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Articulating the impact of change



► *We live in a time of unprecedented change, which has a profound impact on risks, and the way they are managed. At this year's AXA XL Client Forum, experts gathered to debate the issues and find out what part insurance can play*

AXA XL Client Forum



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A volatile geopolitical landscape, climate change, disruptive technologies and cyber risk are never far from the headlines today, and together present businesses and insurers with new challenges and considerations. Understanding what's driving such unprecedented change in all these areas is key to managing the inherent risks and making the most of the underlying opportunities.

Among the major drivers of change in recent years has undoubtedly been the internet, which is driving a global power shift in a number of areas. A closer look at the ongoing shifts reveals a great deal about where power is being lost, won and transformed.

These shifts are evident across three main areas, according to author and researcher, Carl Miller. First, he points out, there is a shift of power in politics. Political parties in their traditional sense are largely non-existent today, and we have seen the rise of entirely new kinds of politician. Additionally, membership of political parties is at an all-time low. Power is seeping out of the parliaments and into the community, providing new ways of putting people in control, with the internet enabling mobilisation and counter-mobilisation everywhere. "Everyone that previously couldn't get their message out can suddenly have their voices heard in the mainstream," Miller explains. "Protest has become much easier; it is the start of a new story."

A shift of power is also occurring within the media. While there have never been so many people consuming news as there are right now, traditional news organisations' profits are falling. So, if the press is becoming less powerful, who is becoming more powerful? With the time and tenacity to pursue the facts, Miller points to a growing number of citizen investigators, such as Eliot

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Higgins of Bellingcat (the organisation behind the Skripal revelation), that are breaking stories that we should all pay attention to.

The third and arguably most astonishing shift of power is taking place within the criminal world – to the degree that, despite reports of apparently falling crime figures, ONS figures show that cyber crime incidents have doubled since 2016. "Crime had not actually been falling, it had shifted elsewhere. And the online world is fast becoming the premier venue for crime," Miller explains. "We are living through one of the most serious crises of modern policing, and there is no sign of this getting any better – in fact, the more complex it gets, the worse it gets.

Are we heading towards a world of more liberation or of more control? "Both," he says, arguing that in a time beset by more liberation and more control than ever before, humans have both the capacity to be kind and cruel, and this will be played out powerfully in the online world: "New gods are forming; new powerful actors in a new world without rules."

The impacts of change

For businesses dealing with political risks, the need to define and articulate what it means for each organisation is increasingly complex. Andrew Underwood, UK Regional Product Leader for Political Risk, Credit &

Bond, XL Catlin, part of AXA XL, a division of AXA, says there are any number of trends and considerations that may affect decision making.

"Political risk insurance can address some of the consequences arising from a change in government or foreign trade policy, exchanging uncertainty for certainty," he says.

The impact of a changing climate is so often documented that the two words are rarely separated.

Extreme natural events are four times more frequent today than they were in 1970. There are now around 400 extreme events per year, with more Category 4 and 5 events predicted to feature among them.

In October of this year, the UN Intergovernmental Panel on Climate Change (IPCC) said in a report that if global warming continues at its current pace, temperatures are likely to rise by 1.5°C between 2030 and 2052.

This means increased rainfall, higher sea levels, and more snowfall during winter storms, higher storm surges and subsequent flooding.

Karina Whalley, Business Development Manager, AXA Global Parametrics, says there are a number of innovations currently in development to counteract the impact of climate change, among them stratospheric aerosol injections, carbon capture using phytoplankton, and the spraying of clouds with sea

water to enhance their reflective capabilities. And not a moment too soon, it seems.

“Eighty per cent of economic sectors are impacted by weather risks. Agriculture, food and drinks, construction, distribution, renewable energy, gas and electricity, tourism and leisure and transportation are among the numerous industries affected.”

Data triggered insurance can provide a very quick solution to weather risks using weather station data and satellite imagery, she explains, where the independent data will neither be influenced by the client nor by the insurer. It can also be tied to the blockchain to further enhance speed of payout.

“We can devise any number of solutions including low energy sales cover for large energy producers in the event of unseasonably warm winters, or construction company delays cover against excess heat – all situations that will only be exacerbated by climate change,” she adds.

Devising solutions to new problems is all in a day’s work for H el ene Stanway, Digital Leader, XL Catlin, part of AXA XL, a division of AXA. It is Stanway’s role to seek new ways of leveraging emerging technologies with the goal of creating new opportunities and solving business problems. One such example is the Internet of Things (IoT). “The IoT, and in particular the use of sensors, takes us from uncertainty to certainty. Ship and pray becomes ship with confidence – giving you new data throughout the shipments’ journey on the conditions of transport: temperature, humidity, light and shock,” she says. “The data in these devices is not quite real time yet, but it’s going in the right direction.”



Assuring the supply chain

Such innovation is evident in AXA XL’s recent partnership with Parsyl to bring about improved risk mitigation and claims processing for the marine cargo insurance market. The first IoT risk management platform of its kind, Parsyl combines powerful predictive data analytics to present cargo insurers with an unprecedented view of risk dynamics.

“New data insights are enabling new ways to reduce and mitigate risks that were previously hidden. Potential incidents can also be tracked and dealt with more quickly thereby reducing interruption to supply within the supply chain,” Stanway explains.

Stanway expands on the development and delivery of the first insurance blockchain, InsurWave which she explains could not have been achieved by each individual participant alone, and indeed it was focused on areas in the value chain where there was no competitive advantage.

“The platform details asset location and accumulations, live updates on locations of ships and war zones to form a near real-time register, using Acord standards and a single version of truth overlaid with a SMART contract,” she says.

“Blockchain is not ‘technology looking for a problem,’ rather it’s a ‘go-forward’ solution for the insurance industry now.

“Having all this asset and exposure data in one place is invaluable, and it’s something we’re looking to expand to fine art, aerospace and beyond, finding new ways to disrupt and improve insurance beyond marine. We are building partnerships where the client is always at the centre.”

Another promising area of development for AXA XL is the pioneering augmented reality technology, HoloLens, which has a

multitude of potential applications in risk management.

Great strides have been made in the arena of cyber insurance in recent years, despite the considerable and varied challenges.

“This is a really exciting topic,” enthuses Rob Brown, Global CEO, AXA Corporate Solutions, part of AXA XL, a division of AXA. “Cyber risks are changing really rapidly which impacts coverage availability. This is why we have to keep talking about it, learning, tracking the data and devising ways to maintain its effectiveness and profitability. Then we can start to inject a bit more innovation. I think there is a unique opportunity with cyber for us to come up with some really great solutions for our clients in terms of both prevention and damage management.”

One of the problems most often cited with cyber risk is a lack of data. Steve Burrige, Partner, Lockton Companies LLP, says that whilst this is understandable, it is something all parties must get to grip with, and soon.

“People are very secretive about losses; somehow we have to get better at connecting up cyber data so that more informed decisions can be made. In fairness to the underwriters, you can now get first party business interruption cover, as well as some reputational risk cover within cyber. So if there is a particular market that is developing its product at the moment to be more meaningful, it’s cyber.”

“There’s a real willingness to develop cyber insurance even further. There are lots of issues needing addressing at the moment, though – among them finding an alternative to answering 300 questions as a way of collecting data. Understandably, customers don’t want third party devices embedded in their systems to



do that work.”

If you have any sympathy with insurers where cyber is concerned, then you’re in good company; it’s a notoriously difficult risk to understand.

Julia Graham, Deputy CEO and Technical Director of Airmic, believes that solutions supporting insurance can provide great value here. “Breach response and restoration, media advice and legal services, for example, are business-critical yet typically expensive. Immediate access to reliable expertise in these areas can be a vital supplement to insurance cover, when speed of response and recovery to an event is essential,” she explains.

“I think we’re going to see some really radical change in the cyber market. Insurers will be able to offer more short-term assurances and will be able to introduce certainty through event triggers. The whole underwriting process is going to be completely transformed. At the moment we need to upskill to get this moving. I think we are on the cusp of something big here.”

Brown concurs. “Understanding and underwriting cyber risks requires very rare skills. Keeping abreast of the changing cyber and privacy landscape is a continuous practice,” he says.

Among the challenges are finding the answers to a number of ethical questions around what insurers should or should not do with certain data. “There is a societal downside with data and predictive analytics. A risk might look uninsurable, or we may want to pass on the cost benefits of, say, women being better drivers, but you cannot do that, for legal/compliance reasons,” Brown explains. “That said, there’s no better industry to be in. We empower people to live better lives.”

Of course, having cyber insurance





does not remove the need to protect yourself against a loss. Effective crisis management plans – into which these services can be embedded – is key. Airmic’s Graham suggests that the Chief Information Security Officer can be an increasingly significant asset to the risk team. “The CISO can be a like-minded business peer for collaboration,” she explains.

The power of partnership

Collaboration has in itself become a major theme in the insurance industry, with M&A activity rising in the first half of 2018 to 186 deals worldwide, according to research from Clyde & Co. This marked the second consecutive six-month period of modest increases in the volume of transactions since 2017.

The power that partnership through M&A can provide includes potential synergies on reducing cost base, building scale and accessing new capabilities and customers – partnership creates new possibilities for all stakeholders.

“Success comes from the collective,” psychologist Jamil Qureshi points out. “Connecting two things which are usually unconnected. You’re only

“You can live without many things, but you cannot live without customers. The customer is at the heart of everything we do”

as strong as the relationships that you can forge and the way in which you can partner with people and stakeholders.”

Can shareholders and customers both win in this scenario, though? Brown thinks so. “Absolutely. Shareholders win when customers win. You can live without many things, but you cannot live without customers. The customer is at the heart of everything that we do. If you get the customer outcome right, shareholders will be happy, too.”

Brown says the challenge for large, historically solid insurance companies is around growth and changing culture, and finding ways of making growth more sustainable. “Greater diversity allows you to have a bigger risk appetite, with more touchpoints, knowledge and talent to do even greater things. I think the current wave of consolidation is going to continue in some shape or form as it

allows us to be more aggressive and more competitive,” he says.

Burridge agrees. “I think it’s different for insurers and brokers. For insurers, building long-term sustainable businesses that are able to deal with emerging risks is a positive thing. Brokers, meanwhile, are driven by scale and margin and trying to extract shareholder value from the deal,” he adds.

The challenge with consolidation, however, is to develop global strength while remaining locally relevant; ultimately, insureds should be treated according to the way they manage their risks. While the risk horizon is constantly changing, establishing and maintaining an ongoing dialogue and partnership between customers and insurers is key to this.

As Thomas Buberl, Chief Executive Officer of AXA has previously stated: “We must build the trust and understanding that create a strong relationship, as the bedrock of our insurance business. Fair and quick payments are essential, and we still need to improve in this area, but we must go beyond the role of bill payer to become a full-fledged partner for our customers.”



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