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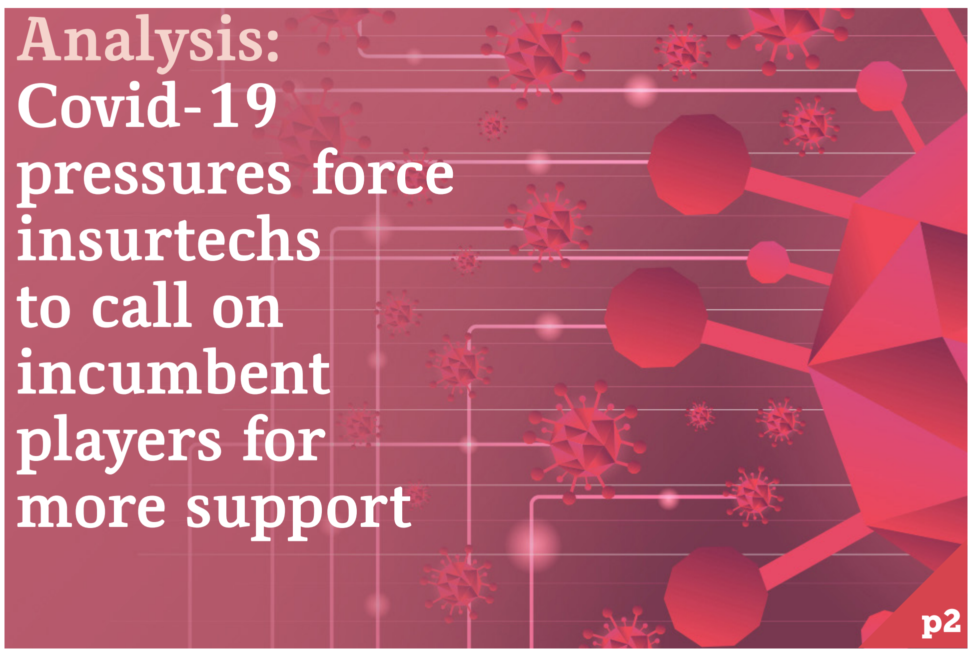
# Hiscox posts $139m H1 loss on higher Covid hit

p3

## Analysis: Covid-19 pressures force insurtechs to call on incumbent players for more support



p2

## Analysis: Portfolio underwriting will create a performance divide in the London market

p4-5

# ANALYSIS

# Covid-19 pressures force insurtechs to call on incumbent players for more support

## There are testing times ahead for the insurtech sector, especially for those that are highly leveraged

Rasaad Jamie
**Global markets editor**

On the face of it, the insurtech sector appears to have had a good pandemic. Covid-19 has firmly focused the attention of the insurance market and its customer base on the importance of remote customer servicing and home working platforms, automated business process management and other consumer/client-friendly front-office technologies.

So much so, one can easily be forgiven for thinking that if the time was ever right for insurtechs to substantially increase their market share, that time is surely now.

The underlying figures for the first two quarters of this year, however, tell a different story. For example, during the first quarter of this year, overall total fundraising in the sector was down 54%, according to Willis Towers Watson's recent Quarterly InsurTech Briefing.

This is significant for two reasons. First, it suggests that Covid-19 is by no means a simple godsent opportunity for the sector; it also comes with significant challenges for an industry as capital-intensive as insurtech.

Second, the insurtech sector, whose success is often assumed to be dependent on its ability to compete with and disrupt the complacency of the traditional insurance industry, remains hugely dependent on the industry for its funding.

Indeed, during the first quarter, it was precisely the lack of participation in financing rounds by insurers and reinsurers, which resulted in far fewer mega-deals (those deals of more than $100m), as re/insurers focused their attention on other, more pressing and unprecedented pandemic-related issues such as looking after customers and business partners and supporting staff through both remote-working and dramatic changes to working and personal lives.

Covid-19 set to be a challenge for the insurtech sector
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The situation improved in the second quarter of this year, with global insurtech investment increasing by 71% compared to the first quarter, although Andrew Johnston, global head of insurtech at Willis Re, sounds a note of caution about the data and warned the sector could see funding values decline in coming periods because of the way in which certain risks and their associated vectors have changed fundamentally for the broader re/insurance industry.

In short, there are testing times ahead for the insurtech sector, especially for those insurtechs that are highly leveraged.

Despite the publicity generated and funds raised in recent rounds by insurtechs such as Lemonade, Hippo and Root, the sector is undergoing something of a crisis if the recent joint statement put out by the Tech Nation Insurtech Board and Insurtech UK is anything to go by.

The UK and EU insurtech sectors, which over the past few years have gained a significant competitive advantage over their counterparts in the US because of more favourable regulatory regimes, now face tremendous challenges as a result of Covid-19 and its impacts on the economy. The statement, an urgent, explicit cry for help, called on insurance leaders in the UK and EU to remain committed to supporting innovation and insurtechs, pointing out that many insurtech firms are small and medium-sized enterprises, heavily dependent on financial and other support, including underwriting, from the major insurance and reinsurance groups.

The situation was best summed up recently by a long-time investor in the insurtech sector who said there were opportunities for insurtechs to improve the way in which the insurance industry functioned in pretty much all lines of business, life and non-life, personal and commercial, and across the insurance value chain, from underwriting to distribution to asset management.

However, he points out that the big lesson of Covid-19 for the sector was that, in times of crisis, even innovation and entrepreneurialism can fall short, particularly in an industry as complex and as reliant on entrenched structures as insurance. Over the past six months, he notes, most insurtech entrepreneurs and their financial backers have gained a new respect for the industry. ■


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NEWS

# Hiscox posts $139m first-half loss on higher Covid hit

## Pandemic claims reserves upped to $232m, Krefta to exit as reinsurance and ILS chief

Michael Faulkner
**Editor**

Hiscox has swung to a pre-tax loss of $139m from a profit of $168m a year earlier as it upped its reserves for Covid-19 claims to $232m.

The London-listed re/insurer also revealed that Mike Krefta, chief executive of its reinsurance and insurance-linked securities business, will leave the group next year.

Hiscox added $82m to its pandemic claims reserves to cover property-related losses, travel bonds and third-party claims in US allied health.

The company had previously disclosed $150m for claims in event cancellation and abandonment, media and entertainment, and travel.

The additional loss reserves took the company to a combined operating ratio of 114.6% in the first half of the year from 98.8% a year earlier.

The results were also affected by a sharp decline in investment returns, which fell to $85m from $148m in the first half of 2019.

Gross written premiums reduced by 4% in constant currency to $2.2bn, with growth in its retail and London market business.

Hiscox London Market premiums grew nearly 5% to $508m in the half on the back of "material" rate increases in the "majority" of lines, with aggregate rates up 13% year-to-date across its portfolio.

The division's profits fell to $7.6m from $34.4m in the wake of "above average large losses" in addition to the impact of Covid-19. These included a large individual marine liability loss, as well as claims from old years of account for directors' and officers' and political risks.

Hiscox Re and ILS swung to a $15m first-half loss from a $14m profit a year earlier.

Gross premiums written reduced by 21% in constant currency to $552m as the division cut its catastrophe exposure in response to rate inadequacy and "less deployable" capital from third-party capital providers.

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Hiscox said the reinsurance market was "finely poised for a turn" as evidenced by the mid-year renewals, which saw "strong" rate increases in Florida of 29%.

The company said "a chain reaction of capital contraction has created stress in the primary and retro markets".

The unit's chief executive Mike Krefta will exit the business in "early 2021". Krefta, who has been at Hiscox for 17 years, became chief executive of the division in 2017.

Hiscox chairman, Robert Childs, said the group was looking ahead to the second half of the year "with confidence and optimism. The underlying business is strong. We are well diversified, with opportunities for profitable growth across all of our three divisions.

"We may be on the doorstep of the hardest market in many years, and we have the experience, distribution and firepower to grow," Childs added.

**'We may be on the doorstep of the hardest market in many years, and we have the experience, distribution and firepower to grow'**

**Robert Childs**
**Hiscox**

# Hamilton Re chief Reardon exits

Hamilton Re chief executive, Kathleen Reardon, has left the business, parent company Hamilton Insurance Group announced yesterday, *writes Michael Faulkner*.

David Brown, chairman of Hamilton Re, has been named interim chief executive of the Bermuda-based operation until Reardon's successor is appointed.

A member of Hamilton's founding management team, Reardon was appointed chief executive of Hamilton Re in 2014.

Under the leadership of chief executive, Pina Albo, Hamilton Insurance Group is focused on building a diversified global speciality insurance and reinsurance business.

As such, it is likely Hamilton will be looking for an executive with broad global reinsurance experience in Reardon's successor.

Following its purchase of Pembroke and Ironshore Europe last year, Hamilton has been developing a US excess and surplus lines business using licences acquired through the deal. The group has also been exploring the launch of a US reinsurance platform.

"David's leadership and experience will be instrumental as we accelerate plans, in current favorable market conditions, to take advantage of our expanded platform, products, and our global teams to achieve our goals," said Albo.

"In the meantime, we would like to express our sincere gratitude to Kathleen for all she has contributed to Hamilton's growth and development since its inception. We wish her every success in her future endeavours," Albo added.

**'We wish [Kathleen] every success in her future endeavours'**

**Pina Albo**
**Hamilton Re**

Reardon had been chief exec since 2014

# Aon Reinsurance Solutions names UK property head

Aon's Reinsurance Solutions business has appointed Catherine Turner to lead its UK property team, *writes Michael Faulkner*.

She will also co-lead with Richard Evans the reinsurance broker's UK and Ireland and specialty casualty business.

Turner, who has more than 20 years' experience in property reinsurance, has worked in both broking and underwriting.

Most recently, she was head of international property treaty, London, at Axa XL. Before that, she was an executive director in the UK and Ireland team at Willis Re.

Peter Stubbings, chief executive of Global ReSpecialty at Reinsurance Solutions, said Turner "will significantly add to the knowledge, insights and solutions we are able to provide to our clients as we help them to navigate through their challenges in this evolving environment".

ANALYSIS

# Portfolio underwriting will create a performance divide in the London market

**Insurers are under pressure to take a portfolio management approach to underwriting, not only from regulators, but also from reinsurers and other capital providers employing comparable data driven strategies in their own decision-making**

David Ovenden
Willis Towers Watson

The potential for portfolio management, but more precisely active portfolio management – that not only looks back, but projects portfolio outcomes forward using modelled scenarios – to have a significant impact on insurers' business performance is becoming increasingly apparent.

Recent evidence from a 2020 survey that Willis Towers Watson undertook with the Corporation of Lloyd's of portfolio management practices and outcomes within Lloyd's syndicates and the wider London market only confirms that.

Based on an evaluation of 72 factors in three groupings (granularity; agility; coherence) that we and Lloyd's identified as contributors to active portfolio management, overlaid with publicly available profit data, the survey showed top-quartile performers in portfolio management achieved an average combined operating ratio (COR) that was eight percentage points lower than the bottom quartile performers, and an average loss ratio that was nine percentage points lower.

These are significant differences. So what distinguishes "good" portfolio management?

**Identifying good**

First, there is what it enables an insurer to do. Done well, it helps insurers, managing general agents and syndicates to build and maintain a balanced portfolio, driving long-term, sustainable, profitability and underpinning effective pricing, underwriting, reserving and capital management.

Then, there are the capabilities needed. Here, the survey showed that at a high level the ability to dynamically slice the portfolio with the right technology, with the right people to interpret the results and to have suitable infrastructure in place to move quickly, are qualities most closely associated with successful active portfolio management. The robust testing of plans is also an essential factor.

Drilling down in to these capabilities, dynamically slicing portfolios leads us to the issue of data granularity. Often, insurers define risks by a simple one-dimensional metric. Yet, how well insurers can define and monitor business mix has a strong correlation to the ability to do more sophisticated segmentation by factors such as peril, trade, geography, customer and channel. In the survey, the level of granularity stood out as a key differentiator between higher- and lower-performing companies.

Achieving these higher levels of granularity involves identifying and using more of the right data, getting to grips with unstructured data and then having the tools, techniques and connected systems infrastructure in place to do value-adding analysis and pro-

**How well insurers can define and monitor business mix has a strong correlation to the ability to do more sophisticated segmentation by factors such as peril, trade, geography, customer and channel**

# ANALYSIS

vide meaningful, timely information with that data.

This is very difficult without a consistent, coherent data strategy and a consolidated data source. And equally, in the same way that data-fed predictive models and demand and propensity models have become central to dynamic pricing and management information, strong active portfolio management relies on being able to develop scenario models that support quick and agile action in relation to emerging risks and opportunities. Speed to agree and implement responses to deviations from the portfolio plan is key.

For all that, effective technology and decision support tools still need people with the skills to manage and execute portfolio strategy, including at the senior level. Models can help insurers map out a range of possible future scenarios but underwriters and claims specialists who can complement them with expertise and knowledge of market nuances and trends will always be needed. Our survey with Lloyd's showed the level of portfolio management skills available to be a key differentiator between top and lower performers.

**Driving factors**

As important and enticing as the operational and profitability benefits of active portfolio management should be in their own right, they are not the only reason driving its uptake.

A key emerging driver is the rising expectations of regulators, reinsurers and other capital providers in this area. Capital providers are employing comparable approaches in their own business decision making. Inevitably, they will be more inclined to work with similarly minded organisations that they feel have a strong sense of portfolio strategy. Beyond that, simple data-driven portfolio management is already used to steer today's insurers, so innovation and enhanced strategies in this area represent a source of competitive advantage.

Indeed, the direction of travel means we would expect some insurers in the (near) future to have a highly integrated platform where:

- The pricing environment is fully integrated with the portfolio management tool to allow instant impact analysis on, for example, the effect of writing a given risk or the likely impact of a scenario model;
- The pricing engine has been extensively parameterised to execute a range of decisions, dynamically setting risk appetite, triaging risk and determining the routing/level of expert intervention for a given case;
- There are artificial intelligence and machine learning components that continuously suggest improvements and refinements to models and decision engines; and
- The information is presented to underwriters intuitively to augment the decision-making process, and to make calculations on the risk under consideration and its impact on the portfolio.

Behind the scenes, this integrated platform is also feeding into capital models. A feedback loop that shares the information helps portfolio managers make refinements.

The platform informs the claims process and feeds reserve movements and claims trend data into the portfolio decision-making process. The platform has an application programming interface that facilitates digital trading directly with brokers and other carriers. This level of data integration means the platform could eventually fully automate companies' reporting responsibilities.

**Models can help insurers map out a range of possible future scenarios but underwriters and claims specialists who can complement them with expertise and knowledge of market nuances and trends will always be needed**

**Seizing the opportunity**

While this may be a somewhat utopian view of the future, there is no doubting there is currently a significant amount of investment in a wider range of capability in this space. Those that are at the front of the pack and looking to push on are clearly already seeing financial advantages based on our survey findings. They also look to be in pole position to generate competitive advantages.

Increasingly then, active portfolio management isn't an optional strategy for improving an insurance company's results; rather it's a necessary investment for those insurers who want to survive and grow profitably. As forward-looking insurers continue to invest in areas such as systems integration, automation, machine learning and electronic trading and digital platforms, pressures are only likely to increase on slower adopters.

But almost regardless of where insurers have got to with active portfolio management, probably the biggest strides come from having a deep belief in the power of data.

Fundamentally, this is a question of the business culture. A revealing figure in our survey was that none of the lowest quartile performers believed that active portfolio management could have a significant impact on their COR – a notion dispelled by actual performance figures of those in the top quartile. With the right culture, led from the top, the investments in data and analytics, technology and portfolio management skills are more likely to flow.

And if the industry needed a further acid test of the benefits of active portfolio management, the Covid-19 outbreak and economic impacts clearly demonstrate the benefit of portfolio grip and scenario modelling. Aside from the devastating immediate impact of the crisis on some areas of business, the potential "new normal" it will create is likely to alter the business fundamentals of insured and insurer, alike. ■

*David Ovenden is global pricing and underwriting leader at Willis Towers Watson*

Level of portfolio management skills in the Lloyd's and wider London markets is a key differentiator between the top and lower performers

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# VIEWPOINT

# Insurers must cut through the hype of autonomous shipping to understand the risk

## Unmanned shipping is a reality now and will continue to grow rapidly over the next few years, but only in coastal and inland waters

Callum O'Brien
Standard Club

A fully autonomous transoceanic ship will not be commercially viable for some time. This is simply because the cost-saving benefit of an unmanned ship does not currently outweigh the initial investment cost, and the benefit of people onboard overseeing the safety of the ship and its cargo. It is only a small proportion of the crew's total time that is actually taken up by navigating the vessel and there are many other reasons why they need to be onboard, especially during cargo and berthing operations, or in instances where things go wrong.

In my opinion, we will never see an unmanned transoceanic ship with a traditional combustion engine. So far, all newbuild unmanned ships that have been commissioned for either coastal or inshore operations are being built with electric powertrains.

This is because there are far fewer moving parts, meaning less regular maintenance and fewer mechanical breakdowns on longer voyages – all of which currently need to be dealt with by people.

The current state of battery technology, therefore, limits both the size of an autonomous ship and how far it can travel in one voyage.

There is a tendency in the press to focus the conversation solely on fully autonomous large ocean-going ships. However, there are many other shipping applications where the technology is perfectly suited and is currently being used commercially.

**Unmanned versus autonomous**

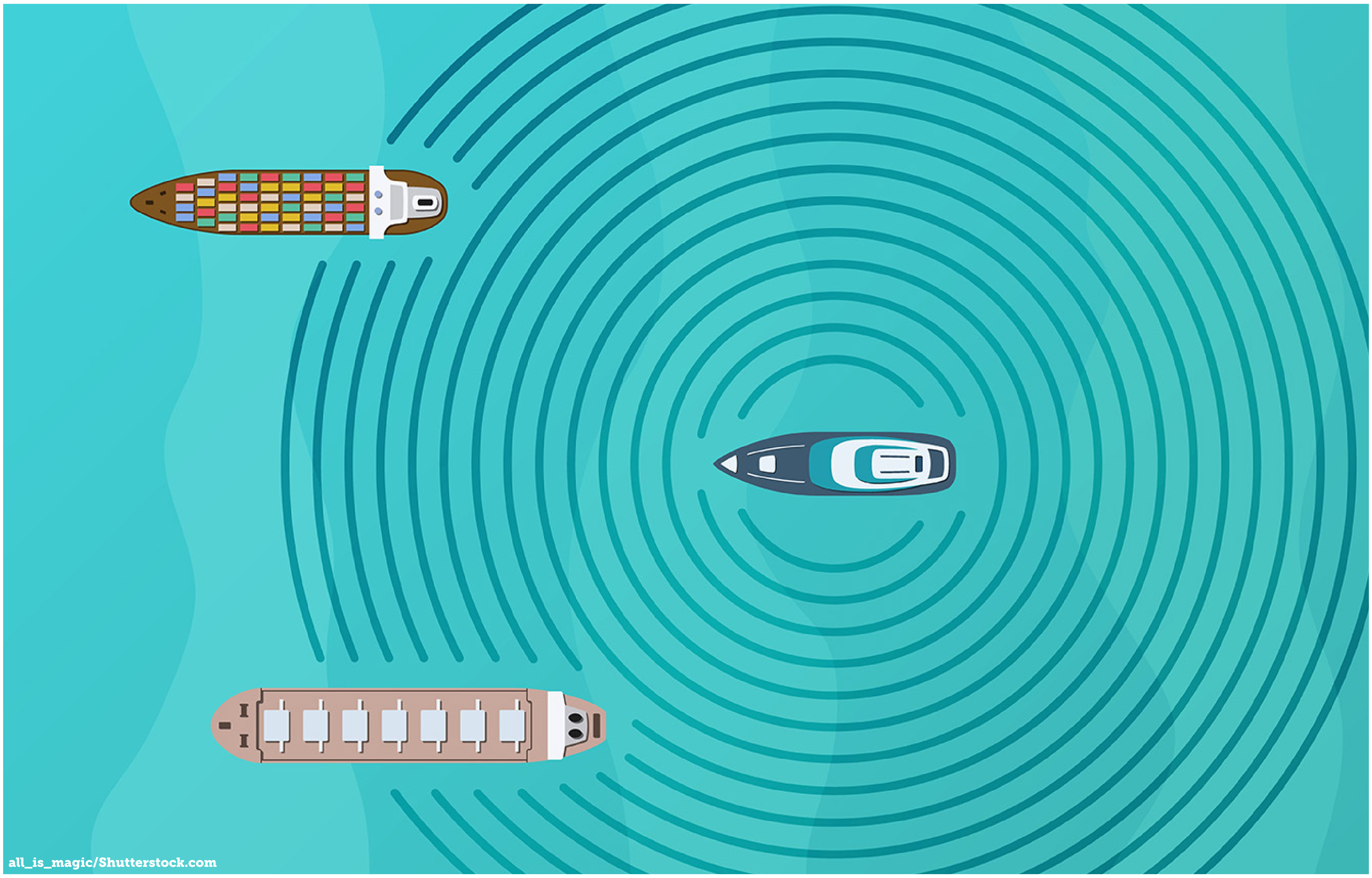
It is important to distinguish unmanned ships from autonomous ships, despite the terms often being used synonymously. A fully autonomous ship thinks entirely for itself and is self-sufficient in its operation. Fully autonomous ships will operate commercially over the short term, but this will be best suited to survey work with very small autonomous vessels that will usually be launched from a "mothership". Other commercial use cases seem relatively limited at this point in time, barring small simple ferries.

Unmanned, remotely operated ships are being used commercially now. This is the most interesting and fastest-developing segment of the market. Here, ships can be safely monitored and controlled from the shore with all the benefits of a vessel without any crew. Elements of autonomy can then be used for when the ship is in a low-risk situation and where the control inputs necessary are minimal. When the ship is manoeuvring or approaching a hazard, then the shore control can take over.

The combination of these two methods can allow one captain to control several ships at the same time, while still retaining a human element of control and expertise.

Development and operation is currently limited to Norway, Belgium, China and the UK. This is due to local governments granting special exemptions to regulatory concerns (such as minimum manning requirements) in domestic waters. Regulatory issues are seen as a significant barrier for autonomous shipping to overcome and these exemptions will accelerate development in these nations. It should be noted that EU funding has been made available (through the Horizon 2020 research programme) for the development of autonomous shipping technology and this may encourage more European states to follow suit.

When observing newbuilding orders, an interesting theme is who is commissioning these ships, and why. The use of the technology is not, typically, being driven by traditional shipping companies. Instead, it is large



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# VIEWPOINT

raw material producers or manufacturing organisations that are using electric autonomous ships to be more efficient and environmentally responsible when transporting their products.

Yara for example, who commissioned the *Yara Birkeland*, is the world's largest fertiliser company and ASKO, which recently commissioned two ships at Cochin Shipyard, is Norway's largest grocery retailer. With increased global pressure on industry to implement corporate social responsibility plans and move towards carbon-neutral operations, there is, likewise, pressure on the shipping industry to innovate. Autonomous technology appears to go hand-in-hand with electric technology and this will likely accelerate development.

To use another example closer to home, the first unmanned shipping member we welcomed to the Standard Club was a completely different model to that which we had initially expected.

Seafar started as a technology company that developed autonomous control systems and has now repositioned itself as a "remote ship manager" for the inland shipping market. It provides an autonomous control system (which can be retro-fitted) and this enables it to manage the vessel remotely from its shore control centre by licensed and experienced captains. Several ships can be simultaneously managed and operated by one person, reducing OPEX and increasing efficiency.

Traditionally inland barges have just been operated by their owners (who are often also the captains), but Seafar have identified an opportunity to disrupt the market by providing ship management as an option for shipowners and non-traditional shipping companies as mentioned above.

all_is_magic/Shutterstock.com

**Pandemic impact**

There is speculation as to whether there will be as much interest in developing autonomous technology given the current circumstances with the ongoing Covid-19 pandemic. On the one hand, there is less opportunity to secure investment during uncertain times or even allocate internal budgets. Especially for research and development into what could be seen as unnecessary technology.

Yara recently announced that it has paused plans to launch the *Yara Birkeland*, despite it already being delivered, citing the "Covid-19 pandemic and uncertain market conditions".

However, there is also an argument to say that the current environment may accelerate demand for the technology. The single biggest problem for shipowners during the crisis has been trying to effect crew changes, which clearly would not have been a problem on an unmanned ship. Furthermore, given the impact on the mental health of crew members, there is an argument that some may prefer to be using their skills to operate ships from the comfort of an office space where they can go home to their families each evening. This is already being clearly demonstrated with Seafar being able to employ experienced captains who are now working ashore.

**The use of the technology is not, typically, being driven by traditional shipping companies. Instead, it is large raw material producers or manufacturing organisations**

Lastly, we have seen a rise in the number of ports using remote pilotage during the pandemic. This is to avoid potentially having a situation where the whole crew is infected by the pilot coming onboard. The increased use of remote pilotage has highlighted some safety concerns and may push demand for shore control technology to be implemented in ports.

Whatever your views are, unmanned shipping is a reality now and will continue to grow rapidly over the next few years in coastal and inland trades. Applications will be suited to some specific operations and geographical regions more than others and, for the time being, this will remain relatively niche. We will see new industries entering the shipping market and this will mainly be driven by an environmental agenda, likely supported by government funding.

What we will see over the next few years in transoceanic shipping is the trickle down of the technology as it improves through testing. Elements of automation in navigation will be used more widely across industry but in small stages while the crew remain onboard; much like the aviation industry has done. This will be used to improve efficiency, free up the crew to focus on other responsibilities, and aid safer navigation. ■

*Callum O'Brien is deputy underwriter, Europe, at the Standard Club*

insuranceday

# Isaias to drench entire US east coast

## Hurricane expected to strafe Florida and Georgia before making landfall early Tuesday

John Shutt, Los Angeles
**US correspondent**

Hurricane Isaias weakened into a strong tropical storm over the Bahamas over the weekend and is set to be a significant rain-and-wind event for all US Atlantic coast states this week.

The storm is expected to strafe Florida and Georgia before making landfall early Tuesday in the Carolinas.

Late Sunday, tropical storm watches or warnings were in effect from Florida's central Atlantic coast up to Rhode Island, except for a stretch of the Carolinas, which was under hurricane watch.

Isaias is projected to remain a tropical storm over US coastal states all the way to Maine, where its centre will likely reach on Wednesday.

Up to 12 inches of rain is expected in the Bahamas, three inches in Florida, eight inches in the Carolinas and mid-Atlantic states, and six inches in northeast states.

Storm surge is expected to reach four feet in the Carolinas and three feet in Florida, Georgia, Virginia and Maryland.


Storm surge is expected to reach four feet in the Carolinas

StacieStauffSmith Photos/Shutterstock.com

## Guy Carpenter expands ExCo

Guy Carpenter has appointed three new members to its executive committee, *writes Michael Faulkner*.

Neil Mayer has been appointed chief operating officer. He previously held the position of chief operating officer, North America.

Lara Mowery will take on the newly created position of global head of distribution, overseeing the firm's placement and distribution strategy. Mowery was previously head of the company's Global Property Center of Excellence.

Finally, John Crichton, the chief information officer, has also joined the firm's executive committee.

Guy Carpenter president and chief executive, Peter Hearn, said: "I am confident the new members will play a key role as we look to expand our offerings, services and value to our clients."