’s Medal for Saving Life, with gold, silver and bronze medals available to those worthy of receiving them. The first gold medal was awarded to Captain Edward Evans in 1921 after he and a crew of his ship, the Royal Navy light cruiser HMS Cardigan, swam to the rescue of survivors from the SS Hong Moh, which had struck rocks on the southern coast of China.

By Dermot O’Donovan, former member of the Council of Lloyd’s

At Lloyd’s we know we have a fantastic reputation around the world. But I was pleasantly surprised to know, as an insurance broker, who was unaware of my former position at Lloyd’s, singing our praises.

When I was trying to place insurance on a UK-registered left-hand-drive car I had bought for use in Spain, I came across the name Davenport Insurances, which was in Calahonda, just a few kilometres up the road from my home in Spain.

It was a Sunday and he was one of the few agents open for business. I went to see him to get the cover placed. We went through all the details and he told me that he only used Lloyd’s for his policies. When I asked him why, he said Lloyd’s provided the best service to clients on the Costa del Sol.

In less than ten minutes, I was insured to drive in any European country. I then told him that I was not only an active underwriter who ran a syndicate at Lloyd’s but also a member of the Lloyd’s Council, as I was at the time. I told him he was a great salesman for the market and that I would tell someone at Lloyd’s about it.

Getting first-class service from an agent in Spain in itself would be worthy of comment, but I thought it was really great that a Lloyd’s Council member and active underwriter was being regarded about the virtues of a Lloyd’s policy.

He laughed and said he could at least get some mileage out of it in the pub!
At this time of global financial turbulence, insurer strength and security have never been more important to our clients.

When AIG ran into difficulties at the height of the financial crisis, it marked a paradigm shift that questioned the model whereby large corporations placed all their risks with a single, large and well-capitalised insurer. In effect, risk managers woke up to the view that they had placed too many eggs in one basket.

In the past year, many businesses have either replaced or reviewed their insurance provider due to perceptions of large insurers’ financial health. At the same time, an increasing number of businesses have come to appreciate the advantages of placing business within a subscription market.

Diversification of exposures has moved to the top of many insureds’ agenda. Our market’s unique ability to syndicate risks, far from being a new model for Lloyd’s, is one of our traditional competitive advantages.

There is a huge opportunity for a syndicated market such as ours, and not just in London. Lloyd’s Asia, in Singapore, which operates on the same syndication basis, has demonstrated that the appetite for diversification is truly global. For large risks such as those seen in the energy and marine classes, we are observing increasing occurrences where multiple Lloyd’s Asia businesses are participating in the same risk.

There is a clear trend for customers wanting to spread risks and we need to distinguish ourselves from the pack and not be afraid to sell our strengths. Working together, we truly are greater than the sum of our parts.