

Short notes for
talk to the High Premium Group of individual Lloyd's Names

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by

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Current Threats to Insurers and Reinsurers

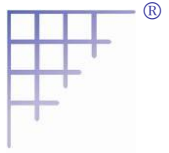
Thank you for asking me to share some thoughts on Threats with you today.

The RAF Club is a great choice of venue as aviation is a key risk especially if SPACE is included.

Drones are increasingly being used for inspections, deliveries and WAR, both for reconnaissance and attack.

Swarms of mini-drones are likely to be a future terror weapon.

The recent loss of a jet dropping off into the sea from one of our aircraft carriers was very expensive and unexpected 'old world' failure problem.



San Diego Beach is partly mined to allow a 2nd exit if the US Pacific Naval Fleet is attacked. However, Portsmouth Harbour single entrance which if blocked would strand all ships including commercial ferries.

The very large Ukrainian plane that was damaged was poorly protected – our Network is assessing.

Satellite crashes and deliberate damage are big risks – space is congested, and the communication infrastructure in space is at risk.

GPS system is at high risk of being disabled – what preparations are being made by Insurers for black-outs especially those whose business model requires GPS?

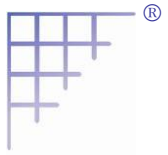
One last aviation item. From satellite observations, the invasion of Ukraine was well flagged yet Insurers and airplane lessors seemed reluctant or unable to re-possess planes beforehand. The losses now being incurred could have been reduced.

I believe we are at a point of critical divergence.

Old ways are under challenge and new ways aren't being analysed or taken as seriously as they should be by Insurers and Reinsurers.

Nothing can or should be taken for granted.

In relation to the topic of current threats to Insurers and Reinsurers, the list and potential impacts have never in my view been as long or as serious.



Some are outside of Insurers' control but quite a few threats are controllable and some self-generated.

Demand for protection from corporate and individual policyholders is high, and so it could be seen as being a time of opportunity for Insurers and Reinsurers.

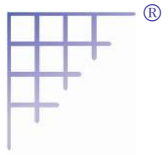
However, I will focus on the THREATS AND RISKS and leave you to decide whether the organisations you back and support are prepared for the THREATS and planning to take the opportunities.

I hope that my critical comments will encourage debate here today and later by email to paul.may@concordiaconsultancy.com.

The topics I will touch on are numerous and collectively represent a major shift in the type and scale of THREATS that Insurers and Reinsurers are facing.

Personally, I don't think Insurers are prepared or looking widely enough to minimise risk and increase income and profit from protecting policyholders.

I am not bearing the sandwich board man's message of "the end is nigh" but the message is I think that change is needed in so many areas that a "fresh start" is needed.



From a working list of over 30 THREATS, I have selected 15 or so to discuss in a little detail. The working list included: -

Ukraine

Russia

China

Political Elites

Corporate Elites

Fraud

Artificial Intelligence

Blockchain

Crypto currencies

Groupthink

Solvency

Auditors

Policy wordings

Oversight

Old people

Young people

Pandemics

Working from home

Non - Executive Directors

Dispute Resolution

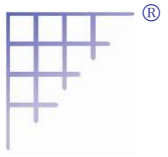
Warren Buffet

Nuclear

Utmost Good Faith

Fossil Fuels

Electric Cars



Terrorism

Training

Crime

Climate Change

Given the time available, I have grouped some of these into a short list of three groups:

- Climate
- People
- Policy wordings i.e. the CONTRACT OF INSURANCE

1. On **Climate**, this remains a top priority with NET ZERO being the Holy Grail.

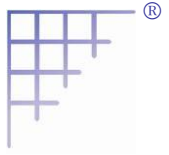
Extinction Rebellion

- Lloyd's building attacks embarrassed the market
- Surely a failure of risk management? A case of Cobbler's children's shoes (being in need of repair).

What example to policyholders is given if Lloyd's has failed to protect its own building and people. Once fire escapes were blocked by ER, the building had to be evacuated.

On Fossil Fuel

- a Government Mutual or Fossil Re may be the way forward.
- Fraud to dispose of out-of-date and Climate Unfriendly facilities can be expected.



There is compulsion to move to **Electric cars** – but the Fire risk from Lithium and the Risk also of fatal shock to mechanics and firefighters is not fully understood. Land Rover are training fire brigades on ways to safely put out a fire in an electric car.

Lack of charging infrastructure – realistically UK is not ready and has no clear investment plan.

Water security and purity – The liability risks are increasing and also it may be that soon Insurers of polluting water companies will be targeted soon by environmental activists.

2. **People** is my 2nd topic group.

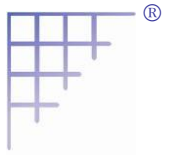
As ever, it is from People that BIG THREATS emanate.

As **Disease Spreaders** we have passed on disease for centuries!

There was poor preparation for a pandemic by the UK Government despite previous incidents and Reports. Likewise, publicly available information should have alerted Insurers who should have seen the threat and reviewed their policies/plans.

Group think remains a big risk, not just in corporate Boards but also in sectors e.g. Aviation underwriting.

– Diversity of experience is surely as important as diversity on the team.



Absence of challenging and sense-checking is a threat. Q – how often do Lloyd's Names and Corporate Capital providers meet the Underwriters and Claims Teams and grill them?

Succession – Warren Buffet's insurance and re-insurance empire significantly underpins Insurance and Re-Insurance markets and once he passes away there is potential for turmoil.

Corporate Elites aren't encouraging investment in young professionals with diverse outlooks. The drawbridge principle is alive and well.

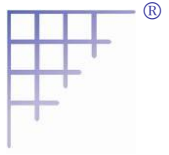
Testing of scenarios/assumptions - e.g., by Expert Advisory Groups is an under-utilised way to keep grounded and minimise blind spots.

Working From Home can be done anywhere but with a consequent loss of fine detail skills of training, practice and contrarian challenge.

Non – Executives are truly the "Eunuchs in the Harem". They know what needs to be done but do not generally have the capacity/authority to do so.

Leaders - Political Elites – Riots/Civil unrest in UK looks increasingly likely this Summer due to economic and social alienation drivers.

Terrorists – Unlikely to reduce risks and likely to use new methods such as drones, poisoning of water supply, and hacking.



3. Policy Wordings

The Covid debacle in insurance claims showed the under-investment in research, stress testing of wordings and lack of continuous monitoring of the External Environment.

How often do Insurers and Reinsurers re-visit their wordings to check likely interpretations?

Increasingly this is an out-sourced activity to law firms.

Insurers should question why they are increasingly unable internally to draft and test their own wordings.

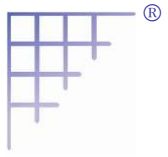
The absence of detailed audit processes to monitor the process of Review and Preparation is an unprotected flank.

External Auditors aren't looking closely at this.

Many policies are over 100 pages and are rarely checked *line-by-line* by Risk Managers, Brokers, Insurers, and Reinsurers.

Running "what if" scenarios generated by a diverse 'Expert Group' including non-insurance experts should I feel be a requirement as it benefits all.

Loss scenarios to "TEST" the wording could have reduced the COVID BI fiasco.



NOT Stress testing and sense checking the CONTRACT OF INSURANCE is the biggest threat to Insurers and Reinsurer.

Addressing that threat within their control.

Thank you for listening and for your questions.

I hope I have convinced you of the importance of challenging the Insurers that you support.

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