“Cyber risk is increasing. We need to raise awareness and share information. People need to avoid the misconception that it won’t happen to them, because it can and it probably will”

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WILL NEW ANALYTICS CHANGE THE MARKET? p10
THE BENEFITS OF JAPAN’S OPEN MARKET MODEL p16
HOW TO CLOSE THE PREMIUM GAP p18
GROWTH AND OPPORTUNITY IN TURKEY p30
“Insurers play a crucial role in raising standards and helping companies develop their information security. Businesses are reluctant to invest in security, but insurers can change that”

CYBER RISK page 24

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The treasure that brings silence to the Lloyd’s underwriting room
Welcome to the second edition of the new-look Market magazine. Since the last edition, the market announced a half-year profit of £1.53bn – partly the result of a relatively quiet six months for catastrophes. Following 2011, a year punctuated with catastrophic events, we look at ways that the insurance industry is adapting its use of analytics and catastrophe models and how improved analytics and data are playing an increasingly important role in risk assessment. See page 10.

In this edition, we explore the findings of new underinsurance research published by Lloyd’s. Our feature on page 18 looks at the huge gap between current levels of insurance and the total costs incurred by countries to rebuild following catastrophes.

As we discover in our feature on Turkey, not only is insurance penetration low, but British business is being welcomed to the country and the growing economy bodes well for the future of insurers there. Read more about this and how some market players are taking advantage of Turkey’s potential on page 30.

Many of us have heard about cyber risk, but as the panellists discuss in our round table on page 24, increased awareness and a proactive approach is necessary to counteract the potential reputational and financial implications of a cyber attack.

And on the theme of a cyber world, don’t forget to regularly check our online content, find us on Facebook and follow us on Twitter to keep up-to-date with what is happening in the Lloyd’s market and wider industry.

“In Turkey, not only is insurance penetration low, but British business is being welcomed and the growing economy bodes well for the future of insurers”
Foresight

INSIGHTS FROM THE WORLD OF LLOYD’S. BY THE MARKET. FOR THE MARKET

MEXICO SET TO OPEN UP

Mexico is currently the world’s 14th largest economy and last year the Lloyd’s market wrote nearly $400m there. Around half of the business Lloyd’s has in Mexico is related to government risks, including government-owned companies, so it’s important that the market understands the incoming government’s strategy. Enrique Peña Nieto won the election on 1 July, but there will be much for insurers to familiarise themselves with the government’s strategy before he takes office on 1 December.

Peña Nieto has stated his intention to deepen the North American Free Trade Agreement (NAFTA), and to further develop existing free trade agreements with the EU and some Asian economies. There is currently minimal trade between the UK and Mexico, and on a recent visit Prime Minister David Cameron said that increasing current bilateral trade levels was a priority.

The new government has also pledged to create more than one million jobs each year through greater economic competition and investment in infrastructure. During Peña Nieto’s tenure as governor of the State of Mexico, he directed significant resources to this area, and we can expect the National Infrastructure Plan (2007–2012) to be followed by another ambitious programme. Spending on security will also rise, directed to increasing the number of personnel in federal police forces and to better equipping and training them, potentially improving security in those parts of the country most affected by organised crime.

The key question for many in the business world is whether the government will further open up the oil and gas sector to private investment – a very sensitive issue. Peña Nieto’s PRI party did not win a majority in the congressional elections that were also held on 1 July, so he will probably need the support of opposition parties to push through reforms.

Either way, we can expect to see increased activity onshore and offshore during the next decade and, as state provider Pemex will need to share the costs and risks, I would expect greater private-sector participation.

NORTH AMERICA

DRIVING CHANGE

A breakthrough in the use of insurance telematics is on the horizon to help motor insurers accurately calculate the risk of individual drivers.

Everyone drives differently and now technology, in the shape of telematics, will be able to provide objective and granular data on driving behaviour. Motor insurers will be able to adjust an individual’s premiums based on where and how they drive and the actual risk they represent. This is good news if you’re a sensible and safe driver.

Further good news for insurers is that telematics will help combat fraud by identifying exactly where, when and how a vehicle is driven. For example, whiplash is by far the greatest source of personal injury claims but it is difficult to diagnose. Using telematics, that record driver behaviour on a second-by-second basis and includes accelerometer data, motor insurers will be able to see that the deceleration velocity in an accident may or may not have been sufficient to cause whiplash. Or, in the case of multiple claims submitted after a single incident, telematics can demonstrate that a driver was on a routine journey, unlikely to be carrying other passengers.

The applications of telematics could reach beyond motor insurance. Our research shows a high correlation between someone’s driving behaviour and personality profile. Insurers will be able to use this data to price other products, for example, travel or home insurance, or monetise it in other ways. The data could potentially be used to change the way retailers interact with consumers. If they know an individual drives past a particular retail outlet at the same time each week, and match that to other data, the retailer could target specific advertising at them.

That, though, is still in the distant future. At the moment, telematics will be used to offer a fairer and more accurate assessment of driver risk.

LINDEN HOLLIDAY
CEO, MyDrive Solutions

For more information about the work of MyDrive Solutions, visit
www.mydrivesolutions.com

To read UK Trade & Investment’s profile on business in Mexico, visit
www.tinyurl.com/UKTI-mexicoprofile

www.lloyds.com/dowjones
A Dow Jones news feed is now available on lloyds.com. It gives you access to news from across the globe that you can filter by country and news category – general, insurance and natural disaster/weather.

LLOYD’S SHOP
Visit the Lloyd’s shop online or visit One Lime Street for quality business and personal accessories. From iPad cases to pens and postcards, there is a wide range to choose from.

www.lloyds.com/dowjones
www.lloyds.com/community

The 1,500 employees from Lloyd’s market companies who do volunteer work in Tower Hamlets contributed to the recent recognition of the Lloyd’s Community Programme (LCP) in the prestigious Lord Mayor’s Dragon Awards. The Awards recognise the contribution of City businesses to local communities.

LCP was delighted to be shortlisted in two categories. First, the overall Lord Mayor’s Award for Community Programmes, which recognises long-term, sustainable commitment to community engagement. Secondly, the programme’s work with Tower Hamlets Youth Sport Foundation was recognised with a nomination in the Social Inclusion Award for Supporting Children category.

The LCP supports a number of schemes within East London, in the last 10 years it has donated more than £1m to local community partners.

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**Foresight**

**FURTHER SANCTIONS PROHIBIT EU INSURERS IN THE IRANIAN MARKET**

There have been economic sanctions against Iran since 2010, but the latest restrictions further impact insurers. Since 1 July 2012, EU-based insurers and reinsurers have been prohibited from covering the purchase or transport of Iranian crude oil and petroleum products – a significant proportion of the market – even if business is initially placed domestically. Sanction breaking is a criminal offence. Penalties include unlimited fines and imprisonment, so insurers must carry out thorough due diligence and include proper exclusions.

These sanctions do not affect non-EU insurers but we will have to wait to see whether the public or private sector steps in. Japan has legislated to provide sovereign guarantees for oil ships and petroleum products – a significant proportion of the market. Further sanctions must carry out thorough due diligence and include proper exclusions.

**INSURING THE WORLD’S LARGEST RADIO TELESCOPE**

The Square Kilometre Array will be the world’s largest radio telescope, with 3,000 antennas positioned thousands of kilometres apart across Australia and South Africa. Insuring something that’s the size of a continent, surely one of the world’s most complex construction projects, is a challenge for any insurer. However, this project presents unique challenges. First, there is the construction. The project is estimated to cost around $2bn, with a build-time of eight years, so cover for the total amount would be very expensive. Second, there’s the question of which legal jurisdiction the project would be governed by.

**AFRICA/OCEANIA**

**EUROPE**

**DOES BRITAIN HAVE THE POLITICAL CAPITAL TO WEATHER A ‘GREXIT’?**

Recent attempts by the European Central Bank to shore up the euro zone have dominated the news. But little coverage has been given to the potential effects of a Greek exit on the UK economy – and whether the British political classes and electorate would have the stomach to weather the storm. A ‘Grexit’, if it occurs, is likely to be disorderly. Any secession from the euro by Greece could be followed by market pressure on other southern Mediterranean countries, leading to exits for Spain, Portugal and even France.

Increased market volatility and an extended recession, in Europe and beyond, could cause a collapse of supply chains, leading to a triple whammy of increased business interruption claims, claims inflation, and exaggerated claims.

There could also be contractual implications. An insurance policy for a Greek bank could denominate premiums in euros, with claims to be paid in euros. What if Greece reverts to the drachma? Should the euro ultimately collapse, many policies probably contain no provision for a currency specified in a contract to cease to exist.

There’s potential for litigation over payment terms and jurisdiction provisions.

Even though it has not joined the euro, the UK is linked to the euro zone economy; the euro zone receives 50% of the UK’s goods exports and 40% of all exports. A euro zone depression would hit the UK with a double blow, as demand on the continent slumps and sterling rises against the euro and its successor currencies, pricing British manufacturers out of the market.

Also, the solvency of Britain’s banks is vulnerable to contamination from a Grexit through their holdings of euro zone government bonds and cross-relationships with euro zone banks. Any Grexit would require a robust Government response, potentially involving an economic stimulus greater than that of 2008. However, a British public sceptical of the euro would have the political capital, rather than financial capital, which sends the British economy into the next depression.

NEIL PROTHERO
Economist Intelligence Unit, Regional Editor Europe

**LMA WORDINGS REPOSITORY CELEBRATES ITS FIVE-YEAR ANNIVERSARY**

For the past five years, the Wordings Repository has provided easy access to a range of clauses and wordings for all classes of business written within the Lloyd’s market. The entire Lloyd’s underwriting community has unlimited access to this repository of quality-vetted content.

Initially, the Lloyd’s Market Association (LMA) and Lloyd’s sponsored the creation of the database. Now, the content is administered by the LMA, ensuring that the quality of the content is maintained for the Lloyd’s market.

To find out more and to gain access to the Wordings Repository, take a look at: www.lloyds.com/wordings

**NEED MARKET INTELLIGENCE ON TURKEY AND CANADA?**

Lloyd’s Class Reviews offer managing agents, brokers and coverholders an analysis that compares Lloyd’s business with its competitors in key territories. The analysis is broken down by class of business, with its competitors and easy to use.

The Reviews have now been extended to Turkey and Canada, and a UK Class Review is also coming shortly.

You can also use the Class Reviews in conjunction with the compare countries tool which offers high level statistics for the economy, insurance market and Lloyd’s business. This tool also employs regional heat maps to showcase key indicators for a quick strategic overview.

You can find out more at: www.lloyds.com/marketintelligence
FLOODS, EARTHQUAKES, HURRICANES, TYPHOONS

WHAT WOULD HAPPEN IF...
The past few years, and 2011 in particular, have shown that regardless of how sophisticated catastrophe risk modeling is, analytics still need upgrading and expanding at a rapid pace. They are also being put at the heart of business strategies – at Lloyd’s, in the wider insurance sector and among corporate clients.

**SIGNIFICANT LOSSES**

Three years of relatively frequent and severe natural catastrophes culminated in 2011. There were more than two and a half times the insured losses of 2010, which themselves were double those of 2009. Indeed, the impact of the catastrophes in 2011 were topped only by those that occurred in 2005, which had losses of $120bn, with $90bn of these due to Hurricanes Katrina, Rita and Wilma, according to a report by Aon Benfield.

The most costly of the unexpected disasters in terms of insured losses was the earthquake and tsunami which hit Japan in March, killing almost 16,000 people. According to Aon Benfield, this catastrophe caused $35bn in insured losses. The second most costly events were the two earthquakes that struck New Zealand in February and June, resulting in $13.5bn in insured losses.

Other natural disasters that caused insured losses worth more than $5bn last year include the destruction from Cyclone Yasi’s landfall in Queensland, Australia, heavy flooding in Thailand and North-Eastern Australia, Typhoon Roke’s landfall in Japan, and significant flooding in Southern France and Northern Italy. These catastrophes reminded the industry that losses can also occur in regions less well-served with models.

**UNMODELLLED WORLD**

As is always the case, you learn from catastrophes, and there were elements of the events in 2011 which were not included in the insurance industry’s wealth of risk models. To understand why, closer examination of the models is needed. The models comprise four main components: Hazard information is based on meteorological and seismic data which indicates how often natural catastrophes happen and how strong they are. Vulnerability data looks at what happens to insured entities in different scenarios, such as how dwellings behave in winds of 40 metres per second. Value distribution comprises details of the types of building that are insured. Insurance/reinsurance conditions describe what insurers have agreed to cover.

The models then calculate thousands of scenarios, leading to data that can inform underwriting. But these models cannot absorb an infinite number of permutations. Nevertheless, the advantages of using models do outweigh the fact that they may never be perfect.

These limits were exposed in the case of the earthquake and tsunami in Japan. Although earthquakes had been modelled, based on the data available, no one was expecting such a large quake to occur. In addition, none of these models are thought to have included tsunamis.

Andreas Schraft, Swiss Re’s Head of Catastrophe Perils, says models also failed to anticipate fully the events in New Zealand. “There were two surprises,” he says. “One was liquefaction, causing buildings to collapse or tilt. Very few earthquake models look at liquefaction explicitly.” The other surprise was the damage caused by the location of the earthquake. Christchurch city centre was not considered by scientists to be in the seismic front line. This resulted in a different character to the losses compared with those the insurance industry – and its models – had expected. “When tall buildings are hit in a city centre it is very expensive to bring down what remains of the structure as well as rebuilding – your losses more or less double,” says Schraft.

Source: eqecat

**THE SIX MOST VULNERABLE CITIES**

Cities that would suffer the greatest insured losses from a catastrophic event, plus the level of losses and the most likely type of event.

1. **MIAMI**
   - Probable Maximum Loss (PML): $140bn
   - Event: Direct hit of a Category 4 or 5 hurricane affecting the coastal region from Palm Beach to Miami Beach

2. **TOKYO**
   - PML: OVER $100bn
   - Event: Earthquake damage from the Great Kanto geological fault

3. **HOUSTON**
   - PML: OVER $100bn
   - Event: Direct hit of a Category 4 hurricane

4. **ST LOUIS**
   - PML: $80-100bn
   - Event: Repeat of the 1811-1812 New Madrid earthquake, also devastating Memphis

5. **LOS ANGELES**
   - PML: $70-90bn
   - Event: The ‘big one’ – earthquake damage from several geological faults

6. **SAN FRANCISCO**
   - PML: $50-80bn
   - Event: Repeat of the 1906 earthquake

NB Many events would produce unforeseen significant loss. For example, to one expected Christchurch, New Zealand, to be capable of producing $15bn in losses.
Although flooding was modelled, the severity of flooding in Thailand in late 2011 was also unforeseen and the insurance industry was hit by an unexpected concentration of international clients in the disaster zone. “It was a diverse range of foreign companies but no one realised that they all had exposure in one place,” says Schraft.

The events of last year also raise questions about the vulnerability of other parts of the world. As Robert Muir-Wood, Chief Research Officer at San Francisco-based catastrophic risk modeller Risk Management Solutions (RMS) explains: “To take Japan, where it was thought that an earthquake of that size could not occur, there are consequences for other regions believed to be immune to big earthquakes.” Floods are another key danger area. “There is increasing concern that a whole set of areas have not been well mapped, especially flood risk,” states Douglas. And they are the most challenging to model, he says, partly due to their location-specific nature: “Where water moves is such a localised thing that you’ll find that one house will flood and the one next door will not.”

Large storms such as tornadoes and hailstorms are the next most difficult to model as they are relatively small and localised, says Douglas.

PRESSURE TO ACT
So where has this left risk modelling? 2011 illustrated what the insurance industry is here to do and demonstrated its ability to respond to ever-changing events and scenarios. However, Muir-Wood admits the recent events have “created a bit of humility” in the world of catastrophe modelling. “They remind everyone that the science is not complete – if you have a model, all your problems are not solved.” Even so, each catastrophe does allow the insurance industry to learn more about the nature of risk and modelling.

Trevor Maynard, Lloyd’s Head, Exposure Management & Reinsurance highlights that catastrophes move models in the market are becoming increasingly focused on how well calibrated the models are. Lloyd’s will continue to work with the market to improve the understanding of the strengths and limitations of the models.

“We are speaking with syndicates to ensure the models used are validated and well documented. All syndicates have different risk profiles but, in every case, models should be constantly reviewed for appropriateness and use,” says Maynard.

Corporate clients are also seeking better information about the risks they face. “Our clients are increasingly interested in analytics, particularly after last year. It’s one of the key battlegrounds between the brokers because it has such an influence over clients’ strategy and decision making. A growing number of decisions are being based on analytics across Willis.” Our view is that analytics has increasing applications beyond reinsurance risk across Willis, he continues. This is a trend that began some years ago and we see it accelerating, especially in areas such as natural catastrophe risk and supply chains, for example,” he says.

Similarly, insurers Chartis appointed Murli Buluswar to the new role of Chief Scientist Officer in January. It’s a significant step as Buluswar is the first corporate appointment with this type of role. It shows how committed Chartis is to becoming a data-driven insurance business. Buluswar has been tasked with the job of embedding analytics across every facet of Chartis’ business. He says: “The idea is to make Chartis and its parent company American International Group more analytically savvy in everything it does.”

Beyond personnel changes, intensive work is underway to upgrade modelling systems for internal use and for clients. Swiss Re has built a specific tsunami model to inform its underwriting. It is also working on a flood model for Thailand and added liquefaction to its modelling. Willis has recently created a pan-European hail model and is also developing a range of global models that will provide a consistent worldwide picture of perils for clients with international portfolios.

Model upgrades in 2011 highlighted the need for insurers to review, carry out model-change policy and to allow time to understand the reasons for changes to models. A number of insurers and brokers, including Lloyd’s, are supporting the Oasis loss modelling framework initiative which seeks to create an open system for catastrophe modelling. This will enable models from around the world to be incorporated into insurers systems quickly and easily.

RMS is also improving how clients receive the results produced by its models. “Traditionally the results went to boffins, but now analytics are going to the likes of chief financial officers, who are using them to take key decision. So we are making the way we deliver results easier to communicate,” says Muir-Wood.

An even larger overhaul is happening at another modeller, Eqecat, which is poised to launch Risk Quantification & Engineering (Version 13). The system will replace the existing WORLDCAT enterprise and “will be the most comprehensive update to a suite of risk models ever carried out,” says Justin Davies, Practice Leader. The work will add 77 countries to the existing 95 already covered and the completed model will incorporate 182 country perils.

Expanding the geographical reach of models is top of many’s wish list. “An increasing diversity of models, highlighting a range of valid opinions, will become more prevalent. New organisations such as the Global Earthquake Model project and the Oasis initiative, and changes in strategy from the existing model providers are starting to offer solutions in this area,” says Maynard.

FUTURE CHALLENGES
The new generation of analytics needs to respond to a fast-changing world. “Huge global growth means that you cannot simply look at the past to forecast the future,” says Buluswar. Whether considering the rapid industrialisation of China and India, or the construction of seafaring hotel complexes in Dubai, the vulnerability of regions in terms of insured risk is evolving.

However, the biggest challenge is perhaps understanding that models can only do so much. “There are significant limitations,” says Davies. “It is not about feeding a portfolio into the model and coming out with a number, but rather a band of variation. It’s up to clients to take ownership of risk modelling and understand that there is a degree of uncertainty around it. We are always working to reduce uncertainty, but it will always be there.”

IT’S UP TO CLIENTS TO UNDERSTAND THERE IS A DEGREE OF UNCERTAINTY AROUND RISK MODELLING. WE ARE ALWAYS WORKING TO REDUCE IT, BUT IT WILL ALWAYS BE THERE

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MURLI BULUSWAR’S ANALYTICS MISSION
“We are an industry that could be accused of being data rich and knowledge poor,” says Murli Buluswar, newly appointed Chief Scientist Officer at Chartis. Buluswar believes the insurance sector must change the way it uses analytics to harness all the data it has on its hand. In line with this, he has set himself the ambitious goal of not only changing Chartis but the wider industry, too.

“There have been huge improvements in computer power, and that allows us to look at things from a new perspective,” he says. “There is an enormous opportunity now for the industry to get more sophisticated in understanding risk.”

He believes analytics should inform all areas of an insurer’s business – not just underwriting decisions but also claims, customer service, distribution and marketing. At Chartis, his team is partnering with every function of the organisation “to make each one fact-based”. Buluswar is also working with academics. He has drafted in experts from Massachusetts Institute of Technology (MIT) to apply ‘machine learning’ – a technique in which computers are programmed to ‘learn’ and begin performing functions beyond their original programming – to fraud detection.

He hopes Chartis will set an example for the rest of the insurance industry. However, Buluswar sounds a note of caution. “We must push forward with science in the industry, but relying purely on numbers is too simplistic. Judgement is always required,” he says.

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THE LLOYD’S CATASTROPHIC PORTAL
This is a central resource of information about major catastrophes affecting the market. Visit www.lloyds.com/catastropheportal/
We are really well placed to serve non-Japanese businesses looking to insure their interests in Japan. The Open Market Model aims to play to this strength.

THE OPEN MARKET MODEL HOLDS A KEY TO JAPAN

Lloyd’s Japan recently launched its Open Market Model, making it easier for Lloyd’s underwriters to access certain Japanese business, as well as opening up fresh opportunities for the market’s managing agents and brokers. Iain Ferguson, Lloyd’s representative in Japan, explains how the Open Market Model will create opportunities.

Market: What benefit does the Open Market Model bring to Lloyd’s in Japan?

Iain Ferguson: The Open Market Model provides a new and simpler process for all Lloyd’s managing agents (not just those signed up to Lloyd’s in Japan) to underwrite risks of an international nature where a non-Japanese company is seeking a compliant local policy to insure the risks they control inside Japan.

In the past, managing agents had to register with Lloyd’s in Japan in order to underwrite such direct business. Alternatively, fees and a local retention would be passed to a local fronting company before the business was reinsured back to London. Now, using the model, the market can underwrite these subject risks from London without dilution and instruct issuance of the policy in Japan through Lloyd’s Japan.

What is Lloyd’s position in the Japanese insurance market?

The market annually underwrites close to $1bn of Japan market premium. While most of this comes to Lloyd’s in London as reinsurance via international intermediaries, a growing amount of Japanese business is written and retained by Lloyd’s Japan. The Japanese market is dominated by large domestic insurers, so foreign insurers such as Lloyd’s Japan have a relatively small market share. We are, however, well placed to serve non-Japanese businesses looking to insure their interests in Japan. The Open Market Model aims to play to this strength.

Are there more opportunities in the Japanese market for Lloyd’s?

Lloyd’s is a significant reinsurance supporter of the Japan non-life market. In addition, two of the three largest Japanese insurers are members of Lloyd’s and operate their own managing agents. With interests aligned in this manner, compared to the competitive positioning of most foreign insurers, our relationship with Japanese insurance companies is of a more collaborative nature. This allows us to partner with domestic insurers on product development and joint marketing initiatives. Joint initiatives tend to focus on specialised classes or sub-classes of risk, where domestic company underwriters feel they do not have sufficient expertise or experience, such as kidnap and ransom, products recall risks with North American exposure, or environmental liability. There are, however, other areas of opportunity which are more aligned to industry type – such as renewable energy risks. At a more general level there is a large Small-Medium Enterprise (SME) market in Japan which is serviced with only very basic coverage and this may bring opportunities for Lloyd’s underwriters to supply more modern and targeted policies.

Will the Open Market Model provide access to these opportunities?

At this stage, the Open Market Model focuses on risks of an international nature where a non-Japanese company is seeking a compliant local policy to insure the risks they control in Japan. By working closely with managing agents, brokers and certain Japanese intermediaries, our aim is to extend the model further in 2013 to cover pure Japanese risks through the provision of pre-syndicated Lloyd’s capacity and expertise to the Japanese market. What we’ve done so far is just the beginning.

THE BENEFITS IN BRIEF: THE OPEN MARKET MODEL:

01 Removes the need for managing agents to sign up to Lloyd’s in Japan inc.
02 Allows brokers to place subject Japan risks through their normal placement processes, using any managing agent and the full strength of the Lloyd’s market.
03 Increases access to Japanese business for the Lloyd’s market.
04 Enables managing agents to retain more business within the Lloyd’s market.

Further Information

To find out more about the Japanese insurance market and the Lloyd’s presence there, visit www.lloyds.com/japanopenmarketmodel

JAPAN’S TOP INSURERS HEAD OVERSEAS

Japanese insurers have been turning their attention to overseas opportunities in recent years. Iain Ferguson, Lloyd’s representative in Japan, believes that trend has led the country’s top insurers to be more active in the Lloyd’s market. The shrinking, ageing population of Japan will mean fewer growth opportunities for the country’s insurers, who have undergone major consolidation in recent years. As a result, Japan’s three largest insurers have been expanding overseas, with acquisitions in the UK, Asia, the US and South America. In 2000, MS&AD Insurance Group Holdings launched their own syndicate which has grown into a fully-fledged Lloyd’s managing agent, and in 2007, Tokio Marine acquired Lloyd’s managing agent Kiln. NKSJ Holdings has also been a long-term investor in the Lloyd’s market. Ferguson believes Japanese cooperation with the Lloyd’s market is likely to grow. “Lloyd’s international licenses are of huge benefit to Japanese insurers looking to expand outside Japan,” he says. “Lloyd’s can also support domestic insurers as they seek to grow their international portfolios through reinsurance.”
Major disaster events in recent years have revealed a disturbing difference between the economic cost of natural catastrophes and the levels of insured risk. According to the Lloyd’s Global Underinsurance Report 2012, published in October, the annual shortfall in insurance stands at just over $168bn. As a result, Lloyd’s is calling for governments, insurers and businesses to do more to close the insurance gap. Commissioned by Lloyd’s and carried out by the Centre for Economic and Business Research, the report analysed data from 42 countries, and defines the gap as the difference between the minimum levels of cover necessary and the actual levels of insurance that businesses have bought to recover from a major catastrophe. In 2011, earthquakes, floods, storms, tsunamis and other natural disasters cost the insurance industry more than $116bn (according to Swiss Re Sigma), making it the second most costly year on record for the industry. However, with the highest economic losses in history of $370bn, insurance covered less than a third of the cost. In the case of Japan, for example, of the estimated $210bn in total damage caused by the earthquake and tsunami, only $35bn is estimated to have been covered by insurance. Aon Benfield estimates personal insured losses to be around $20bn, while commercial and industrial insured losses are estimated at $8bn.

“Worldwide, the insurance shortfall for 2011 was estimated to be more than $250bn,” says Dr Kurt Karl, Swiss Re Chief Economist. “It also showed that both developing and advanced economies can be underinsured. The earthquake in Japan, the most costly natural catastrophe of all time, revealed that earthquake insurance penetration is low in Japan, despite being highly exposed to this risk.”

In a difficult economic climate, this financial exposure must be addressed. “After the devastating earthquakes in Japan and New Zealand, and severe flooding in Thailand and Australia, the impact of natural catastrophes is clear,” says Lloyd’s Chief Executive Richard Ward. “Economies across the world urgently need to address their disaster preparedness if they’re to cope with the fallout of events that are becoming more frequent and more costly.”

**EMERGING MARKET EXPOSURES**

The parts of the world that are most exposed are those countries where the potential for catastrophes is high, but levels of insurance are low. Here, the taxpayer is currently picking up a large proportion of disaster losses. “In the absence of insurance coverage, the cost of reconstruction falls on the shoulders of governments, non-governmental organisations, charities and, frequently, the affected households and companies,” says Karl. Many, but not all, of these more exposed countries are in emerging markets. Although they are developing rapidly, with growing assets at risk, the level of insurance penetration nevertheless remains low – as do other sources of post-disaster relief.

“The gap between economic and insured losses can be severe in low- to middle-income countries, where the magnitude of the losses arising from a catastrophe may outstrip the government’s ability to act as insurer of last resort,” says Karl. According to Eugene Gurenko, Senior Insurance Officer at the World Bank, there are a number of reasons for low levels of insurance. First, there is a lack of investment...
Disaster preparedness also plays a crucial role in reducing the potential impact from natural catastrophes. In 2010, Chile and Haiti were both hit by earthquakes, but the outcome in each proved very different. On 27 February 2010, the sixth largest earthquake in recorded history – a magnitude 8.8 – struck off the coast of Chile’s Maule Region, killing 523 people and costing the country more than $30bn in economic losses. Yet the impact could have been far worse had Chile not observed strict building codes and high insurance in market infrastructure – risk models and claims management, for instance – that would allow a viable catastrophe re/insurance market to grow. Other reasons include poor disaster awareness and preparedness. “The population is not aware of the risk and sees governments typically carrying out policies that are not conducive for encouraging the public to buy insurance, such as ad-hoc subsidies following natural disasters,” says Gurenko. “Governments should be concerned about this,” he says. “In the absence of well-developed insurance markets for this type of risk, governments will be the only de-facto underwriter for these losses. And in the aftermath of large natural disasters, it’s a well-known fact that governments cannot resist major political pressure from the public to provide ad-hoc aid.”

According to the Lloyd’s study, 17 of the 42 countries are seriously underinsured, while a further 15 have insufficient levels of cover for the disasters they face.

<table>
<thead>
<tr>
<th>Country</th>
<th>Underinsurance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Chile</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Mexico</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Brazil</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Thailand</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Colombia</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Poland</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>0.1%</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.1%</td>
</tr>
<tr>
<td>France</td>
<td>0.2%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.6%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.1%</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.1%</td>
</tr>
<tr>
<td>Norway</td>
<td>1.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.5%</td>
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<tr>
<td>Switzerland</td>
<td>1.5%</td>
</tr>
<tr>
<td>South Korea</td>
<td>1.4%</td>
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<tr>
<td>New Zealand</td>
<td>1.4%</td>
</tr>
<tr>
<td>Australia</td>
<td>1.5%</td>
</tr>
<tr>
<td>Canada</td>
<td>1.6%</td>
</tr>
<tr>
<td>EU</td>
<td>2.1%</td>
</tr>
<tr>
<td>US</td>
<td>2.1%</td>
</tr>
<tr>
<td>Canada</td>
<td>2.4%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.6%</td>
</tr>
<tr>
<td>China</td>
<td>3.1%</td>
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<tr>
<td>Thailand</td>
<td>3.2%</td>
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<tr>
<td>Philippines</td>
<td>3.9%</td>
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<tr>
<td>Vietnam</td>
<td>5.9%</td>
</tr>
<tr>
<td>India</td>
<td>10.0%</td>
</tr>
<tr>
<td>Brazil</td>
<td>11.1%</td>
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<tr>
<td>India</td>
<td>11.1%</td>
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<tr>
<td>China</td>
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<td>Philippines</td>
<td>11.1%</td>
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<tr>
<td>Vietnam</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

In monetary terms, China is by far the most underinsured country, comprising $79.57bn, or 47%, of the total estimated underinsurance.

With explosive growth and rapid urbanisation, the country’s exposure to earthquake, storm and flood losses is increasing all the time. Yet only 1.4% of the losses between 2004 and 2011 were insured. In May 2008, an earthquake struck the Sichuan Province causing massive damage and fatalities. Costs were estimated at $125bn, with only 0.3% ($366m) believed to be covered by insurance.

Increasing insurance penetration is only part of the battle. Products must be sold at a risk-appropriate price in order to build up the necessary claims-paying capacity. Data and catastrophe models are also needed to help underwriters assess the underlying risk. One of the lessons from the Asia Pacific catastrophes was an underestimation of the potential hazard and the underlying exposure. The Thai floods, which cost insurers $12bn and caused economic losses of $46bn, were a case in point. “What caught the industry out was the gradual accumulation in values of the industrial parks in a zone deemed to be a non-flood area, something that was even demonstrated by the Thai government,” says Mark Newman, Chief Executive of Catlin Asia Pacific.

“If we’d looked back far enough, there’s historical evidence to suggest some of those regions had flooded before, says Newman. “But it was far less of an issue then, because those big industrial parks weren’t there at that time. But just because it hasn’t...
happened before or in memory of the current market, doesn’t mean it can’t or won’t happen.

“We should anticipate it and price for it in the future,” says Newman. “This is an area where modelling agencies and risk carriers have got to get smarter about thinking about the unprecedented or unexpected.”

GOVERNMENTS ARE BEING ASKED TO OPEN UP THEIR MARKETS TO PRIVATE INSURERS AND TO INVEST MORE IN DISASTER MITIGATION MEASURES, SUCH AS FLOOD BARRIERS AND COASTAL DEFENCES

CLOSING THE GAP
Lloyd’s is calling on governments, businesses and insurance companies to work together to tackle the disaster damage gap. It suggests that businesses prepare for the worst more effectively, ensuring supply chains are protected, contingencies are in place and that they have adequate risk financing.

Governments are being asked to open up their markets to private insurers and to invest more in disaster mitigation measures, such as flood barriers and coastal defences.

“Government involvement is inevitable, whether it’s on the regulatory side or on the policy side when it comes to post-disaster subsidies,” says Gurenko. “It’s also essential that governments provide strong incentives for the public to buy catastrophe insurance and educate the public that the risk is there, and then inform them about what can be done to mitigate it in a responsible way.”

For their part, insurance companies are being asked to take on unusual and new risks in unfamiliar territories. This requires gathering data and modelling perils in underinsured markets.

“Insurance mechanisms can help governments to offload some of their disaster risk, freeing up much-needed resources in the aftermath of a disaster and thus accelerating recovery,” says Swiss Re’s Karl. “However, the role of insurance is not limited to risk transfer. By linking premiums to the presence of stringent building codes, it encourages pre-disaster risk mitigation behaviour, thus improving resilience to disasters.

Also, insurers’ expertise in risk assessment assists public authorities to create pre-disaster contingency plans and manage natural catastrophe risks.”

Interestingly, the report highlights that just a one per cent increase in insurance penetration would reduce the taxpayer burden by 22%.

Other than small increases in 2007 and 2010, the overall trend since 2004 has been a decrease of 6% in the estimated levels of underinsurance.

And with businesses, governments and the insurance industry working together, new measures and smarter initiatives can reduce the insurance gap further, cutting the economic cost of a disaster and speeding up recovery.

You can read more about the findings from Lloyd’s Global Underinsurance Report at www.lloyds.com/underinsurance
Data breaches and cyber attacks have targeted state networks and high-profile companies such as Google, CityGroup and Nintendo. The recent Lloyd’s Risk Index ranked cyber crime as a top-five risk in North America, but only 14th in Europe. Information security and insurance experts, gathered together by Market magazine, discuss the threats any of the world’s largest companies, governments and international organisations have fallen victim to the risks of network outages and malicious attacks by hackers, cyber criminals, pressure groups and terrorists.

As companies and individuals increasingly rely on services provided over the internet, the risks they are exposed to could become greater—with implications for their reputations and balance sheets.

In 2011, IT security firm Verizon identified 855 data breaches that affected the personal data of 174 million people. Hacking and malware were used in most cases, while more than half were the work of ‘hacktivists’—politically motivated computer hackers.

In previous years, the majority of cyber attacks were carried out by cyber criminals, whose primary motivation was financial gain. In an increasingly worrying trend, personal information has become the main target for cyber criminals, accounting for 95% of records lost in 2011 compared with just 1% the year before. Privacy has become a business-critical issue for many companies, especially those in data-heavy sectors such as healthcare, education, retail and financial services.

Tough data-breach reporting laws in the US already require companies to notify customers of potential breaches of their privacy, as well as taking steps to rectify any damage caused—potentially a costly exercise for companies that hold the personal details of millions of people.

Insurers and brokers at Lloyd’s are developing the expertise and products honed for the US market and making them available to European businesses. These insurance and risk-management solutions provide…
both practical and financial assistance in the event of a data breach. Of course, as reliance on IT and outsourcing intensifies and the criminal threat grows, companies will also need to improve their overall IT security and risk management.

To date, European companies have been comparatively slow to wake up to the cyber threat. But changing data protection laws and increasing awareness of reputational damage will lead to a strong response, according to the experts interviewed by Market magazine.

**Market: What are the greatest cyber risks for business today and what will be the risks to emerge in the future?**

**ALESSANDRO LEZZI** One of the biggest cyber risks facing companies today is reputational risk. Data-breach reporting legislation in the US has been the main driver for companies to buy cyber insurance, and while this type of legislation in Europe is not currently as well developed, companies are concerned by the threat to their reputation and potential business interruption. The impending EU Data-Protection Regulation will push companies to act.

**GARETH TUNGATT** European data-protection laws have been tightened and regulators are now coming down much harder on companies. There is also growing concern among all parties around the potential data breach of a cloud provider – the companies that provide offsite data storage. It is a future risk as cloud computing becomes more widespread, and will require the insurance market to watch its aggregated exposure carefully.

**JENS KRICHHAIN** Germany was one of the first countries in the EU to pass a law that requires companies to inform an individual that their personal data may have been subject to a security breach, and they also have an obligation by law to inform the authorities about the breach. This is a big risk for German companies, both in terms of their reputation and the cost of first- and third-party claims.

**ROBIN KROHA** in Germany, ignoring cyber risk is a major problem, particularly among smaller companies that do not have the security and risk management capabilities of larger firms. We see a lot of professionally crafted malware being used against companies to get access to data, and have seen some very sophisticated attacks that use tools developed by military or intelligence agencies.

**DR THOMAS DÜBENDORFER** The amount of valuable digital assets online is rapidly expanding and, because crime follows money, we expect an increase in cyber-criminal activities. We will most likely see an increasing number of highly sophisticated attacks that try to gain unauthorised access to confidential information or to business- and government-critical infrastructure.

**SIMON MILNER** Cyber risks differ depending on the sector you’re in. Firms that depend on online activities could suffer a loss of revenues in a sustained cyber attack, while a breach of confidential information would pose a larger risk to a financial services company, for example. As for risks on the near horizon, I agree that the greater threat that has yet to be fully recognised, is cloud computing. And, yes, looking even further ahead, there is the risk to critical infrastructure, such as utilities, from cyber terrorists, activists and hostile governments.

**How well understood are cyber risks and what is the present state of risk management and security?**

**RK** The main problem is that most companies simply don’t understand the risks they face today. Cyber risk is not well understood and risk management is still conducted along traditional lines. Cyber security is fragmented in many organisations, and this emerging risk is too often left solely in the hands of IT or security departments.

**TD** Running a system securely means putting a lot of effort into keeping up with technological changes and having experienced security professionals look after the systems. Security is a process. As we move towards making health data digital, for example, there will be systems going online that hold highly personal data. This has to be well planned. In a recent study, the IT security in some European hospitals was found to have significant gaps.

**GT** The standard of risk management depends on which industry you look at, but this is still a relatively new area for risk managers. In the sectors that were subject to privacy regulation – such as financial institutions and healthcare providers in the US – risk management and security has improved and is becoming more comprehensive. But not all companies are there yet.

**JK** We see different standards in different industries, too. For example, some large retailers are compliant with the Payment Card Industry Data Security Standard, but many smaller companies that also accept credit-card payments do not even know these standards exist.

**How well developed are cyber risk insurance products and can insurers help in terms of risk transfer and advice?**

**GW** As well as providing innovative risk-transfer solutions, the Lloyd’s market could educate the wider insurance market and raise awareness of the risk among clients. Lloyd’s can adapt existing cyber products, such as those developed for the US, and apply them to the needs of EU countries. It’s also important to emphasise the role of the broker, in advising clients and adapting policies.

**“IGNORING CYBER RISK IS A MAJOR PROBLEM. WE SEE A LOT OF PROFESSIONALLY CRAFTED MALWARE BEING USED TO GET ACCESS TO DATA”**

**ROBIN KROHA**

**AL** In North America, the insurance industry is already helping companies navigate a breach crisis, so cyber insurance products are very developed. As a market, we can also explain the threats and assist companies with improvements to their risk management and internal policies.

**SM** Cyber threats are complex so insurance is becoming increasingly broad. Most cyber insurers provide reputational cover for the cost of employing public relations, while one has also extended this to include loss of revenue as a result of reputational damage to a company.

**GT** Service has become an important part of cyber insurance, particularly for smaller companies that may want a risk-managed solution that supports them in the event of a breach.

**THE EXPERT PANEL**

Why our panel has expertise in understanding the nature of cyber risk and the ways companies can better protect themselves

**ALESSANDRO LEZZI**

**CYBER RISK UNDERWRITER, BEAZLEY**

Lezzi leads the International technology, media and business team.

**GARETH TUNGATT**

UNDERWRITING MANAGER, BARBICAN

Tungatt joined Barbican in 2009 and focuses on technology and e-commerce risks.

**GRAHAM WEST**

LLOYD’S GENERAL REPRESENTATIVE FOR SWITZERLAND

West has over 30 years’ experience in the European insurance sector.

**JENS KRICHHAIN**

UNDERWRITING MANAGER, HISCOX

Krichhain manages the technology, media and telecoms team.

**ROBIN KROHA**

DIRECTOR OF CORPORATE SECURITY MANAGEMENT, HSOLUTIONS AG

Kroha is a strategic management consultant, and a specialist in crisis management and information security.

**SIMON MILNER**

PARTNER AND HEAD OF IT AND CYBER RISK, JLT SPECIALTY

Milner has spent more than 14 years in cyber and network risk.

**DR THOMAS DÜBENDORFER**

CONSULTANT AND LECTURER

Dübendorfer is the tech lead in IT security at Google, Zurich, has been a consultant for selected Swiss banks and lectures on network security.
“IT’S IMPORTANT FOR COMPANIES TO BE ABLE TO RELY ON INSURERS TO TRANSFER THEIR CYBER RISKS AND GAIN ACCESS TO FORENSIC AND LEGAL EXPERTISE”

JENS KRICKHAHN

What steps need to be taken to keep cyber risk manageable and insurable? Can governments, legislators and society as a whole build resilience?

SM By raising awareness and sharing information, insurers can help companies understand where their security provision may be deficient. Businesses need to avoid the misconception that it won’t happen to them, because it can and probably will.

AL The market needs to take steps to educate and explain the cyber threat. Governments can help by setting standards through legislation, while individuals can put pressure on companies to have privacy policies and high corporate standards.

GT As an industry, we are building our knowledge. A lot has been learned from the experience gained over in the US, but for insurers to continue to provide cover they will need to look at the bigger picture. Insurers need a better understanding of aggregated exposures across a portfolio of cyber risk. They also need to work closely with the technology industry.

JK It’s important for companies to be able to rely on insurers to transfer their cyber risks and gain access to forensic and legal expertise. Hiscox has launched the first product in Germany that offers a specific cyber solution. Part of that solution provides access to forensic and legal specialists. However, Germany is still a young market with just two cyber insurance providers, and it needs to develop further if we are to raise awareness of the product among brokers.

RK Insurers play a crucial role in raising standards and helping companies develop their information security. Companies will have to demonstrate security to underwriters if they are to purchase cyber insurance and reduce the cost of cover. Businesses are reluctant to invest in security, but insurers can change that.

WHAT'S NEW?

A GLOBAL VOICE FOR LLOYD'S

Lloyd’s has links with many of the world’s leading insurance associations, giving the market further global reach and helping Lloyd’s engage at the highest level

The strength of the relationships Lloyd’s has with insurance associations across the globe means the market can develop even closer ties with the industry’s global players and opinion leaders. This includes intermediaries who bring business to Lloyd’s and, on the buyer side, risk managers.

The global network of associations ensures Lloyd’s is always up to speed with emerging risks, clients’ issues and market conditions.

In Europe, two of the organisations Lloyd’s works with are the European Federation of Insurance Intermediaries (BIFAR) and the Federation of European Risk Management Associations (FERMA). Connections such as these supplement Lloyd’s links with regulators, meaning that the market’s views are heard by the right people. BIFAR, for example, gives the market greater access to engage with the European Parliament.

In Hong Kong, the Hong Kong Federation of Insurers (HKFI) works with Lloyd’s on various issues to ensure the market’s voice is heard more powerfully on industry consultation matters, including regulatory reform or the Policyholder Protection Fund.

Lloyd’s also takes part in events organised by these associations, meeting the region’s key players to explain what the market offers. This is complemented by individual discussion between Lloyd’s and senior personnel within the various associations.

In May 2011, for example, Lloyd’s worked with the Insurance Association in Vietnam to host a roadshow in Hanoi. The Association invited its members and collated the guest list to help Lloyd’s reach a wider audience. The US is the source of almost 40% of Lloyd’s worldwide premiums, so association contacts Stateside are extremely important. To name just one, the presence of Lloyd’s at the annual conference for the Risk and Insurance Management Society (RIMS) raises the market’s profile among brokers, risk managers, underwriters, consultants and the media, and allows members to share research, giving insight on key trends for the years ahead.

Lloyd’s also works to raise the profile of insurance, amongst university interns and graduates, through these relationships. For instance, in Singapore, Lloyd’s is a member of the General Insurance Association (GIA) and supports GIA’s Global Internship Programme, sponsoring an intern through a ten-week programme at Lloyd’s Asia which includes a visit to Lloyd’s in London.

For the future, Lloyd’s will continue to build on these strong relationships. It has associations with six to help it reach an even wider audience.

A SNAPSHOT OF ASSOCIATIONS LLOYD’S WORKS WITH AROUND THE WORLD

AmerIcan assoCIation of manageRs (AAR)
www.aamrg.org
Belgian assoCIation of manageRs (BAM)
www.bam.org
British chamber of commerce (BCC)
www.britcham.co.uk
British chamber of commerce (BCE)
www.britcham.org.uk
British chamber of commerce (BCE)
www.britcham.org
Chinese association of manageRs (CICA)
www.china-cima.org.cn
The council of insurance agents and brokers (CIA)
www.cia.org.uk
Frankfurt main chamber of commerce (FMCh)
www.fmkh.de
General insurance association of singapore (GIAS)
www.giasg.org
German insurance association (GDA)
www.gda.de
Hong Kong federation of insurers (HKFI)
www.hkfi.org.hk
Insurance institute of Hong Kong (IIHK)
www.iihk.org.hk
Insurance institute of China (IIC)
www.iic.org.cn
Insurance institute of singapore (GIS)
www.gia.org.sg
Managing general agents’ association, uk (MGAA)
www.mgaa.co.uk
National association of professional surplus lines offices (NAPSLO)
www.napslo.org
National federation of reinsurance companies (NFRC)
www.reinc.org
National association of insurance commissioners (NAIC)
www.naic.org
National association of professional surplus lines offices (NAPSLO)
www.napslo.org
The netherlands association of risk insurers and managers (NARIM)
www.narim.com
The netherlands british chamber of commerce (NBCC)
www.nbcc.org
Shanghai insurance association (SHA)
www.shia.org.cn
Spanish association of insurance and reinsurance institutions (UNESPA)
www.inesp.org
Spanish association of insurance and risk managers’ agents (Agem)
www.agem.es
Turkey: Growing Potential and New Opportunities

Turkey sits at the centre of a crossroads, geographically – bridging Europe and Asia – and economically, as it emerges from the turbulence of the 80s and 90s into a period of huge development and political stability. In this feature, the second of a three-part series on emerging markets, we investigate how the Lloyd’s market can take advantage of these new opportunities.

Following the targeted economic stimulus measures introduced by its government in 2009, Turkey has experienced large private-sector growth. As a result, it is fast becoming a key player in the global economy, and is expected to be the second-fastest growing economy in the world by 2018, according to UK Trade and Investment (UKTI).

With so much opportunity, the scene is set for Lloyd’s to make the most of its burgeoning insurance and reinsurance market.

Turkey is experiencing growth in all sectors, most significantly in manufacturing, tourism, property and construction. Airports, motorways, railways, at least three major dams and a plethora of energy projects, including nuclear and renewable energy plants, are all being built in the country.

In Istanbul, even as an express railway under the Bosphorus is being constructed, there are plans to build a third major bridge over the river.

With a population of 75 million, equivalent to 15% of the EU, and 50% of the population under 29, this growth bodes well for job prospects in Turkey.

What’s pertinent for Lloyd’s is that Catlin found Turkish non-life insurance penetration was only 1.2% in 2011 – lower than any country in Europe. This, along with phenomenal economic growth, means that there’s great scope for the sector to improve; Catlin estimates non-life gross written premiums, at $8.1bn in 2011, will grow by 14% per year from 2012 to 2015.

Turkish building contractors are not only active at home, but in the Middle East and Africa, too. Estimates put them second to Chinese contractors in the volume of contract wins overseas. “The kinds of risks arising from these sectors are creating huge opportunities for insurers that cover specialist and very large risks,” says Enrico Bertagna, Lloyd’s Head of Southern, Eastern Europe and Africa.

And while the country’s current gross domestic product (GDP) stands at a healthy $1,090bn (the world’s 16th largest economy), and GDP per capita...
Minister Recep Tayyip Erdoğan won his third four-year term last year, and Turkey's goal is to join the EU. Legislation by Erdoğan's government has enshrined high standards of corporate governance, particularly for insurance. Two new laws in force since July 2012 are making a crucial difference. The Commercial Code sets out key principles of corporate governance, including regulations relating to professional liability insurance and passenger liability for marine travel; while the Code of Obligations features more favourable contract legislation for financial services consumers.

Julian James, Chief Executive of Lockton, which operates in Turkey, says that, as well as increasing demand for insurance, these legislative developments mean “the legal environment is increasingly strong and attractive for doing business”. Certain types of insurance have been made compulsory, such as earthquake cover for all private property in 2000. Only 25% of earthquake risks to private property have been insured. This could open up opportunities for Lloyd’s to support the market and the Turkish Catastrophe Insurance Pool created with the cooperation of the World Bank, Turkish Government and the insurance sector. This pool was not only created to provide protection at an affordable price, but to also reduce the financial burden caused by earthquakes on the state, increase the standards for construction, and raise the awareness of the need and benefits of insurance.

Other key developments include a requirement for protection and indemnity cover for vessels in Turkish ports (or carrying the Turkish flag) exceeding gross tonnage of 300. Additionally, professional indemnity cover was made compulsory for doctors and dentists in 2010.

A WARM WELCOME

The good news for the Lloyd’s market is that British-based companies are being welcomed in Turkey. More than 2,200 UK companies currently do business there according to UKTI, and Britain is Turkey’s fifth largest source of imports from the EU, with a value of $4.7bn.

LLOYD’S FUTURE IN TURKEY

Although Lloyd’s already serves the Turkish market, to support the market further by increasing the focus on writing direct business would require a local licence. This is something the Corporation of Lloyd’s is talking to the Turkish authorities about, but it will require a change in Turkish law. Cameron Murray is leading talks on behalf of Lloyd’s. “We’d like to move onshore and increase the flow of business to London and to write direct business on the ground,” he says. Lloyd’s is hoping to use a delegated underwriting model as it has done elsewhere in the world. Under this model, Lloyd’s could appoint a local independent agent or a service company that is a wholly-owned subsidiary.

Lloyd’s is committed to helping to build the market’s knowledge of Turkey and to write its first Turkish Insurance Day in London in September, attended by representatives from the Turkish and London markets. Ed Pennock, the Senior Manager in International Market Development and Operations at Lloyd’s, says: “This event allowed our two markets to come closer together, share ideas, knowledge and network. There has been significant interest from both markets and I hope it will help foster new relationships and opportunities.”

LOCKTON

Lockton has operated in Turkey for 20 years and its business there is growing by roughly 10% per year. The broker provides reinsurance to Turkish clients and insurance to a growing number of foreign clients working in Turkey. Lockton has a treaty and facultative capability led by a Turkish national in London who frequently travels to Turkey. It also has a partnership with local broker partner Nart. Chief Executive Julian James explains: “Nart is a well established player. They look after our clients and vice versa.”

BESO

Specialist Lloyd’s broker Besso is writing gross written premiums in the country by one third per year and has operated in Turkey for eight years. Crucial to its success is the well-respected local Managing Director, Ceytan Ozcan, a Turkish national.

“It is essential that you have the partnerships and Ceytan is fantastic,” says Roddy Caxton-Spencer, Managing Director at Besso.

THREE COMPANIES ALREADY OPERATING IN TURKEY

CATLIN

Project Manager Kerim Tarman joined Catlin in 2010 to set up its Turkey Desk. Today, the insurer accepts business from Turkey via Lloyd’s open market process and treaty business is written by Catlin’s Zurich-based reinsurance company, Catlin Re Switzerland. Facultative reinsurance for Turkish business partners is written through the Cologne office on behalf of the Catlin Syndicate at Lloyd’s and Catlin UK, the firm’s UK-domiciled insurance/reinsurance company.

“They are writing $3bn of business and it will help develop the Turkish insurance market to provide more diversified solutions for large projects, mid-size risks and consumers alike,” he says.

Turkey’s attractiveness, however, is tempered by challenges. “We operate in Turkey, and competition has become intense,” says Roddy Caxton-Spencer, Managing Director of Lloyd’s broker Besso. “And it will become even more so. We are introducing new products to the Turkish market, and because there is a shortage of historical data we are, to an extent, trialing rates and wordings.” Turkey fits well with Lloyd’s Vision 2025 – the plan to maintain the Lloyd’s market as the major global hub for insurance and reinsurance. Turkey’s continued growth could mean a local Lloyd’s presence in the country will become a reality in the near future.

We are following the market developments in Turkey very closely,” says Tarman. “We are prepared to take opportunities as they arise by intensifying efforts to serve business partners with interests in Turkey.”

Besso

Specialist Lloyd’s broker Besso is writing gross written premiums in the country by one third per year and has operated in Turkey for eight years. Crucial to its success is the well-respected local Managing Director, Ceytan Ozcan, a Turkish national.

“It is essential that you have the partnerships and Ceytan is fantastic,” says Roddy Caxton-Spencer, Managing Director at Besso.
Among the many treasures in the underwriting room at Lloyd’s, the most iconic is the Lutine bell—a fixture of each successive room for the last 100 years. Although the bell may be synonymous with Lloyd’s, it was originally cast for a French Navy frigate La Lutine (the Sprit) launched in 1779. Fast forward 14 years, and the ship was captured by the British Navy who promptly renamed it HMS Lutine.

The Navy didn’t enjoy the Lutine for long. In 1799, she was wrecked off the coast of Holland carrying a cargo of gold and silver bullion valued at more than £1m. Despite many salvage attempts, it wasn’t until 1859 that the bell was finally retrieved. As the Lloyd’s market had insured the ship—and paid the claim on its loss in full—the bell was presented to the market as a gift. However, it was 40 years before it was hung in the Lloyd’s underwriting room at the Royal Exchange, replacing the hand bell previously used to call for silence in the noisy underwriting rooms.

Received wisdom is that the Lutine bell was first rung in 1889 to inform the market that Red Rock, a ship more than three months overdue, had finally arrived safely in New Caledonia. Since then, the bell has announced many significant events of the last two centuries, tolling once for bad news, twice for good. As well as marking losses and tragedy, it’s been rung for visiting Royalty, to still the underwriting room in readiness for a photograph and, crucially, to warn of enemy aircraft during World War II. Today, the Lutine bell is insured by Lloyd’s for £50,000 and is sounded only on some ceremonial occasions. But it remains at the heart of the underwriting room which underwrites today’s risks.

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**MARKET MOVERS**

Vincent Vandendael
Director, International Markets, Lloyd’s

Vincent Vandendael will join Lloyd’s from Zurich Insurance Company where he was most recently Chief Executive Officer of the Global Corporate Unit in Asia-Pacific. He will be based in London and will be responsible for the development and management of all Lloyd’s global operations outside North America, seeking out opportunities to promote and further strengthen the market around the world.

**HENNING HAAGEN**
Global Head of Aviation EMEA/Asia-Pacific, Allianz

Henning Haagen will join Allianz Global Corporate & Specialty as the Global Head of Aviation Europe, Middle East, Africa (EMEA) and Asia-Pacific on 1 January 2013. He will serve as global underwriting leader for aviation insurance business in those regions. Haagen, who will be based in London, has more than 20 years of experience in the aviation insurance and reinsurance industry and, prior to Allianz, he managed the aviation reinsurance portfolio of Brit Insurance.

Matthew Wilson
Chief Operating Officer, Travelers

Matthew Wilson has joined Travelers as its new Chief Operating Officer, Europe to oversee the European functional areas. He joins from Willis Group Limited where he has worked since 2000, holding a variety of roles including Chief Operating Officer of Willis Global Specialties Division and Compliance & Legal Affairs Director of Willis’ International Division.

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**EVENTS**

**CHALLENGES PRESENTED BY A MAJOR MARINE DISASTER, UK**

7 November, London

This Lloyd’s conference, featuring a panel debate with market specialists, focuses on wreck removal and the challenges of a significant marine disaster. It will conclude with a networking reception.

**FOR MORE INFORMATION:**
judy.knight@lloyds.com

**MEET THE MARKET EVENT, POLAND**

27 November, Warsaw

Learn more about the opportunities in Poland and network with insurance professionals from the country’s insurance community.

**FOR MORE INFORMATION:**
ewan.zylak@lloyds.com

**CLASS OF BUSINESS EVENT – POLITICAL RISKS, SPAIN**

27 November, Madrid

The British Ambassador will host this event, where experts from the insurance community in London and Spain will examine the latest trends and issues facing the political risks insurance market.

**FOR MORE INFORMATION:**
esther.pozuelo@lloyds.com

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**WWW.LLOYDS.COM/EVENTS**

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**THE LUTINE BELL HAS BEEN RUNG**

1912

Sinking of RMS Titanic

1938

First gold bar raised from the wreck of HMS Lutine

1952

Death of King George VI (also ran eight days later for the funeral)

1960

Birth of Princess Andrew

1965

Death of Sir Winston Churchill

1968

Safe ‘splashdown’ of US Apollo 8 space mission

1986

New Lloyd’s building opened by HM The Queen

2001

US terror attacks on 11 September

2005

London bombings on 7 July