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RIMS 2018

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WELCOME TO RIMS 2018

The strategic priorities of RIMS are to innovate, develop, engage and advocate. These too lie at the heart of Price Forbes. It is these priorities which are ensuring that we move into our second decade of growth in an environment of unprecedented climatic, technological, economic and geopolitical change.

We pride ourselves on providing innovative solutions for you, our global client base, delivering the best markets and products for all your insurance requirements. Impartiality, tenacity and integrity lie at the heart of our approach, consistently creating world class insurance solutions whilst keeping our clients at the heart of everything we do.

Within our inaugural RIMS report our team aims to provide you with a window on key topics for 2018 and beyond.

OPINION on major issues
OUTLOOK within key sectors
CAPABILITY of Price Forbes’ internationally renowned teams
INSIGHT into key factors shaping the insurance world of tomorrow

We look forward to seeing you during the conference and beyond.

Warmest Regards,

Price Forbes RIMS Team

UK – THE ONLY CONSTANT IS CHANGE

Lloyd’s noted 2017 as “one of the costliest years for natural catastrophes in the past decade” in the wake of posting its first loss in six years despite gross written premiums rising from £29.9bn to £33.6bn.

But with Hurricanes Harvey and Irma taking their toll across the southern US coast and the Caribbean, Mexican earthquakes, wildfires in California and flooding in Bangladesh, it has prompted Lloyd’s Chairman, Bruce Carnegie-Brown, to note that “business as usual is not sustainable. As a result the market is embracing new ways of working.”

With Brexit looming, speculation and debate about UK insurance leadership is rife. But it is our view that insurance will remain one of the UK’s great exports. The reason goes right to the heart of Bruce’s statement – the ability to embrace change.

We continue to see the UK lead on important competitive factors:

• Governance
  The UK has led the world in the development of insurance regulation. By ensuring that this remains the case, it will guarantee that it continues to be seen as a ‘safe pair of hands’, especially when it comes to trade agreement negotiations with key insurance markets across the globe.
  Overcoming restrictions in certain economies on the amount of insurance that can be purchased from overseas providers is as much in the UK industry’s hands through global governance leadership as it is for Government negotiated trade deals to address.

• Innovation
  The UK has always been a leader in terms of insurance product innovation. For example, cyber insurance has been a leading light in the London market in recent times. This is not only because of growing business awareness of its importance, but also because the UK market has developed sophisticated cyber products geared to client needs, such as swift breach response and comprehensive third party cover.

• New Technology
  The UK insurance industry is actively engaging with its high-flying tech start ups to create disruptive innovation. The UK is making huge advances to both revolutionise the insured’s customer experience and to utilise technology to improve risk management. Recently, Lloyd’s of London have openly committed to pushing forward with electronic placement to further ensure efficiency reducing costs and ultimately improving customer service.

The only thing that is constant is change. Strong competition is good for the global insurance industry and as long as the UK insurance sector keeps this maxim and its customers at its core it will continue to be centre stage as a key competitor.

OPINION ON...
GLOBAL OUTLOOK ON...

MINING

Optimism continues to return to the sector. Massive consolidation continues in the industry and production improved steadily through 2017. Many mines are emerging from Chapter 11, having dealt with mounting debt and shrinking markets. New mining companies are merging forming bigger entities to create competitive advantage. We are consequently witnessing infrastructure enhancement and economic resurgences within mining communities.

China consumes 50% of the world’s commodities. Fears about its growth are fading, but its continuing construction boom and buoyant consumer demand remain under close scrutiny. Its growth are fading, but its continuing construction boom and buoyant consumer demand remain under close scrutiny.

Cyber-attacks represent one of the biggest contemporary risks to the marine sector, encompassing business interruption, kidnap and ransom, damage to property, data loss and possible loss of life. As modern shipping increasingly relies on connectivity, the demand for marine cyber products is ever increasing.

Typically, Institute Cyber Attack Exclusion Clause CL380 (CL380) actively excludes cover for loss arising from a cyber-attack. A small number of underwriters are prepared to delete the exclusion for older ships with limited reliance on connectivity. Additionally, a small number of underwriters are developing cyber insurance solutions designed at covering the gap created by the CL380 exclusion.

Technological advances are not only deepening cyber cover demand, but entering arenas that have no insurance precedent. Drone ships are increasingly being explored by companies seeking to create cost advantage. Rolls Royce is one company at the forefront of this development who have gone on record as saying that unmanned vessels will be in operation as early as 2020. However, this advancement will require the rewriting of significant areas of maritime law, which poses a considerable barrier. For example, the peril of ‘negligence of master, officers and crew’ would have considerable variance in different jurisdictions as to whether a ‘captain’ sitting onshore is legally or officially part of the crew.

OIL & GAS

Optimism dominates the sector with improving prices signalling a slow and steady recovery process underway. Contemporary exploration and production is being showcased by some very large projects.

Caspian Sea

The Caspian Sea has vast gas reserves. The Southern Gas Corridor aims at boosting European gas supplies to be transported via pipeline to Europe through routes crossing Azerbaijan, Georgia and Turkey. First gas volumes delivered from Shah Deniz to Turkey are expected by 2018, with Europe receiving its first supplies by 2020, according to project leads BP.

Jizzakh Oil Refinery, Uzbekistan

At an estimated cost of $2.2 billion, construction of the Jizzakh Oil Refinery, started in 2017, will eventually deliver a processing capacity of five million tons of oil a year by 2022. It will produce, amongst other products, approximately 700,000 tons of jet fuel.

Libra Oil Field, Brazil

Bra In hydpower, the Red Rock hydroelectric plant in Iowa in the USA will become operational this year and is set to supply approximately 18,000 homes. The reconstruction of power infrastructure following Hurricanes Maria, Harvey and Irma continues in Puerto Rico, Texas and Florida.

Additionally, cybercrime protection remains a high priority following substantive cyber-attacks across many countries, including the Ukraine, the US and Ireland.

ENERGY

With the UN stating that national pledges will only achieve a third of the reduction in greenhouse gas emissions required by 2030, fossil fuel alternatives remain core on the global energy agenda.

50 new nuclear reactors are under construction globally, the majority of which are in Asia. Additionally, Barakah in the United Arab Emirates, the world’s largest nuclear project, is planned to come on line this year.

Wind power capacity continues to grow with Europe, China and Asia leading the way in increasing capacity. China is anticipated to reach its wind power target of 200GW of wind capacity before 2020. Development of the world’s largest offshore windfarm off the UK Yorkshire coast will begin with the potential to power 1.3 million homes.

China has doubled its 2020 solar power target to approximately 230GW. The US has 490GW of projects underway and Mexico is making great leaps, with a projected 26GW of additional capacity being added in 2018.

In hydropower, the Red Rock hydroelectric plant in Iowa in the USA is expected to produce 1.4 million barrels of oil a day by 2021.
In the Autumn of 2017 the Blockchain Insurance Industry Initiative (B3i) made a significant announcement that it had expanded its testing with a further 23 companies joining the initiative.

The market testing underway simulates the creation and management of property catastrophe insurance contracts in order to test post placement processes. This will apply from the setting up of the contract, through to the automated calculation for payment of claims. The feedback by the testing companies will form a key part of the development of a viable production platform for the industry during the second half of 2018.

Blockchain is already taking the financial services world by storm and offers the insurance world vast potential in enabling contracts and transactions amongst multiple parties to be transacted securely and vastly reducing the administrative workload of every party in the chain.

Of central importance to its industry adoption is complete commonality in standards and processes across all stakeholders. The rewards could be substantial in terms of industry efficiency and improved outcomes for customers. Claims could be managed in a completely transparent and irrefutable manner and validated by all parties, thereby ensuring that only valid claims are paid.

According to Deloitte many public and private health systems across the globe are coming under increasing pressure. Healthcare spending globally is expected to increase at an annual rate of 4.3% between 2017 and 2021, an increase from 1.3% from 2012-2016. However, spending in the UK is only expected to increase by 1.1% per year, compared to 4% across Western Europe.

Our changing lifestyles are continuing to strain systems. For example, the number of people living with diabetes in the UK has more than doubled since 1996, with an estimated 4.5 million people currently living with the disease. In 2017 it was estimated that 50 million people worldwide were living with dementia; that figure is predicted to double every 20 years.

For the life sciences sector this is creating a very dynamic, changing environment where agility and innovation are key.

New technology in computing, AI and robotics are constantly being explored to provide company-wide business advantage in R&D, manufacturing and productivity, especially in value focused markets where price sensitivity continues to dominate.

For example, Graphic Processing Units (GPU) are able to analyse information far faster than a CPU database. Capable of handling many streams of information, it has enormous application in contagion analysis and pharmaceutical testing.

The Information Security Forum (ISF), one of the world’s foremost authorities on cyber security and information risk management, has identified five key threats in 2018:

- **Crime-As-A-Service (CaaS)**
  Criminal organisations are becoming more and more sophisticated in their approach and ‘new players’ are entering constantly. Cryptoware is becoming the leading malware of choice for its threat and impact value.

- **The Internet of Things (IoT)**
  The emergence of everyday devices that now have interconnection via the Internet, sending and receiving data, continues at pace. Insecure design can present an opportunity for attack. Data unknowingly let loose into the IoT ecosystem can have unknown consequences that can ultimately be life threatening.

- **Regulation**
  New regulation, such as GDPR, adds new levels of complexity for firms to navigate and manage. Compliance will impact on compliance and data management costs and take resource focus away from other imperatives.

- **Unrealistic Board Expectations**
  A fully secure organisation is an unattainable goal. If Board expectations outstrip the skills, time and resources available the discrepancy can have substantial business impact if a major incident occurs.

- **The sophistication, scale and speed of development of cyber threats is creating a paradigm shift in the techniques necessary to combat them. The perceived wisdom of analysing yesterday’s attack to build better ‘walls’ is being superseded by the use of AI. AI cybersecurity applies real time learning to allow organisations to create solutions even if an attack type has never been seen before.**
US property-casualty (P&C) insurers saw underwriting losses more than double, to $5.1 billion, for the first half of 2017 compared with the year before - an even more dramatic downturn considering the industry was in the black on underwriting by $3.1 billion during the same period two years ago. Soaring loss costs, led by higher catastrophe and auto claims, drove net income down 29% in the first half, and this was before huge third-quarter disaster claims from Hurricanes Harvey, Irma and Maria. The effects of these storms were felt globally, particularly within the reinsurance sector.

According to Moody’s investor service the outlook for property & casualty (P&C) insurance globally is stable for 2018, with further premium growth, supported by continued economic expansion, and robust capitalisation offsetting profitability pressure from still-low interest rates and rising claims inflation.

Source: www.moodys.com/2018-outlooks

Continued economic expansion will support premium growth for the global P&C insurance sector in 2018. Moody’s also predicts good growth potential in China and other emerging markets which, for example, have P&C insurance penetration rates in the range of 1.5% to 2% of GDP, well below North America, Europe and the worldwide average which is close to 3%. Growing household income and supportive policies in emerging economies will boost insurance penetration, driving P&C market growth in excess of GDP growth.

In addition, capitalisation will likely remain robust and resilient to a range of stress scenarios, with the US insurers absorbing 2017 hurricane losses mostly from earnings. This is despite rising claims costs and lower reserve releases. Still low investment yields, however, will curtail profit margins, despite a gradual increase in interest rates and a continued shift towards higher risk investments in some markets. Nevertheless, low rates promote underwriting discipline, according to the rating agency.

Finally, further investment in technology and innovation is improving efficiency for global P&C insurers. However, Moody’s notes that technological change will attract competition and reduce risk pools in some business lines.

US PROPERTY & CASUALTY

POWER & NUCLEAR

The US nuclear industry is at an all-time high in 2018.

“It’s important that we maintain a strong domestic nuclear sector: this begins by keeping our existing plants operating,” John F. Kotek, the Nuclear Energy Institute’s (NEI) Vice-President for policy development and public affairs, told the Forum. Much of the action to preserve existing plants will take place at the state level, he said. New York, Illinois and Connecticut have “shown the way”, and other states need to follow. “We’re encouraged by the states’ recognition of the need to keep nuclear plants open, whether for emissions reduction or energy diversity,” he said.

A failure to value appropriately all the benefits of nuclear power has contributed to an uneven playing field that is forcing nuclear plants to close prematurely, he said. The decision by the US Federal Energy Regulatory Commission (FERC) to terminate proceedings on Energy Secretary Rick Perry’s proposed rulemaking on grid resilience and reliability provoked an important conversation about the role of nuclear plants in ensuring a resilient, reliable grid, he said.

Perry’s proposed rulemaking, submitted to the FERC in September last year, would have specifically recognised the attributes of generation sources able to store fuel on site. The regulator announced its decision on the 8th January, after receiving over 1,500 submissions on the proposed rule. Instead, it has launched a new proceeding to address resilience in a broader context. At the time, NEI President and CEO Maria Korsnick said the organisation was disappointed that the FERC had not taken affirmative action that would preserve the nation’s nuclear power plants, but praised Perry’s efforts to place the issue on the national agenda.

Kotek said the nuclear industry must demonstrate that it can build and complete nuclear plants. He said the decision to proceed with the nuclear construction project at Vogtle in Georgia was significant, offering an opportunity for the US nuclear sector to show it can “successfully” build new reactors.

The US Nuclear Regulatory Commission’s (NRC) recent conclusion that NuScale Power’s small modular reactor design can operate safely without the need for so-called 1E electrical power supplies – a key aspect of the design – was a positive development. He said the NRC’s approval offered a “new paradigm for regulatory efficiency”.

The annual State of the Energy Industry Forum, held to coincide with the first State of the Union Address of the year, is one of the US Energy Association’s flagship meetings, bringing together energy industry associations, lawmakers, regulators, energy industry influencers, diplomats, thought leaders and journalists to discuss energy issues facing the USA and the world. This was the 14th Forum and was held at the National Press Club in Washington DC.

The United Arab Emirates has said that one of four nuclear reactors at its debut plant has been completed as it moves closer to becoming the first Arab nation to produce atomic power. The announcement came after visiting South Korean President Moon Jae-in and Abu Dhabi Crown Prince Mohammed bin Zayed toured the $20-billion Barakah plant, the state-run WAM news agency reported. The plant, west of Abu Dhabi, is being constructed by a consortium led by the Korea Electric Power Corporation.

Sitting atop the world’s second-largest oil reserves, Saudi Arabia has little to worry about when it comes to generating energy.

But the Gulf nation is now angling to make one of the biggest investments in nuclear energy the world has seen. Saudi Arabia plans to spend more than $80 billion to build 16 nuclear reactors over the next quarter century.

The power play shows that the world’s most iconic oil giant is serious about reducing its near-total reliance on oil – and it’s also raising questions about whether the country intends to seek out nuclear weapons in the future.

Saudi Arabia says it’s looking to expand its energy portfolio, if it uses nuclear reactors to generate electricity, that will allow the Gulf country to export more of its oil rather than consume it at home. More exports mean more money for the country’s government.
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Team representatives from all across Price Forbes are attending RIMS this year.

We welcome you to our reception on Monday 16th & Tuesday 17th April at Bar 414.

Additionally, please feel free to contact the team who will be pleased to bring you up to speed on developments at Price Forbes.