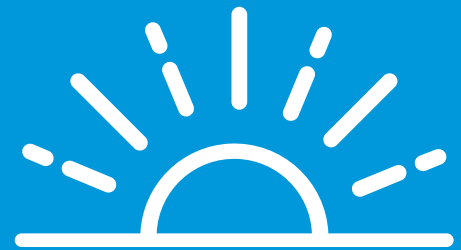

TRANSFORMING INSURANCE FOR TOMORROW'S RISKS

Encouraging collaboration between customer, broker and
insurer to move risk forward

EMERGING RISKS



airmic

KPMG

Foreword

When asked if we wanted to work with Airmic on this project we jumped at the opportunity. As a risk management community, you represent the customer of the commercial insurance market and at KPMG, we see the customer driving many of the strategic decisions for insurance carriers and distribution partners. In a recent study, we worked alongside the London Market Group to understand what the workforce of the future would look like and offered some guidance for how individuals, businesses and leaders might change their behaviours to win in the future. One of the main findings of this was the importance of Risk Partnering.

We believe a Risk Partnering attitude is critical to unlocking the blueprint for how risk management and insurance can work together in the future. It moves the conversation beyond pricing and wording to allow for a more holistic solution from prevention through to response. The outcome being a solution that is not only more effective but also better value for all involved.

To tackle emerging risks, the industry needs everyone to shift to a more

open, collaborative and innovative mind-set. Advances in technology present us with the opportunity to work together and break down barriers or silos across industries and organisations to be more connected. This new partnership approach means all players working together differently, sharing insight, solving problems and co-creating solutions more effectively. We are excited about the innovation in the insurance market and we would encourage this community to be part of it.

The survey results in this report allow us to explore some of the barriers to this a little further. We hope you find some helpful guidance for how you might challenge yourself and your traditional role profiles to increase the value you bring to your business.

Paul Merrey, Strategy Partner

Matthew Smith, Strategy Partner

Ben Harris, London Market Director



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By Paul Merrey, Matthew Smith and Ben Harris

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About this research



This study is part of a wider research project into the future of the risk management professions, entitled *Risk Management: Vision 2020*.

While the main report summarises the full findings of the research project, this is one of five deep dives into the core themes within *Risk Management: Vision 2020*.

The five reports are:

Assessing risk, realising opportunity and taking reward. Examining the techniques available to risk and security professionals.

Turning data into information. Assessing the current and future role of data analytics in managing risk and insurance.

Understanding external threats to an organisation. An analysis of the interconnected nature of geopolitical risks and how they can be managed.

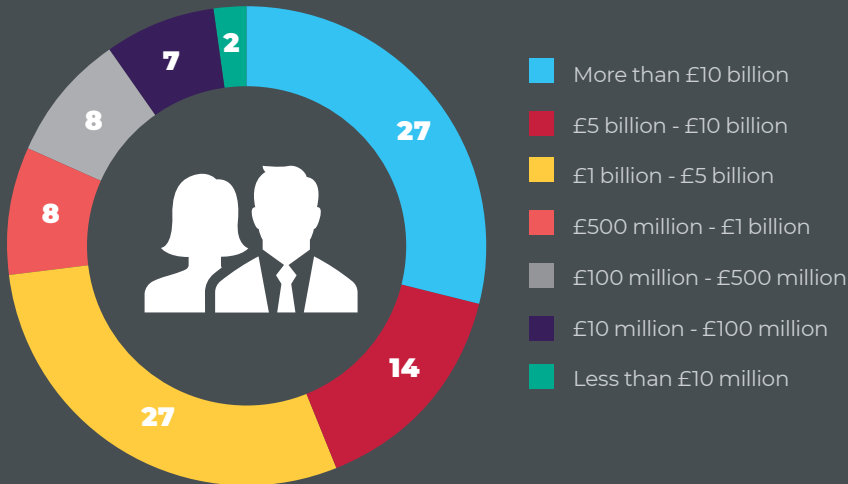
Transforming insurance for tomorrow's risks. Encouraging collaboration between customer, broker and insurer to move risk forward.

The value of boardroom engagement. Aligning an organisation's risk profile with governance and liability awareness among directors and officers.

About the respondents

This report, produced by Airmic in collaboration with Longitude, is based on the responses of 157 members. While job roles and sizes of organisations vary, respondents primarily come from risk and insurance management and enterprise risk management at large multinational businesses. Due to rounding, and the use of multiple-choice questions, some figures and charts in this report may not add up to 100%.

Global turnover



Job role



Executive Summary

Managing the risks to intangible assets is a common theme for risk and insurance professionals.

Increasingly, risk registers are dominated by external threats to the organisation and focused on protecting assets that are difficult to define and harder to value.

The theme of collaboration runs through six reports Airmic has produced based on responses to the annual survey. Placing the risk professional centre stage within the organisation will be key to understanding and surviving in a complex, connected and fast-moving world. In this report, the importance of collaboration with risk and insurance partners is emphasised.

Although it is difficult to be certain about the impact of new digital technologies on business models, it is clear that digital technologies represent significant business transformation opportunities. Insurers are waking up to the fact that new types

of insurance are needed if they are going to remain competitive and relevant. Changing risk profiles will not wait for the insurance market to catch up.

Collaboration and longer relationships between customers, brokers and insurers will be key to developing new solutions, but trust will need to be at the centre of this new world. Airmic members are reporting a “harshening” of the insurance market with coverage tightening and, in some instances, carriers withdrawing offer of coverage late in the renewal process with insufficient warning.

Members are unlikely to be receptive to develop a more open and transparent relationship with their insurance partners tomorrow, if they cannot rely on them today. This report, produced in collaboration with KPMG, explores how collaboration will be central in transforming insurance for tomorrow’s risks.



New types of insurance are needed if insurers are going to remain competitive and relevant.

Front of mind

Protecting intangible assets is recognised as a key priority for risk professionals, while risks beyond the organisation's control are expected to rise in profile. Loss of reputation has been identified as the top business risk for the third consecutive year, while data security and political uncertainty are high on the agenda too.

The ratio between tangible business asset value and intangible business asset values has changed radically in the last three decades (Figure 1). While the profile of the world's largest companies has changed significantly over the last 100 years, the value of organisations across sectors are now dominated by intangible assets.

The large technology companies own

invaluable patents and intellectual property, but their individual values are intrinsically linked to the trust in, and loyalty to, their brand as a market leader. Reputation as a key business indicator is not restricted to the latest generation of businesses, however. Damage to reputation and brand value was identified by 76% of respondents (Figure 2). All businesses, including the traditional sectors of energy, transportation, manufacturing and retail, must increasingly consider their public perception and

reputation as a good corporate citizen in a world where climate crises, the #MeToo movement and diversity are high in social consciousness. The non-physical assets of a company – intellectual property, data and reputation – now make up around 80% of a corporate's value.

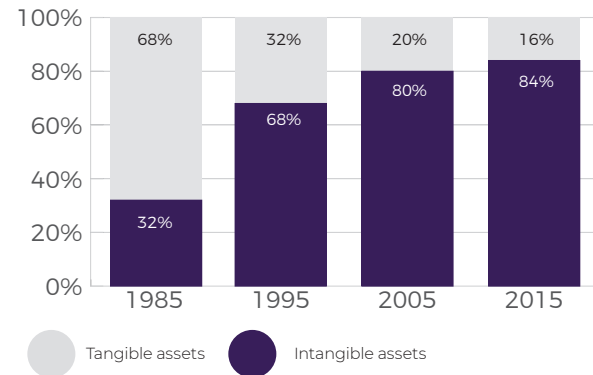
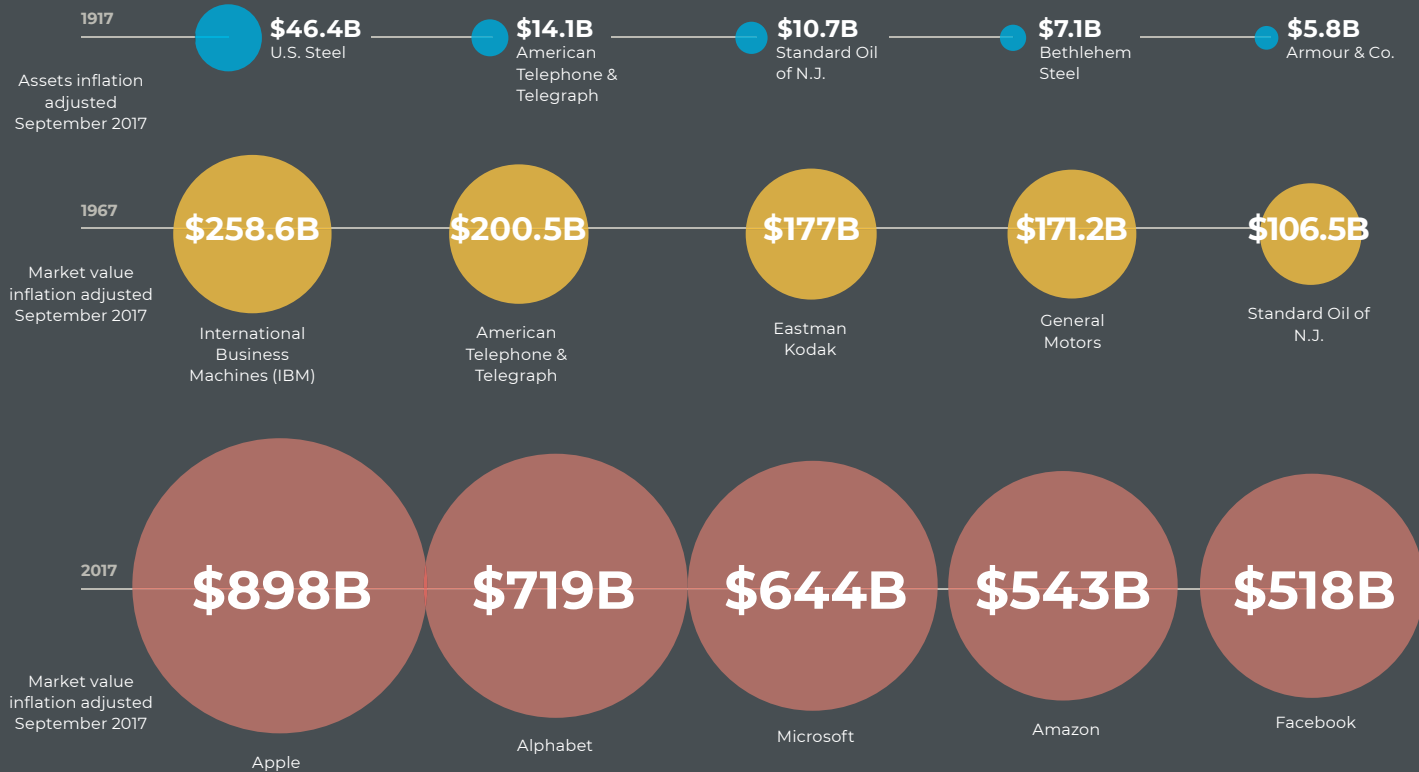


Figure 1: Components of S&P 500 market value

100 years of America's top 5 companies



With business interruption following a cyber event second on the list of members' top-of-mind business risks, and the introduction of the GDPR in 2018, increasing the potential for large fines in the event of a data breach and compounding awareness levels of information security, it is unsurprising to find data security the top concern within the boardroom according to our respondents (Figure 5).

Political uncertainty is another intangible issue that organisations are grappling with to understand and quantify. Risks relating to geopolitical tensions are expected to be the hardest to manage over the next three years (Figure 4). While some geopolitical developments may emerge slowly or fly below the radar, seismic events such as Brexit or the US elections have set in motion long-term consequences that are difficult to predict and prepare for. The world is less certain and more complex. Geopolitical risks are no longer restricted to a handful of regional hotspots – they are global and intensifying.

Results

Figure 2: Top five front-of-mind business risks for organisations today

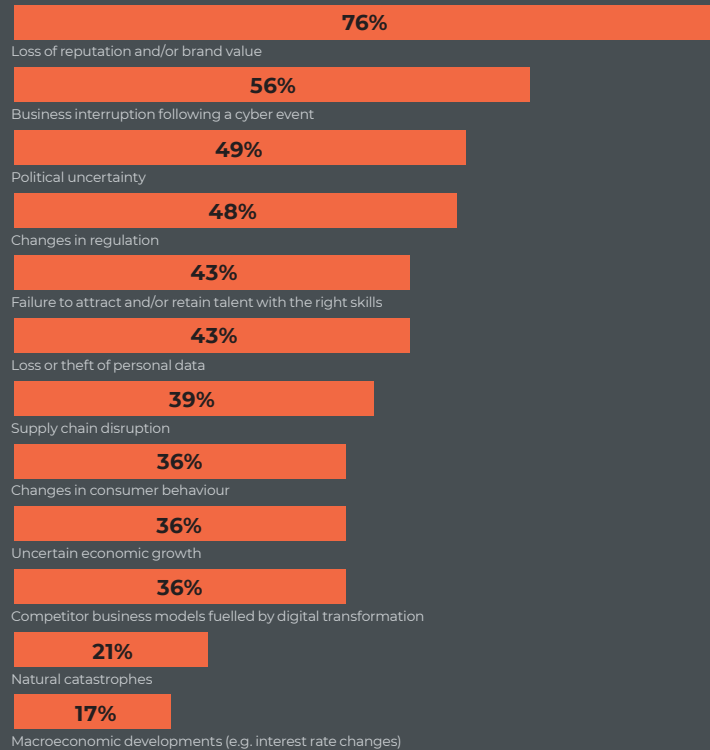
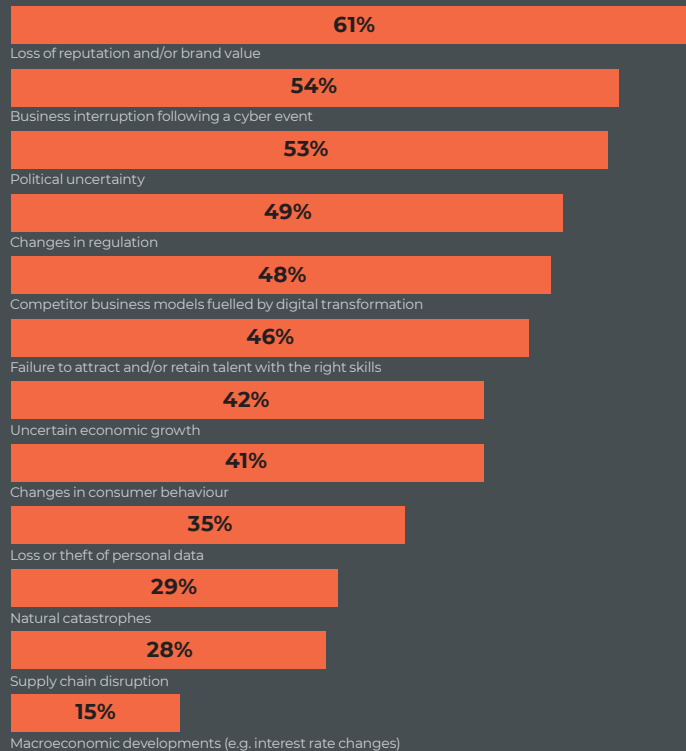


Figure 3: Front-of-mind business risks facing organisations in three years' time



Damage to reputation and brand value was identified by 76% of respondents

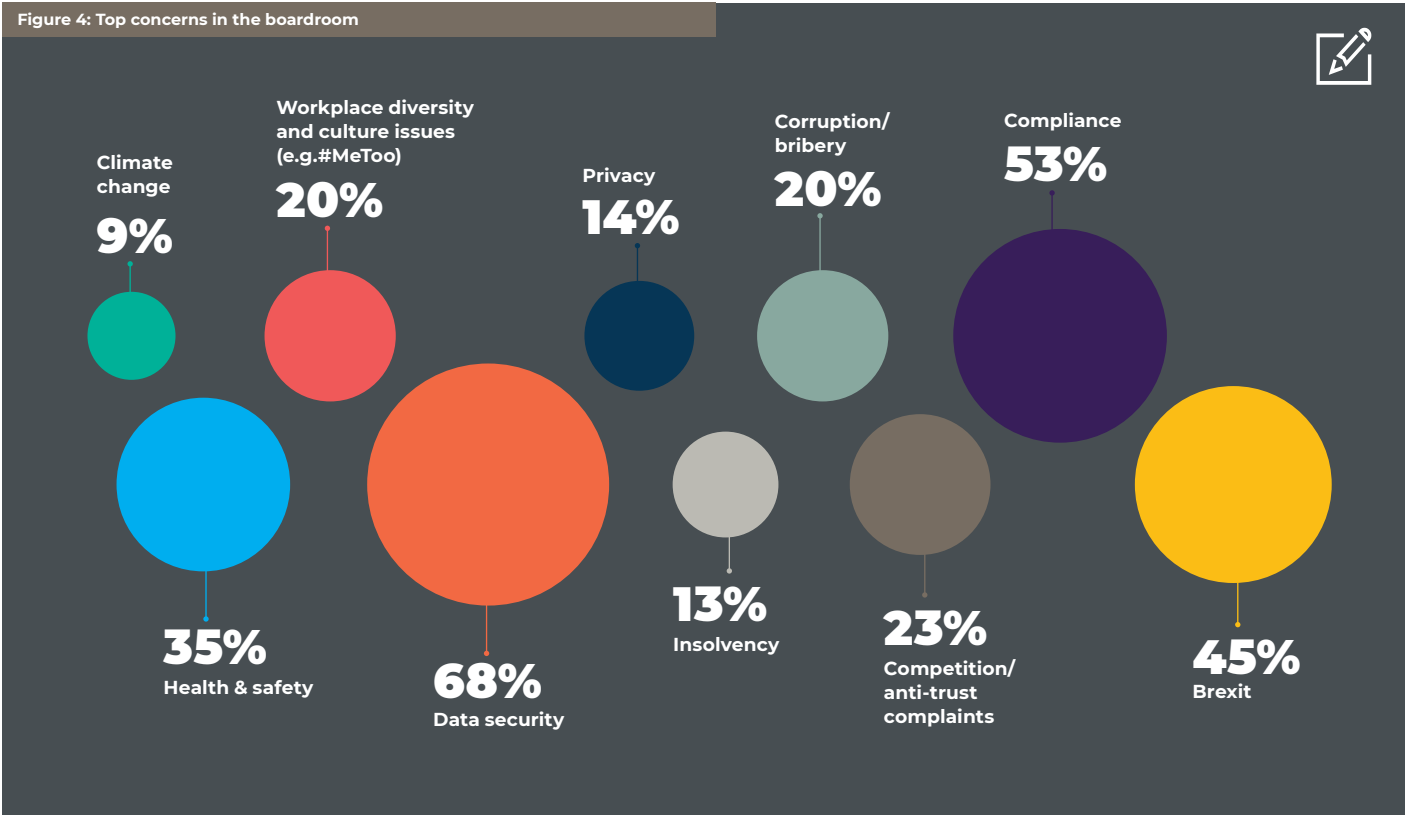
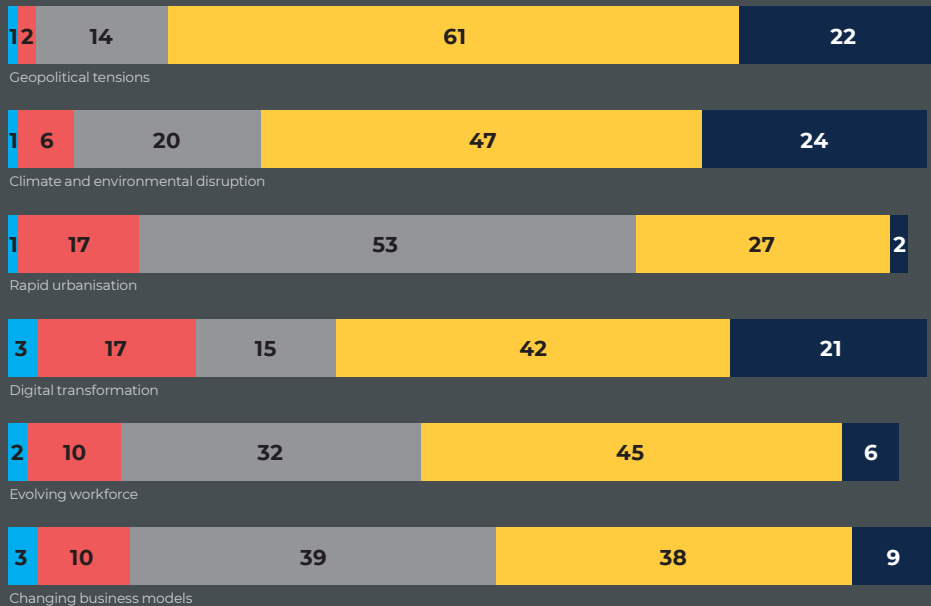


Figure 5: Geopolitical and climate risks will become harder to manage

Q. How would you expect the risks relating to the following megatrends to evolve over the next three years?



Significantly easier to manage

Easier to manage

Neither harder nor easier to manage

Harder to manage

Significantly harder to manage

Confronting the challenge

This cannot be done alone. Risk professionals' focus has shifted towards protecting intangible assets, reflecting the transformation within their organisation. Risk professionals who have not responded to this change will become less valuable to their organisation. Similarly, insurance partners who do not commit to developing new solutions that address intangible assets will become less relevant to their customers.

Managing, mitigating and financing these risks is the ultimate challenge for the organisation and their risk and insurance partners, but respondents appear conflicted in the way they want to approach this. When asked what changes they would like to see from the insurance market as risk profiles move towards intangibles, a majority opted for more innovative/tailored

solutions. More guidance from insurers is sought, and a deeper understanding of their business is desired (Figure 6).

Respondents appear less keen, however, to extend the insurer relationship through their organisation or increase the longevity of the relationship with their insurance partners. Insurance partners will have to work more closely and develop new and different solutions that address the risks to intangible assets. Members will also find it challenging to discuss cross-class solutions with their insurance partners if insurance cover decisions continue to be made in silos by cover and by sector.

Communication and collaboration between risk and insurance professionals and their insurance

partners will be also be vital to developing new solutions, outside of pure indemnity, for today's risks.

Moving to a model that discusses realising new opportunities, in addition to prevention and response services, will deepen the trust and more closely align the goals of all parties (reducing risk, managing claims and transforming the risk professional into a strategic business partner). If risk professionals are provided with effective new risk financing solutions, it will allow the organisation to take more risk as it seeks more reward. By definition, this means being more open-minded to sharing data on the business, broadening the access of the broker and carrier to the business, and exploring longer-term relationships to learn what new limits, triggers, services, wordings, etc. are needed.

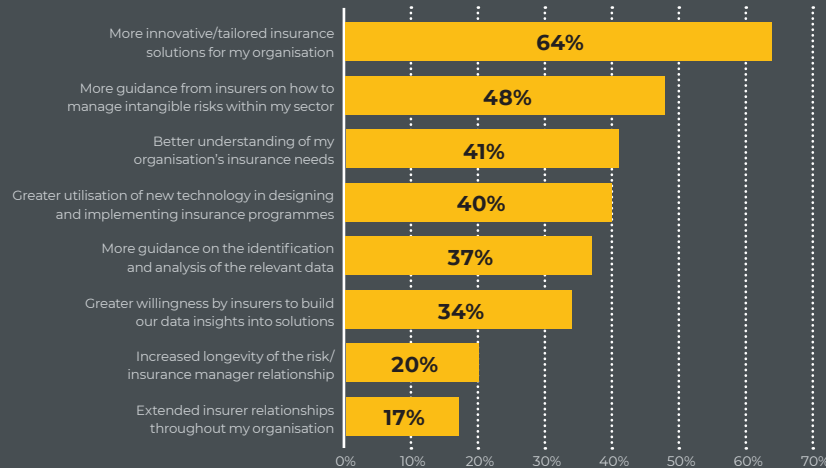


We would very much welcome a proactive and open approach by an insurer. What we need is a meeting of minds and a willingness to change.

Risk Manager

Figure 6: Tailored insurance solutions are desired

Q. As risk profiles move further towards managing intangible assets, what changes would you like to see from your partners?



Taking this path and engaging the insurance market more broadly to secure risk financing for intangible assets will not be without challenge for the insurance buyer. They will face scrutiny and pressure internally if insurance budgets increase, while insurers and brokers will require more information, data and insight into the organisation and risk they are underwriting.

The more progressive risk professional will start to evolve their role within the organisation. They will change the perception internally, moving beyond a procurement function to purchasing insurance policies and aspiring to build risk partnerships that seek to mitigate, manage and respond to the risks at the fore of their business.

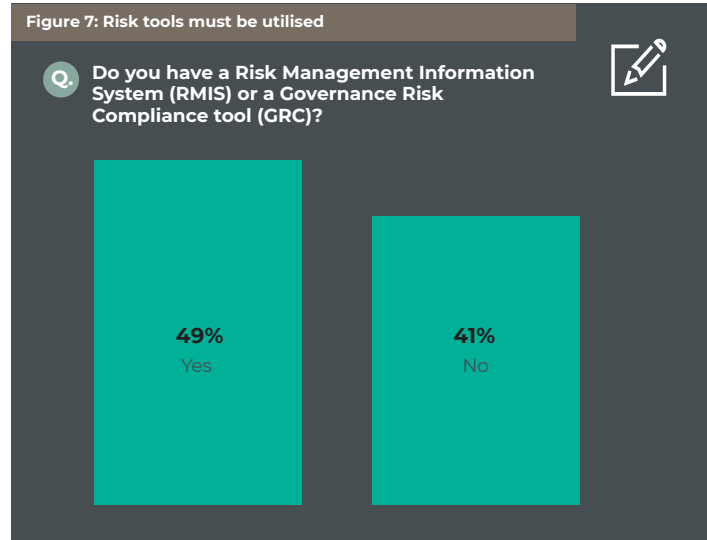
If the traditional insurance market fails to respond to this more open-minded approach, risk and insurance professionals will find other new technology, capital and risk management providers up for the challenge of filling the void. Increasing the use of a corporate captive and using it as a vehicle to attract new sources of capital is one area that sophisticated insurance buyers are increasingly considering.

Building solutions

Growing trust that insurance partners are looking at their customers through a long-term lens will help our members to have more confidence in their insurance partners and they will feel comfortable sharing more useful and relevant information that can support the building of effective new solutions.

A Risk Management Information System (RMIS) (Figure 7) can help to develop information in a useable format and 49% of respondents report having one in place. It can help organisations in tracking claims and risk information and analysing and reporting on data.

RMIS can also be used to help build internal relationships needed to develop better understanding of the risk profile of the organisation and communicate this to the insurance market. A challenge remains



of inconsistent data language and data structures, which need to be better harmonised to help members communicate with different parts of the insurance market.

Investment in risk management technology needs to be addressed through a 'total cost of ownership' lens. Used correctly, the technology can act as a focal point to pivot cultural changes within an organisation.

Adopted in full, these technology solutions can bring different parts of the business together and help everyone grasp a more complete view of the risks facing the business.

Finally, technology can often release capacity back into the business to invest in higher-value activities, such as building tailored solutions with their risk partners.



The innovation is coming from the buying community ... the brokers and insurers are not sufficiently connected to us and our needs. It is our business at risk, so it is in our interest to innovate.

Risk Manager

A 'tailored solution' is one that comes from empathy and understanding on all sides – across the organisation, and from the broker and the insurer – and from the commitment to a longer-term relationship that is built on trust.

For buyers and insurance partners to reach this level, attitudes will need to change. Cost should not be the sole driver of decision-making, while agreements may need to extend beyond annual contracts as new triggers, terms and services are brought into the working relationship, some of which will not work for all parties.

Being a risk partner for life is not about restricting and smothering the relationship. Brokers need to bring in carriers, and risk managers need to bring in their wider business to debate the propositions and solutions of the future.

Cyber

The rise and evolution of cyber coverage is a good example of the traditional market developing new solutions for new risks, but further development is needed for it become more effective. Insurers first developed data loss policies that provide financial support to recover costs associated with notifying customers in the event of a breach.

Competition between insurers and brokers in a market with increasing demand has helped these policies evolve into a more holistic offering that incorporates preventative and response services alongside the traditional indemnity element.

However, for coverage to broaden significantly and meet the needs of more specific cyber risks, brokers and underwriters will need to facilitate more constructive collaboration with risk and insurance managers. "For most large organisations the demand will be for a tailored solution for the things that will impact them and the industry needs to continue to work hard to tailor products accordingly," says Tracey Skinner, Group Insurance Director at BT Group.



Cyber is generally insurable, but the nature of secondary impacts to the business is changing fast. There is a big difference if someone steals your IP or if you have a malware attack. It is critical how you structure, change and word your policies.

Risk Manager



**The industry
needs to continue
to work hard to
tailor products
accordingly**

**Tracey Skinner, Group
Insurance Director, BT Group**

Parametric insurance

Parametric solutions are pushing the envelope of insurability. Due to parametric insurance not covering a specific physical asset or property, but rather a predefined event, triggers are increasingly being designed to cover intangible assets.

The benefits of parametric insurance can include transparency of cover, speed of settlement and flexibility of design. However, extra time and resources will be required to investigate a parametric solution and it may not be applicable in every scenario.

While the use of parametric solutions to cover natural catastrophe risk is the most well-known and high-profile, other examples already seen in the market include parametric triggers for regulatory decisions, loss of attraction and market indices.



Parametric insurance is getting better and bigger compared to what we saw in the past – there is a huge potential, but still nobody has really cracked it in the market. Risk Manager

Figure 8: Traditional indemnity vs parametric solutions

	Traditional indemnity insurance	Parametric solutions
Trigger	Loss or damage to a physical asset	Occurrence of an event that exceeds a parametric threshold
Recovery	Reimbursement of the actual loss suffered	Pre-arranged payment
Basis risk	Arises from policy conditions and exclusions	Arises from the correlation of the data and the index with the risk
Claims process	Can be complex and involve multiple parties	Transparent and quick
Structure	Generally standardised products with some customisation available	Flexible, customised products



To tackle emerging risks, the industry needs everyone to shift to a more open, collaborative and innovative mind-set.

Driving change

The London Market Group published its report *The future of skills in the London Market* in May 2019, including a call to action for all market participants to train and evolve in light of the new types of companies, risks and technologies that are changing the way insurance business is conducted.

In a bid to safeguard its reputation as the global centre of insurance, the LMG identified five themes related to the skills that will be needed:



**Data, analytics
and technology
skills**



**Creativity and
innovation**



Risk partnering



**Collaboration and
communication**



**Change
leadership**

Source: The future skills of the London market, May 2019



With the help of insurance buyers, the market can take a more exciting and valuable path

For the insurance market to evolve and provide effective solutions, it will require new partnerships and investment. It will require underwriters to think about prevention through to response with traditional risk transfer embedded.

If insurers do not innovate then risk transfer will become increasingly commoditised. Business models will focus on efficiency, speed to market and the cost of delivery to drive cost down.

With the help of insurance buyers, the market can take a far more exciting and valuable path. Insurers and brokers will become partners of their customers, working alongside them to manage risk more effectively. In the second scenario, client engagement is no longer an issue, as insurers work as part of the organisation, helping them navigate risks on a daily basis.

The risk professionals' role

Taking centre stage will be vital for today's risk and insurance manager to effectively address the key risks facing their organisation. Only by working across functions and business units will they be able to gain the insight and knowledge required to assess the true risk profile of the organisation and communicate it effectively to its insurance partners.

Facilitating wider conversations to collectively address intangible assets and their related risks will aid risk professionals in that understanding. Emerging and intangible risks will be addressed by new extensive risk mitigation solutions and innovative insurance products, including extended use of parametric insurance.

In order to build these new bespoke products and more extensive solutions, risk professionals will need to work together with the insurance industry as risk partners.

Key takeaways



The value of intangible assets has transformed the risk management landscape and priorities



Greater collaboration within organisations will lead to greater understanding and cross functional buy-in



Developing skills in data, analytics and communication by risk professionals and their insurance and risk partners will be crucial



Risk professionals must partner with the insurance market on new solutions





About KPMG

KPMG UK is one of the largest member firms of KPMG's global network providing audit, tax and advisory services. In the UK we have 635 partners and 14,587 outstanding professionals working together to deliver value to our clients across our 22 offices. Our vision is to be the clear choice in professional services in the UK. For our clients, for our people and for the communities in which we work. KPMG's core business is to help your organisation work smarter, evaluate risks and regulation and find efficiencies. We do this by providing deep insight into market issues, transparency in everything we do, and using innovative technology to tackle complex problems. We are focused on the issues that keep our clients awake at night and responding to them as One Firm. To do that, we strive to create a high performance culture, guided by our values, where our diverse talent feels included and excels.

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