

airmic



*fast*Track

Insurance purpose, principles and practice

A trot through the basics

Learning objectives

After today you will be able to:

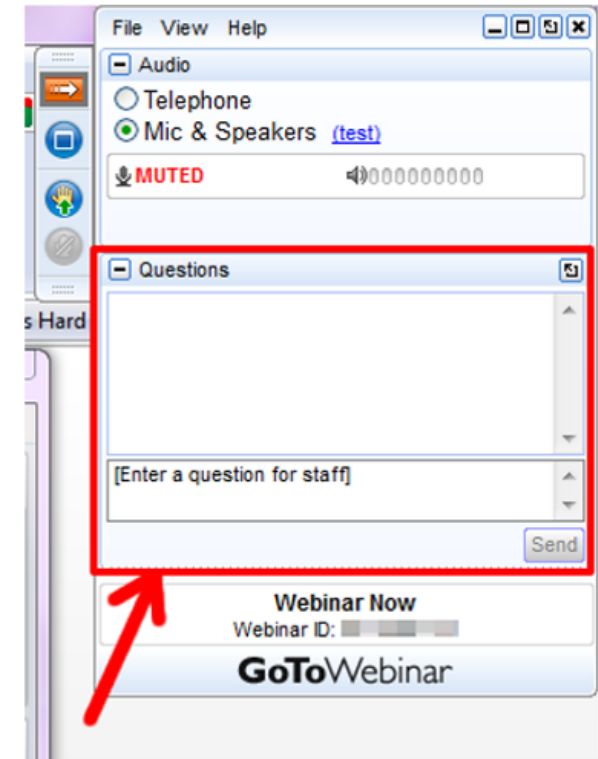
- Explain the basic insurance principles, insurers, brokers and the market
- Appreciate basic insurer pricing and portfolio management
- Appreciate how to commercially apply insurance to risk management
- Identify what risks are likely to rise in importance over the next decade and how to think creatively about responding to them

How to ask questions

How to ask questions during the webinar

Use the questions panel in the GoToWebinar console

If the console is not visible, click the orange arrow to expand it



Our speaker today



Tom Hoad is Head of Innovation at Tokio Marine Kiln and the current Co-Chair of the Lloyd's Product Innovation Facility. Tom is responsible for leading Tokio Marine Kiln's product development strategy including R&D, Product Development, Risk Incubation and Scale. He has been responsible for developing and underwriting dozens of new insurances over his career predominately relating to intangibles, supply chain, non-damage business interruption, the carbon economy, contingency and parametrics as well as having led numerous digital initiatives.

Tom holds a first-class MSc in Insurance and Risk Management from
Cass Business School



Background to Insurance

Why is there a need?



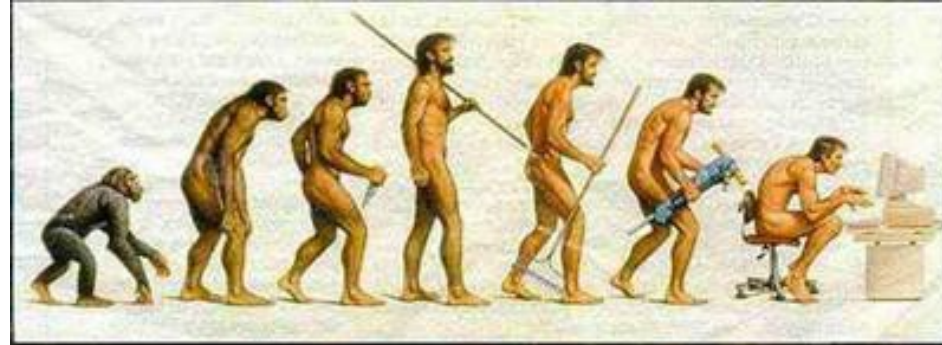
Disasters happen



Village meeting agenda:

- Description of disaster, what caused it and how bad the outcome was;
- How should the village respond, what are the risks of not responding; and
- What can be done to prevent this from happening again?

How the industry evolved...



Source: Rafail Pandeli's ECOLOGY BLOG



Source: Econlib



2019...



Source: Lloyd's of London



Background to Insurance

2005... my first day!



Insurance jargon

Indemnity

Proximate Cause

Wholesale/Retail

Subrogation

Rate-On-Line

Deductible

Active Underwriter

Slip

Reinsurance/Retrocession

CAT

AGG

Hard Market vs Soft Market

Pen/Stamp

All Risks/Named/FLEXA Perils



Insurers

What do insurers do?



- Price risk
- Manage solvency
- Handle claims
- Others

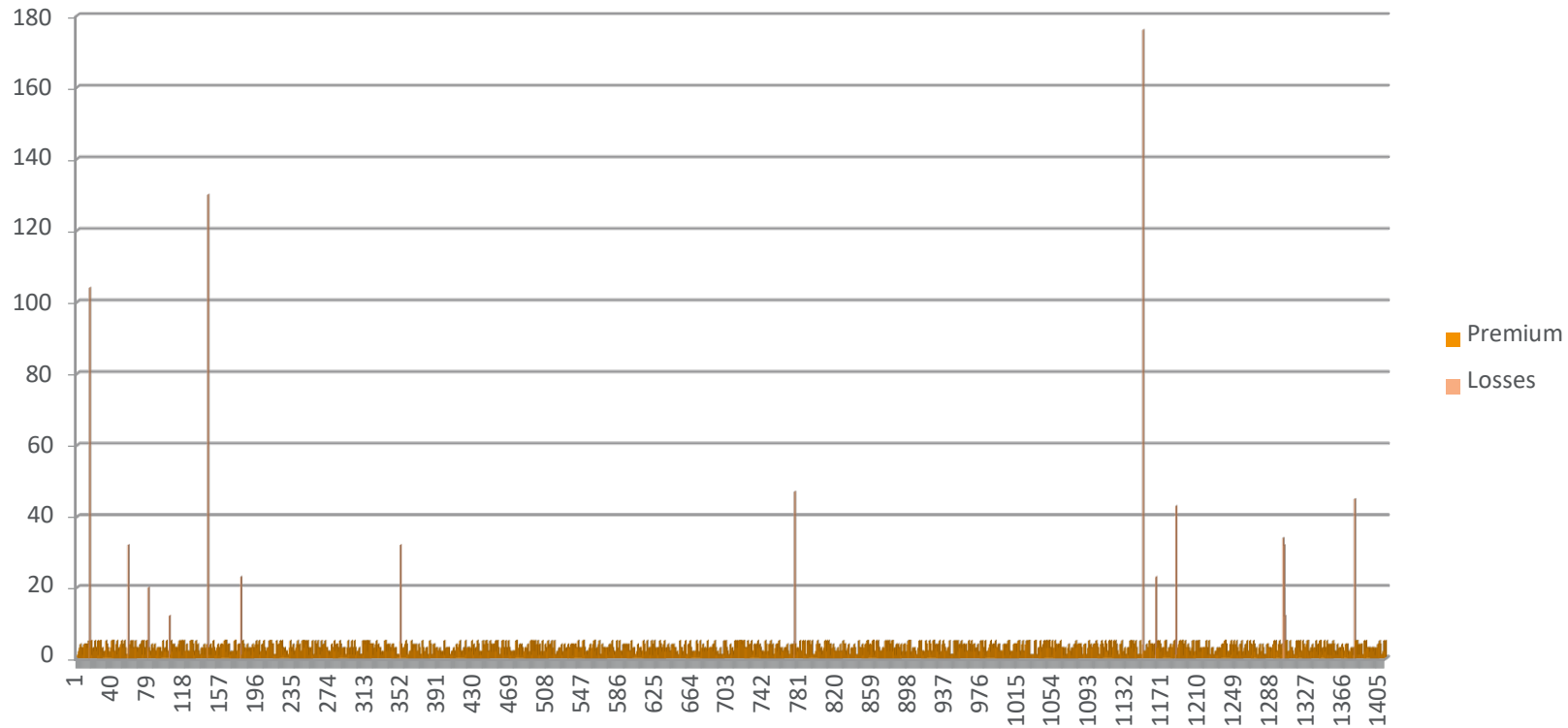
Source: Faculty of Actuaries



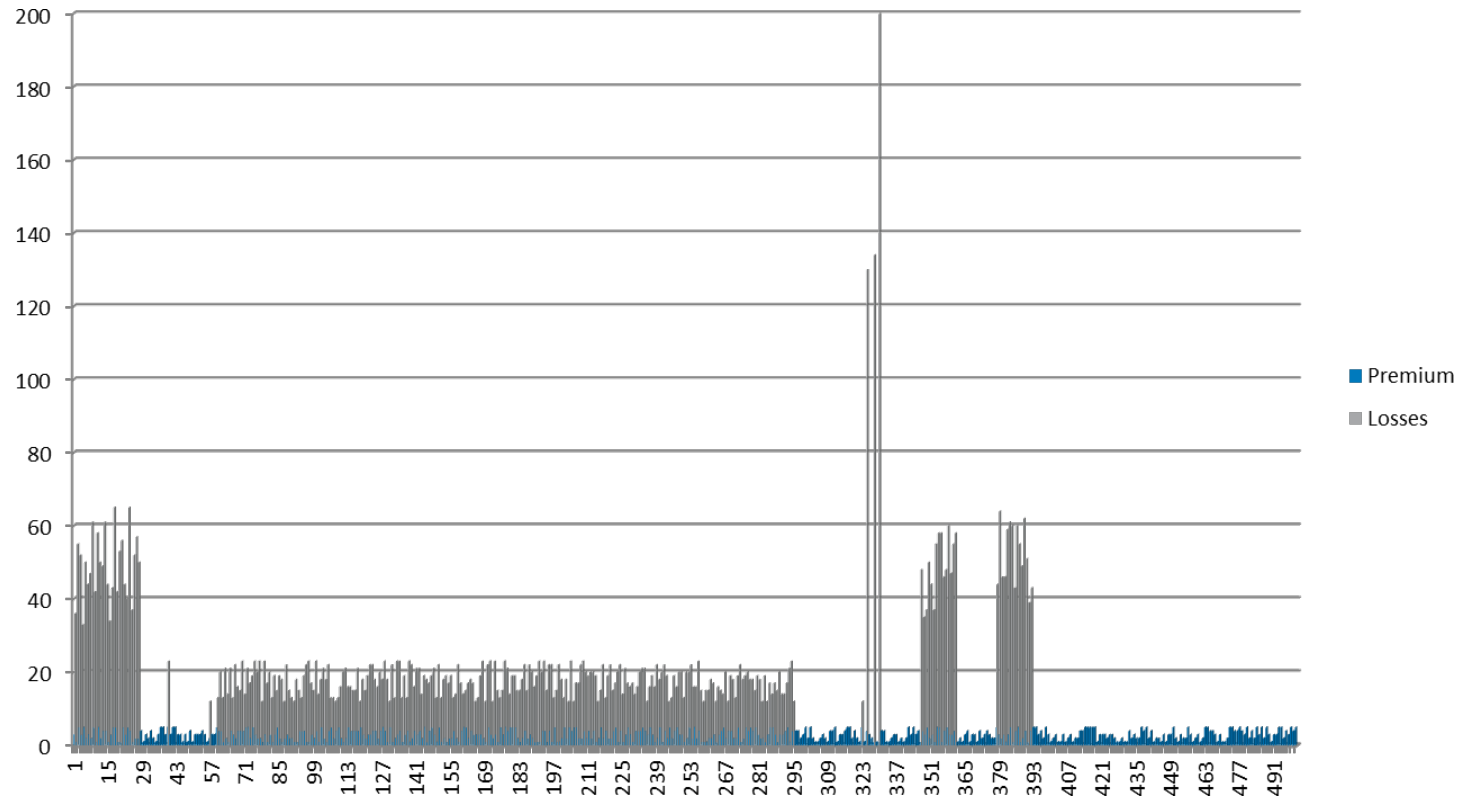
Types of fruit and veg (insurances)



Premium vs Losses = Loss Ratio

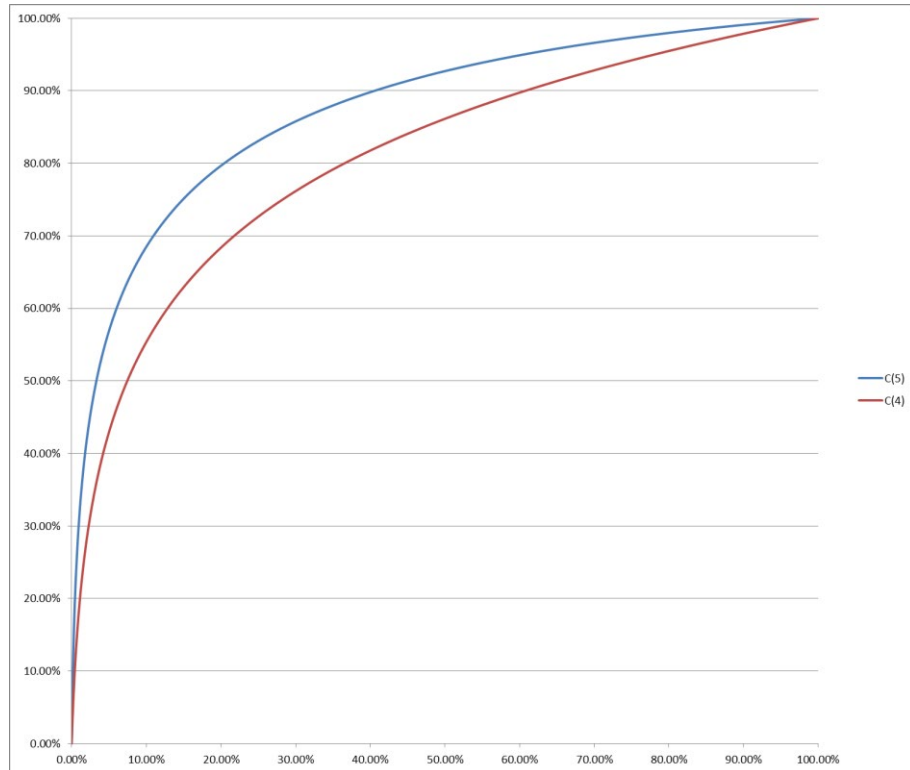


Poor loss ratio account



Risk pricing principles

Price is basically a function of the probability of an event occurring during the policy period, the expected magnitude of that event, the insurer's margin and other administrative costs.



An example of the sort of probability curves insurers use to calculate risk in terms of the likely severity of loss.

In practice...



Think about how the price for a risk would change if insurers only pay when loss exceeds a certain amount i.e. a deductible, what happens if you retain 90% of the risk?

Sum Insured: USD50M

Primary 10M?

10M xs 10M?

Etc.



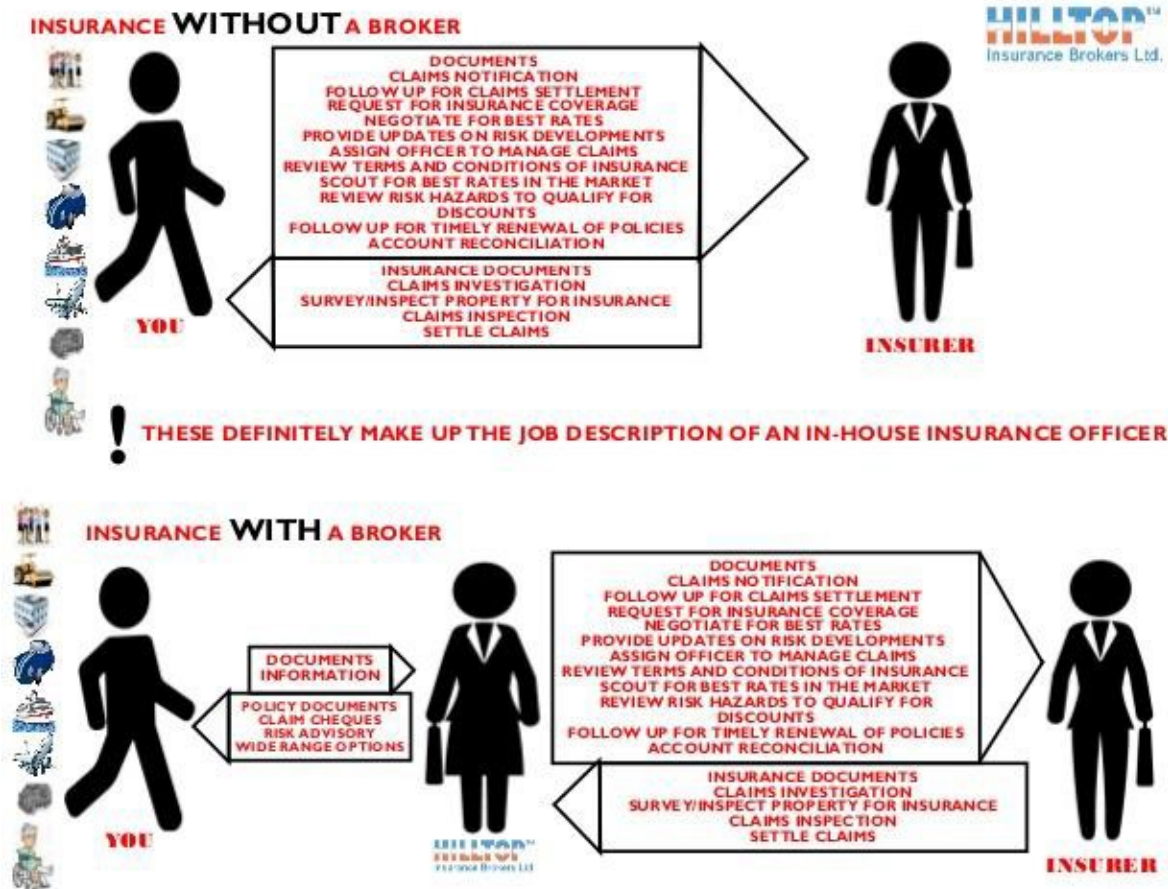
Brokers

Market Knowledge



- Leverage
- Interpretation
- Advisory
- Tactics

Insurance/Risk Support



- Brokers ensure market competition
- Give you options
- Major on risk advisory/benchmarking
- Do the admin
- Help present internally
- Manage claims

Source: Hilltop Insurance Brokers

Cycle Management





Example Commercial Use of Insurance for Risk Managers

Risk Management



Source: ISO 31000: 2018 Risk Management Guidelines

Major resources available via Airmic EXPLAINED Guides, e.g.

[Airmic Explained Guides-Risk and managing risk_v9_FINAL.pdf](#)

COVID will accelerate the trend of risk managers becoming more “strategic”

Contractual liability is a massive opportunity for strategic risk.

Commercial Risk Management in Practice – Case Study 1

CONTEXT

Your board of directors wishes to sell a small part of your company. The board is expecting to achieve a value of GBP20m. As part of the deal team, you are asked to help advise on the risks involved in the transaction and to explore all options to help realise the maximum value in the divestiture.

CONTRACTUAL LIABILITY

Caveat emptor!

Prospective buyers expect you to offer a limit of liability under contract for all warranties and/or indemnities of GBP2m, this liability relates to warranties that you must give in relation to:

- All tax has been paid;
- You are the true and lawful owner of the property conveyed in the agreement;
- You have the relevant authority to sign the agreement; and
- All data disclosed in the Data Room is true and accurate on the date of this agreement.

What do you do?

- Factually check statements being made, work with teams in legal, finance and other areas; and
- Obtain quotes for warranty and indemnity insurance.

W&I Quote

Limit: GBP5m
Premium: GBP80k
Deductible: GBP1m

Normal Deal

Balance Sheet
Liability: 2m

Sale Price:
GBP20m

Risk-Enabled Deal

Balance Sheet
Liability: 1m

Sale Price:
GBP21m

Insurance Cost:
GBP80k

Benefits

1. Reduce Balance Sheet Liability
2. Increase Sale Price
3. Champion strategic risk

Commercial Risk Management in Practice – Case Study 2

CONTEXT

You make haptic headbands that light up when you hear certain types of music. Sales have generated an opportunity to potentially become a supplier to a large supermarket chain. The deal is for 100,000 units and will produce an income of GBP1m profit for year 1 to your company, this is a major opportunity for your company. The sales team advises that there is fierce competition with alternative potential suppliers.

You are asked to help advise on the risks involved in the transaction and to explore all options to help realise the deal.

CONTRACTUAL LIABILITY

The supermarket chain has a standard set of contractual undertakings you will need to comply with to win the contract, including in relation to your intellectual property which requires you to **indemnify and hold the supermarket harmless from any breach of third party intellectual property rights up to the value of GBP5m.**



What do you do?

- Factually check patents and search for any infringement issues, work with teams in legal, and other areas; and
- Obtain quotes for intellectual property insurance.

IP Quote

Limit: GBP5m
Premium: GBP100k
Deductible: GBP500k
Consequential Loss
Extension: GBP1m
Premium: GBP50k

Normal Deal

Balance Sheet
Liability: 5m

Sales Profit:
GBP1m

Risk-Enabled Deal

Balance Sheet
Liability: 500k

Sales Profit:
GBP1m

Insurance Cost:
GBP100k-150k

Benefits

1. Reduce Balance Sheet Liability
2. Help Sales Team Negotiate Competition
3. Champion strategic risk



**New risks that can/could be
insured**

A rapidly changing commercial landscape

Largest Company by market Cap 2000-2020 Timelapse - YouTube

Top 10 U.S. companies by market capitalisation in **2008**:

- #1 Exxon (Energy)
- #2 General Electric (Industrials)
- #3 Microsoft (Tech)
- #4 AT&T (Telecom)
- #5 P&G (Consumer)
- #6 Berkshire (Finance)
- #7 Google (Tech)
- #8 Chevron (Energy)
- #9 J&J (Consumer)
- #10 Walmart (Consumer)

Top 10 U.S. companies by market capitalisation in **2018**

- #1 Apple (Tech)
- #2 Google (Tech)
- #3 Microsoft (Tech)
- #4 Amazon (Tech)
- #5 Facebook (Tech)
- #6 Berkshire (Finance)
- #7 J&J (Consumer)
- #8 JP Morgan (Finance)
- #9 Exxon (Energy)
- #10 Bank of America (Finance)

Future Minds



“New” Risks to Watch

1. Pandemic/contagion/infectious diseases
2. Environmental, Social and Governance - ESG
3. Non damage business interruption
4. Lawsuits as assets
5. Intellectual property
6. Brand
7. Industrial internet of things
8. Crypto
9. Rogue artificial intelligence/machine learning
10. Regulatory/Ethics
11. Others?

FM2020 - Protecting intangible assets: Preparing for a new reality



Questions and discussion
