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London market broker survey 2016

Standing at the crossroads: Innovation versus tradition

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London market brokers seek out opportunities in challenging environment

Ahead of this year's British Insurance Brokers' Association (Biba) conference, which is taking place in Manchester, *Insurance Day* collaborated with the association to conduct a London market broker survey.

The survey, which considered both the prospects and challenges facing the London market, picked up on a number of key themes – similar to those identified in the widely read November 2014 London Matters report – which stated London's competitiveness as a global insurance hub is under threat.

The key findings of the report all pointed towards increased levels of competition. Concerns about profit margin pressure, broker sector deals, global market competition, technology and future talent were all at the front of mind of those who participated in the survey.

However, there is also a lot to be optimistic about. As much as these themes can be viewed as challenging, they also create a lot of opportunity. The emergence of new insurance hubs around the world has led to a desire for brokers to expand their business internationally, creating new business opportunities. Taking the London Market Group's modernisation agenda as an example, technology is set to enable a better, more efficient, innovative centre of excellence.

While increased M&A activity has resulted in bigger, stronger players in the market, making competition for business fiercer, several respondents highlighted the fact there has never been so much talent available in the market as a result. But this only solves the talent pipeline in the short term. There are also concerns about where the talent of the future will come from if insurance is not seen as an attractive career choice.

This, alongside innovation and the impact of alternative capital, are issues that have been flagged in the following pages by four industry heavyweights who will also discuss the results of the survey at this year's Biba conference.

Editor of *Insurance Day*, Michael Faulkner, will be joined by Inga Beale, chief executive of Lloyd's, Dominic Christian, executive chairman of Aon Benfield, David Howden, chief executive of Hyperion, and Andrew McMellin, UK and Ireland chief executive at XL Catlin, to discuss the findings and more during a panel discussion focused specifically on the London market. ■

Sophie Roberts, deputy editor, Insurance Day

Contents

Brokers feel pressure as competition intensifies

The Insurance Day/ Biba broker survey reveals the full range of market players' concerns for the months ahead

Sophie Roberts
Deputy editor

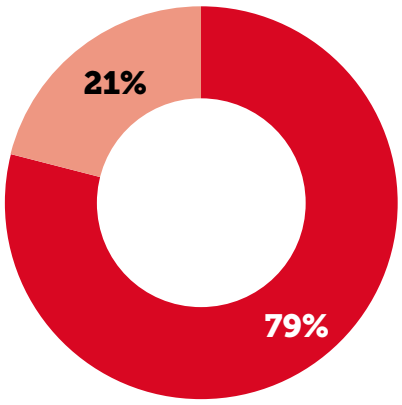
More than three-quarters of respondents to an *Insurance Day* survey, in collaboration with the British Insurance Brokers' Association (Biba) said they expect competition in the London market broking sector to increase next year.

Seventy-nine percent agreed this to be the case (**graph 1**), citing soft market conditions, excess capital, mergers and acquisitions (M&A), broker facilities and pressure from more direct business to be the main drivers behind the increasing competitive landscape.

Respondents also gave falling underwriting profitability in core business areas as a reason behind more competition, as brokers look more at "aggressive ways" to retain clients and find new business. In addition, increasing sophistication in domestic markets was also offered by several respondents concerned about less business coming into London as more is retained and placed locally.

Graph 1

Do you expect competition in the London market broking sector to increase next year?



Business prospects

Participants in the survey were asked to rate how confident they are about business prospects for the remainder of this year and the start of 2017 on a scale of one to five, with one being the greatest confidence (**graph 2**). In line with other findings of the survey, which all point towards a more challenging environment in which brokers operate, 45% of respondents fell in the middle. However, the second-largest group of more than one-third (38%) rated their confidence level at four, showing a lack of confidence in business prospects. Only 3% of respondents said they felt truly optimistic about their business prospects.

Several other concerns were raised by respondents to the survey, including pricing and expense pressure, the global economic climate, competition, local placements, commoditisation and in the more immediate term, Brexit. One respondent said: "I think the London market will generate a flat number of opportunities. Local hubs or local mature markets will increasingly find local solutions, not depend on the London market."

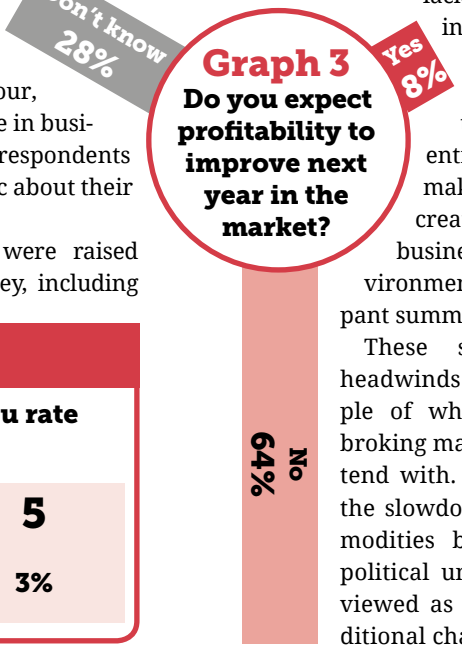
Another respondent from a service provider said: "I feel the increasing competition should not be underestimated. Although the London market still holds the majority of market share, this won't always be the case if we don't respond to upcoming challenges."

Concerns relating to new entrants were cited frequently by those who lacked confidence in future business prospects. "Very tough competition and new entrants seeking to make their mark create a challenging business prospect environment," one participant summed up.

These strong market headwinds are just a sample of what the London broking market has to contend with. Unsurprisingly, the slowdown in the commodities boom and geopolitical uncertainty were viewed as unwelcome additional challenges. In par-

Graph 3

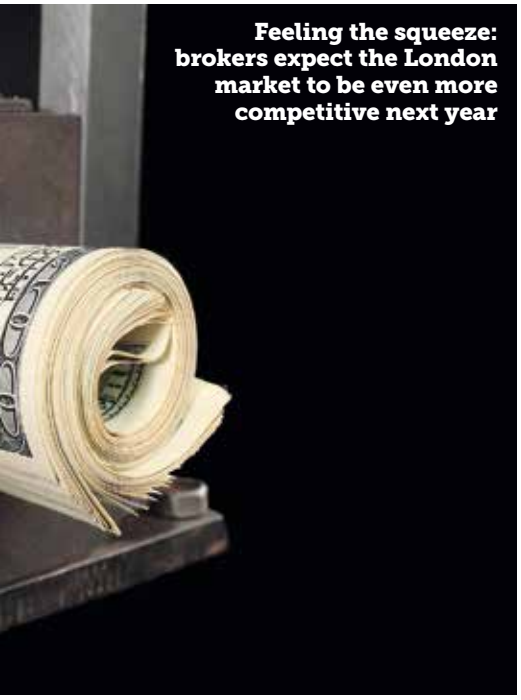
Do you expect profitability to improve next year in the market?



Graph 2

On a scale of 1 to 5 (1 being most confident), how would you rate your confidence about business prospects for next year?

1	2	3	4	5
2%	12%	45%	38%	3%



Feeling the squeeze: brokers expect the London market to be even more competitive next year

ticular, low oil prices and overcapacity have produced a cocktail of placing and underwriting difficulties. Uncertainty about the future of Britain's relationship with the EU has also been flagged up, with some respondents questioning what effect any changes to the status quo could have on the pipeline of business entering London.

Opportunities

However, it was not all doom and gloom. Opportunities to inspire confidence in future business prospects were also observed by respondents. One said: "As a broker the opportunities will always be present, our challenge is to exploit the ever-growing markets and start-ups that are also seeking to grow their business."

One broker said: "Although there will be continuing M&A through 2016 and new start-ups will mature in to competitive entities, there remains a wealth of emerging risks to take advantage of."

Another said: "The market is awash with brokers – Lloyd's and non-Lloyd's. However, those who have a strategic game plan in the wider market will increase their prospects. Moreover, although some insurers and Lloyd's syndicates will be looking at their own cost ratios, delegated authority is being chosen as a way of continuing writing risks on a more profitable basis."

Several respondents also cited making the right investment in the right technology as an opportunity for companies to capture more business in the market, as well as "niche business opportunities".

Overall, it would appear that despite a lack of confidence in business prospects, most of those who participated in the survey can identify where opportunities lie, although the size of a company would to some extent depend on how accessible they are. One respondent from a top four broker said: "The strength of our company is an important differentiator in terms of what opportunities are in our reach. I wouldn't say we're limited on that front."

In continuation of the previous question, when participants were asked if they expect profitability to improve in the next year, the majority (64%) said no, with 28% feeling unsure and only 8% confident their business's profitability would improve (**graph 3**). Interestingly, one felt the "bad reputations" of some market players in the wake of well-publicised events might see business move to other brokers. M&A was also cited as a factor that could lead to improvements in profitability, in addition to "smarter decisions being made by insurers with a look towards rewarding the more risk-aware clients", one respondent said.

To further delve into ways in which companies might look to improve profitability, the survey asked participants if their businesses were planning to expand the classes of business which they broke. Perhaps surprisingly, more than three-quarters (77%) said they were not, with only 23% saying they were (**graph 4**). Additional comments from respondents demonstrated overarching areas of interest – namely cyber, cargo and professional indemnity.

Expansion plans

But growth is on the agenda. The majority of respondents (45%) said their businesses were looking to expand their international presence over the next one to three years, with 35% saying they were unsure and 20% saying they were not looking to expand (**graph 5**).

The regions where participants of the survey saw the potential for growth opportunities, each selecting more than one, were Asia (68%), Latin America (45%) and Europe (38%). Twenty-eight percent considered North America as a potential growth area,

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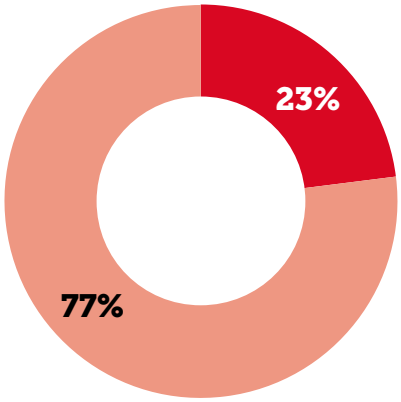
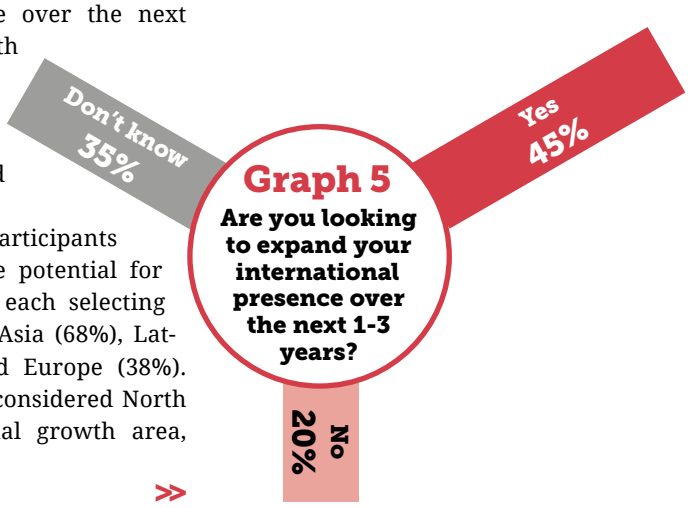
Graph 4

Are you planning to expand the classes of business that you broke?



> **"Although the London market still holds the majority of market share, this won't always be the case if we don't respond to upcoming challenges"**



Graph 5

Are you looking to expand your international presence over the next 1-3 years?

The robots are coming

The automation of jobs puts pressure on the industry to identify the roles computers cannot fill

Inga Beale
Lloyd's

Much has been written about the impact of automation on employment. One thing most authors agree on is robots are going to have a huge impact on the way job markets are organised.

One study by two Oxford University professors, who studied more than 700 occupational categories, estimated 47% of US jobs could be at risk from computerisation over the next two decades[1].

The same research[2] found within the insurance sector, underwriters are in the highest-risk category for being taken over by automation, just ahead of claims and policy processing personnel, claims adjusters, examiners and investigators.

No breathing space

And lest anyone think we have a few decades of breathing space before this happens, in some professions robots are not coming some time in the future – they are already here. For example, Associated Press publishes 3,000 financial stories a quarter that are written by algorithms and it is looking to increase that number[3].

That is not to suggest robots can or will gradually replace us in all jobs. Roles that require complex social interaction and judgment will – probably – always require control and input by human beings.

What the advance of robotics does mean, though, is that industries such as insurance have to think about what sort of workforce they need in the future. Where will people add value? Where might they be replaced by algorithms?

With margins being squeezed ever tighter these are critical questions, but ones at present the global insurance industry is poorly placed to answer.

Put simply, we are not attracting a diverse enough set of new recruits into the industry. We need a workforce and leadership teams that better reflect our customer base in areas such as gender, generation, ethnicity and disability.

We need to attract people with a wide range of skills, experiences and industry backgrounds. We need people who can add value, people who can carry out tasks that cannot be automated.

A PwC survey carried out last year found 70% of chief executives of global financial services companies saw the limited availability of key skills as a threat to their growth prospects. That has increased from 59% in 2014[4].

Why? Part of the answer lies in another PwC study[5], which found one in five female millennials questioned did not want to work in financial services because of the industry's negative image.

We might manage to get some through the front door but we also need to retain them. We find ourselves locked in competition for talent with rival sectors that are more inviting and more popular places to work.

The PwC study showed that a lack of opportunities for career progression is the number-one reason why female millennials in financial services left their previous job, with 34% citing it as one of the three main reasons. Only one-third felt they could rise to senior levels within their current organisation.

So what can be done?

First, as leaders, we must drive change in our organisations. We have to embed diversity as a business priority within our strategic plans and throughout the culture of our organisations.

We need to empower HR departments to recruit the best people for the job regardless of background, gender, ethnicity or age; employees who are digital savvy, international in their approach, innovative and able to absorb and react to change.

We must invest in training programmes geared towards creating the workforce we need to succeed in the digital age.

We have to create clear lines of career progression, while making sure employees have a good work-life balance.

Telling the insurance story

Most importantly, we also need to go out and tell a more compelling story about the economic and social purpose of insurance. This story could inspire the next generation of brokers, chief executives and underwriters so they come to view a career in insurance as exciting, as purposeful and as rewarding as those in the Googles and Facebooks of this world.

It is not just about driving this from the top down. All employees – whatever their seniority level – can be agents of change. Taking responsibility for your own career development – in a way that achieves your objectives as well as those of the company you work for – is just as important as the chief executive putting in place the strategy that helps you do it.

The power to change is in all our hands, so we all have a responsibility to exercise it.

The robots are coming so we, the humans, must remain in control and work with the technology – not against it. ■

Inga Beale is chief executive of Lloyd's

1 www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf
2 www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf
3 www.prweb.com/releases/2015/01/prweb12470399.htm
4 PwC 18th Annual Global CEO Survey: Key talent findings in the financial services sector, p1
5 www.pwc.com/gx/en/financial-services/publications/assets/pwc-millenials-at-work.pdf

Alternative challenges, alternative opportunities

The evolving risk landscape forces re/insurers to adapt to emerging threats

Dominic Christian
Aon
UK

When Aon Benfield released its insurance-linked securities (ILS) report for the first quarter of 2016, its findings confirmed the continuation of a trend seen in the marketplace over the past several years – namely, an increasing amount of alternative capital.

The rise of alternative capital has been steady and consistent, and while 2015 saw no new annual ILS issuance record, alternative capital still grew strongly, increasing 12% to $72bn, compared to a 2% reduction in traditional reinsurance capital over the same period.

In Q1 2016, this momentum gathered pace, culminating in a new record for first-quarter catastrophe bond issuance of $2.22bn – 31% higher than the previous record, set in Q1 2015. Such year-on-year first-quarter growth contributed to the overall expansion of the market, pushing outstanding catastrophe bond limit to a record $25bn as of March 31, 2016.

Aon Benfield forecasts by the end of 2018 there will be $120bn to $150bn of alternative capital in the reinsurance marketplace. To put this into perspective, if traditional reinsurer capital were to remain at today's levels, in 2018 alternative capacity would represent around 20% of total global reinsurance capital.

Perhaps even more striking is that, as it stands today, alternative capital has essentially doubled the property catastrophe reinsurance capacity of the market.

For traditional reinsurers, this competitive environment has lasted longer than they anticipated, and has had brought about a significant reduction in property/casualty pricing. And while many have chosen to introduce alternative capital into their own underwriting structures, there remains an underlying need to explore new avenues for profitable business opportunities.

Opportunities

Our most recent Insurance Risk Study report posited the insurance market is formed of three interconnected components: demand from risk owners, supply from capital providers and the data and analytics risk assessment capability needed to join the two and effect a transaction.

And while advances in data and analytics have resulted in areas of our industry becoming more commoditised and more accessible to third parties, they have also opened doors to new opportunities for traditional players.

Taking a broad view, we see regions that put an emphasis on data quality and availability enjoy the benefits of more receptive insurance and reinsurance markets. Initiatives such as the NatCat-DAX Alliance, which is helping to build a clearer picture of the risk landscape in Asia-Pacific, recognise that by further improving data standards and data access, re/insurance support for risk can be enhanced, which in turn helps re/insurers to grow their businesses.

Looking within our firm and drawing on a wealth of transactional data, Aon Inpoint has been able to develop and deploy its ReView platform, which offers reinsurers insights into the territories and business lines in which they could develop their businesses globally.

Coupled with the information obtained from our regular broker surveys and via reinsurers' use of our ABConnect Placements platform, we find data, combined with technology and analytics, are assisting reinsurers across many areas of their businesses, helping them become more efficient in their client service, market transactions and operational performance.

Outside our industry, there are examples of how modern technology is helping the world to become safer. We see this increased safety in many of the key areas in which insurers operate; for example, automobile accident fatality rates have been decreasing in almost every country; the incidence of property fires in the US has been decreasing steadily since 1980 and workplaces are becoming ever safer.

As a result, insurers have seen their traditional high-frequency, low-severity lines fail to grow at the same pace as the economy in most developed nations, challenging their relevance to the economy and often producing anaemic aggregate growth.

Emerging risks

At the same time the hugely interconnected nature of commerce today has created a network of new emerging risks. Emerging risks are marked by fragility and unexpected consequences that challenge traditional covers, and cedants are demanding new solutions for these emerging risks. In its 2015 Insurance Risk Study, Aon Benfield identified the following as key opportunities over the next five to 10 years:

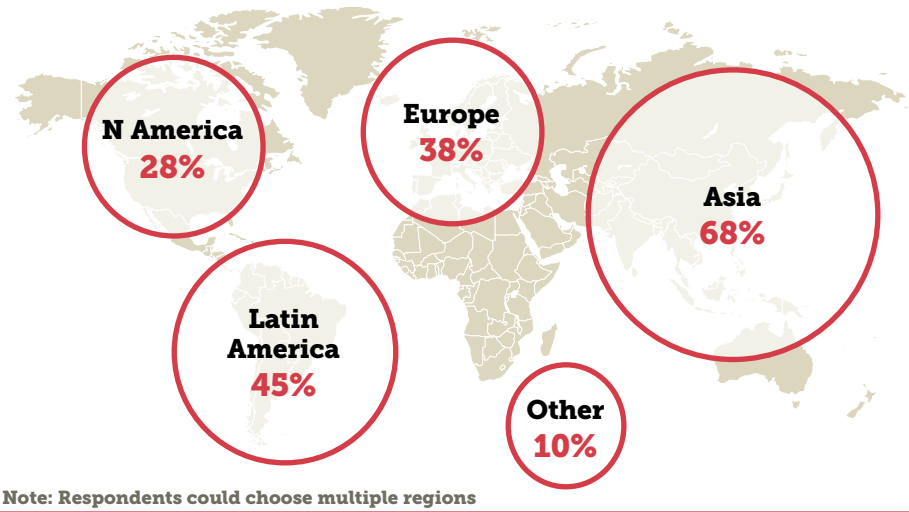
- US mortgage credit, an opportunity for $6bn in new limit per year;
- The sharing economy, creating new demand for insurers to fill coverage gap;
- Reputation and brand, the number one concern of global risk managers;
- Microinsurance, with a potential four billion new customers;
- Corporate liability covers offering more than $3bn in limit;
- Terrorism, leveraging military-based modelling to understand risk; and
- Cyber, a headline-grabbing potential risk.

As the alternative capital figures testify, the reinsurance industry is not struggling for capacity, but instead needs to create demand via the creation of new products born from an understanding of emerging risk – a challenge that can be addressed by the effective use of data and analytics. By focusing on this key issue, we can as an industry find new ways to promote growth, innovation and development. ■

Dominic Christian is executive chairman of Aon Benfield International and chief executive of Aon UK

Graph 6

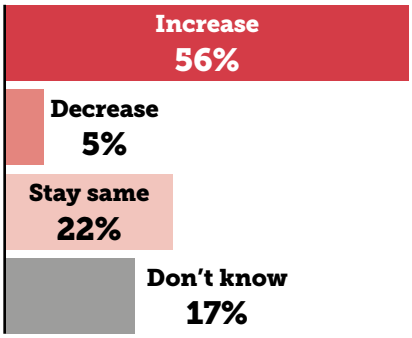
In which regions do you see growth opportunities?



Note: Respondents could choose multiple regions

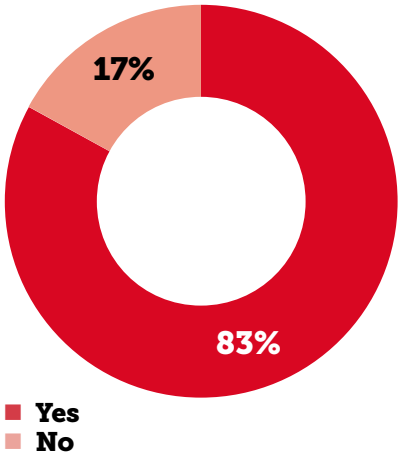
Graph 7

What is your expectation for M&A activity in the London broking sector?



Graph 8

Do you expect the number of broker facilities to increase next year?



Continued from p5

with 10% choosing other regions (**graph 6**). Those who specified which regions these might have been highlighted Africa, Iran and regional growth in the UK.

Broker sector deals

Towards the end of last year and the beginning of this year, market commentators were predicting M&A activity would be a feature that was here to stay. M&A activity in the insurance sector surged during 2015, with total deals valued at €129.3bn ($146.5bn) – three times the deal value recorded during the previous year, according to a report by Willis Towers Watson.

Some of these deals occurred in the broking sector. In the past 18 months the market saw "Big Four" broker Willis take an 85% interest in Miller Insurance Services as it made a significant wholesale push. Later on in 2015 Willis announced it was to combine with Towers Watson to become Willis Towers Watson in an all-stock "merger of equals" worth $18bn, which completed at the beginning of this year.

In April 2015 the merger between RK Harrison and Hyperion Insurance Group completed, following the necessary regulatory and legal approvals. Hyperion acquired 100% of the share capital of RK Harrison, becoming the parent company of the combined group.

In April this year, meanwhile, broking group Cooper Gay Swett & Crawford completed the $500m sale of its US business to BB&T Corporation.

We asked survey participants what their expectations are for M&A activity in the London broking sector in the next year. Fifty-six per cent agreed M&A would increase, with 22% believing it would remain the same. The remaining 22% either did not know or said M&A activity would decrease (**graph 7**). Key reasons cited as drivers for this activity by respondents included scale and relevance, cost benefits, regulatory pressures and competition.

One respondent said: "Medium-size brokers with high costs will not be able to face competition. Only very large brokers and small, niche brokers will survive."

Another said: "The costs of running a broking business are rising, business models are stretched and organic growth is hard, so acquisition is key. Over recent months the big name brokers appear to be constantly merging and acquiring a number of brokers to gain a larger footprint in various sectors."

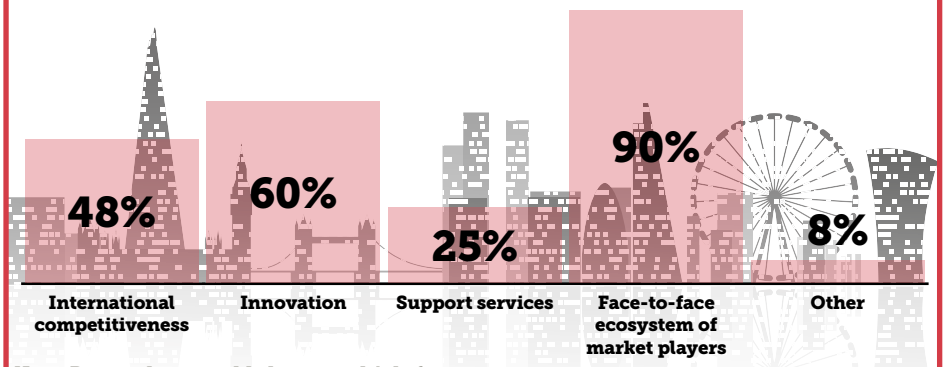
The capital markets also have sizeable war chests and as such will be looking for good-quality avenues to increase their returns. This was cited as another reason for an increase in intermediary M&A activity over the next three to five years.

Another feature of the London market has been the increase in large broker facilities, driven by the need for brokers to develop sustainable, long-term additional revenue streams rather than short-term pricing advantage.

The emergence of these facilities has in part been a response to the soft market, but it is evident they are here to stay. This is a sentiment that participants of the survey mostly agreed on, with 83% saying they expect the number of broker facilities to increase in the next year and only 17% disagreeing (**graph 8**).

Graph 9

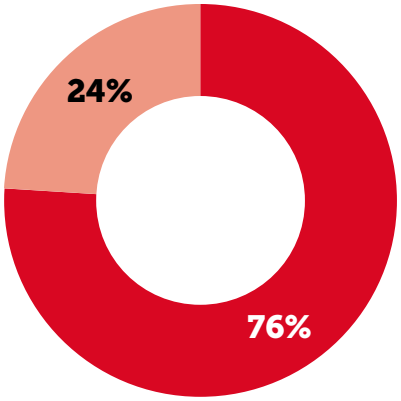
What makes the London market unique?



Note: Respondents could choose multiple features

Graph 10

Does the global industry still need a centre of excellence for specialty insurance?



Centre of excellence

London's unique role in the industry and its competitiveness have been challenged in recent years following the publication of the widely read November 2014 London Matters report. In this survey, we wanted to identify how a snapshot of the market consider the London market to be unique. Participants were allowed to select more than one option, but the overwhelming majority (90%) identified the face-to-face ecosystem of market players to be the market's key unique feature. This was followed by innovation (60%), international competitiveness (48%) and support services (25%) (**graph 9**).

In light of increasing levels of sophistication in other insurance hubs around the world, participants of the survey were asked if they thought the global re/insurance industry needed a centre of excellence for specialty insurance. While confidence in business prospects might have been down among respondents, their confidence in London as a centre of excellence was not. More than three-quarters of respondents (76%) agreed the global industry does need a centre of excellence, with only 24% saying it does not (**graph 10**).

Additional comments on this question highlighted two reasons in particular why a centre of excellence is needed. First, respondents were quick to bring up London's reputation for innovation, knowledge, capacity and talent. One respondent from a law firm said: "It is the benchmark of excellence and innovation that has just not been replicated elsewhere. The world looks up to London for these." Second, respondents picked up on the fact a lot of the business is actually too small to be profitable on a decentralised basis. A re/insurer respondent said: "The individual businesses such as aviation are too small to be fragmented across every domestic market."

However, it was also acknowledged by some that the encroaching competition from local hubs is something to take seriously. One respondent said: "The UK is a centre of excellence and London is the lead on this. However, other emerging markets are looking to emulate London, so we need to be ahead of the game and setting the standards for others to follow."

But in spite of this, respondents were divided on the question of whether they viewed global competition as an opportunity or a threat, with 48% seeing it as a threat and 45% as an opportunity, while 7% said they were uncertain (**graph 11**).

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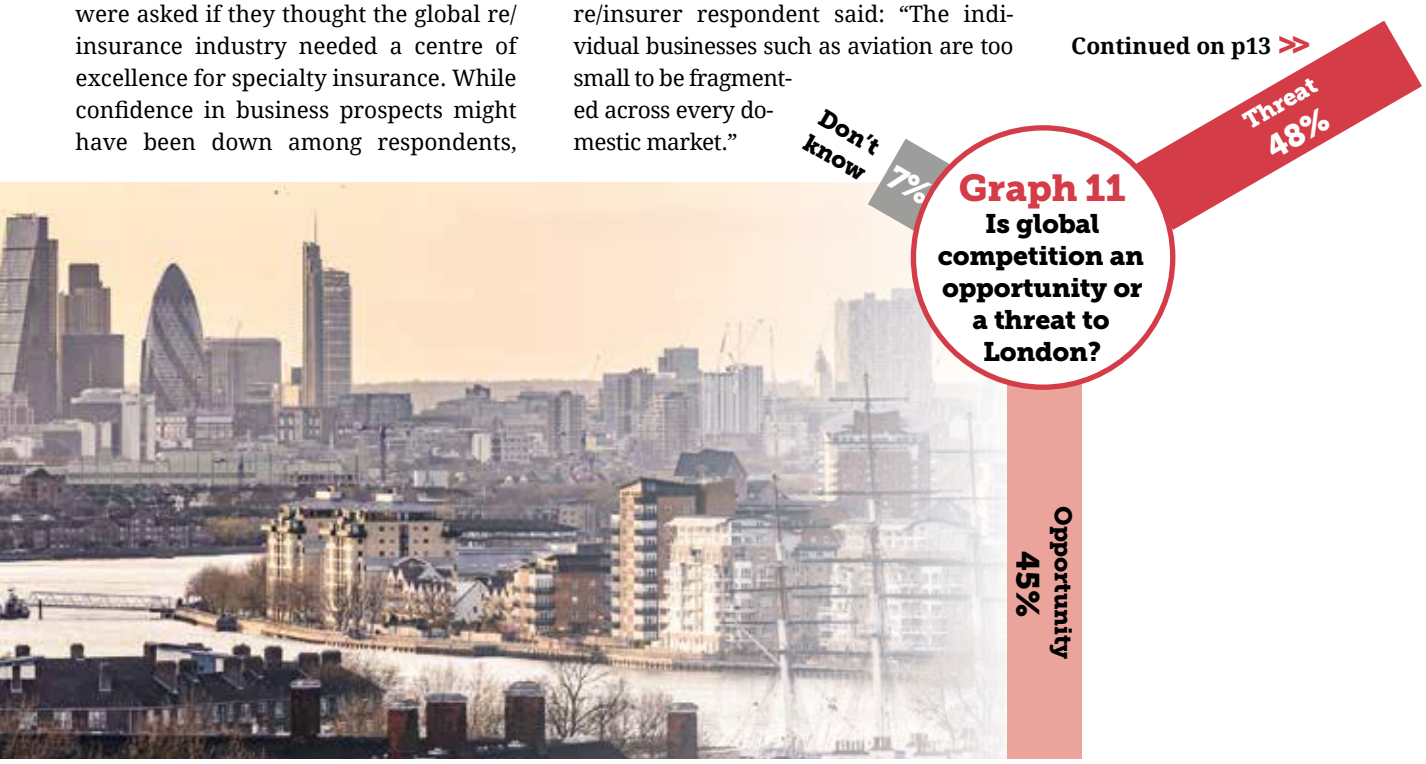

Graph 11
Is global competition an opportunity or a threat to London?

A 3D approach to defending the London market against disruption

The disruption of the industry is inevitable, so let us be the disruptors

David Howden
Hyperion

As technology companies bulldoze their way into industry after industry, the threat of the "Uberisation" of the insurance industry hangs in the air over the Square Mile.

Google has already dipped its toe into the insurance market and failed, but we would be naïve to think it will not try again and the threat is not necessarily confined to the big dotcoms; the insurtech start-ups, often founded by professionals from within our industry, pose a very real risk to the traditional model. The industry is ripe for disruption and, to paraphrase Mark Zuckerberg, if we do not create the thing that kills the London market, someone else will. So let us be the disruptors.

Brilliantly simple ideas

While often the most brilliant of ideas are the most simple, the distractions of our ever-increasing daily workloads and tightening of belts during this relentlessly soft market may mean such ideas remain unrealised. In KPMG's 2016 report on innovation in insurance, more than 80% of insurance professionals surveyed said they believe their future success lies in their ability to innovate ahead of their competitors. However, many are struggling to realise this ambition because of the lack of resource, core skills and investment required to drive innovation.

When my business was a start-up and I an enthusiastic young entrepreneur "unencumbered by other clients", as I wrote in a letter to my first prospective clients, I saw the rest of the London market sitting at their desks, waiting for business from emerging markets to come to them, and I recognised the need to take the market to the clients. Twenty-two years on, I am fortunate enough to be encumbered by many clients, as well as the job of running an international company, but the one thing I hope to never lose sight of is the importance of encouraging people to do things differently and of creating an environment that enables them to do so. We need to act more like tech companies by encouraging our workforce to take time away from their desks to innovate. But where do we start?

The obvious answer is with the client – and we should certainly have the edge over those outside the industry in knowing our clients best. So then the question is not: "How do we innovate better and faster than our competitors?" It is, as always: "How do we better meet the needs of our clients?"

I believe the key to this lies in three Ds: **data**, **distribution** and **delineation**.

We need to get smarter with our data, using it to assess risks more accurately, develop more efficient pricing models, improve our marketing of existing products and, crucially, use it to better understand clients' needs to create new, innovative products. Big data analytics may not be the core skill of insurance professionals so, instead of viewing insurtech firms as a threat, why not work with them for the benefit of our clients?

As well as developing new products, we need to make sure they can actually reach our clients; we need to get the distribution right. We can no longer rely solely on physical distribution networks taking our products closer to clients; we must ensure we make use of technology to get the products to clients in the way they want to receive them and at a price they are willing to pay; if a meercat can achieve this, so can we.

Exposed on price

Price is probably the area where the London market is most exposed to the risk of disruption. With a significantly higher expense ratio than other international markets (9% higher in 2013), we need to find ways to reduce costs to the client. We must challenge the delineation of the traditional insurance value chain rather than be blinkered by the knowledge it has worked in the past. If we do not find more efficient ways of getting the product to the client, someone else will.

So the race is on and, while we have a 325-year head start, there is no guarantee the London market will cross the finish line first. However, in an industry that relies heavily on specialist knowledge and expertise, perhaps the "fail fast and move on" culture of tech companies will work to our advantage. If we put our collective best foot forward, using our talent and proven ability to innovate to improve our offering to clients while maintaining a keen focus on data, distribution and delineation, I am confident we can not only defend ourselves against the threat of disruption but also bring this fantastic institution into the 21st century. ■

David Howden is chief executive of Hyperion

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Innovation can answer the biggest questions the industry faces

Keeping insurance relevant to clients and making it an attractive career will test our ability to adapt

Andrew McMellin
XL Catlin

The UK's economic performance in the last quarter of 2015 was encouraging, if not mixed. Output increased in two of the main industrial groupings – namely services and agriculture, which increased by 0.7% and 0.6% respectively – while construction output decreased 0.1%.

As we know, innovation is a key driver to economic prosperity. Last month Innovate UK, a non-departmental public body, announced it will be investing £561m in innovation projects with UK companies over the next year. Its chief executive said: "To be globally competitive the UK must innovate and grow. Innovation is responsible for 50% of all productivity growth." I understand the initiative will be focusing heavily on SMEs, which in 2014 employed more than 60% of the UK workforce, bringing £1.647trn into the UK economy and representing a significant percentage of insurance buyers.

Innovation imperative

So innovation is happening and there is considerable investment to support it. We in the insurance industry have witnessed clients making huge strides in innovation, not just in terms of their products and services, but also their business models – disruption is the buzzword of the day.

In the UK and worldwide, never has the imperative been so strong for insurers to look at their existing solutions and products to ensure they are meeting the changing needs of our client base; they are busy innovating and so must we be, if we want to continue to be regarded as a relevant partner.

If we take GDP as an indicator of our relevance, we see between 2002 and 2011 global GDP grew about 3.8% a year but our industry's growth over that period was 2.5%. Additionally, premiums in property/casualty during the period went from around $1.1trn to $2trn, so the reality is we have gone from global economic activity of 3.4% to 2.8%. The point is, we need to reinforce and demonstrate the relevance of our products and quality of our service if we are to survive.

When we consider the changing nature of risk, cyber exposures are at the fore and the potential for huge systemic risk is one issue the insurance industry has been grappling with in recent years. Cyber is one of the most significant risks facing businesses, as risk managers will testify. In the UK, 81% of large businesses and 60% of small businesses suffered a cyber security breach in 2014, according to the UK's Department for Business, Innovation & Skills.

28%
More than a quarter of graduates say innovation and creativity is their top career goal

In the US, cyber products and purchasing has been driven by notification reporting legislation, as is well established. This has not been the case in other parts of the world. However, on April 14 the European parliament voted through new rules aimed at increasing privacy and giving authorities greater powers to take action against companies that breach them.

This is likely to result in greater awareness and demand for cyber coverage. In the UK there is a huge opportunity for the London market to drive the innovation required, as last year's report by the government and Marsh (UK cyber security: the role of insurance in managing and mitigating the risk) highlighted: "Cyber security is not just a question of threats – it also represents an opportunity for the UK. The UK has world-leading cyber security expertise and cyber security services."

The report, to which XL Catlin contributed, included some important messages, namely that businesses need to properly understand and put a value on their cyber exposures, the importance of risk management arrangements and the role and opportunity for the insurance market to lead thinking.

Graduate challenge

Today's challenge is to make sure the product is relevant and sustainable. Being challenged is not a bad thing; in fact, many graduates often cite the need to be challenged at work as a key career goal.

If we look closer at what today's graduates want, a survey published in 2015 by the Bright Network revealed 28% of graduates from the UK's top universities said innovation and creativity was their top career goal. Attracting this talent must remain a priority for the industry; we need to do a better job of selling insurance as an industry in which to build a career because a diverse workforce, with a blend of skills, experience and mindsets, fuels innovation.

I think we are moving in the right direction – the success of last year's Dive In Festival and the programme for this year shows real commitment to becoming more diverse.

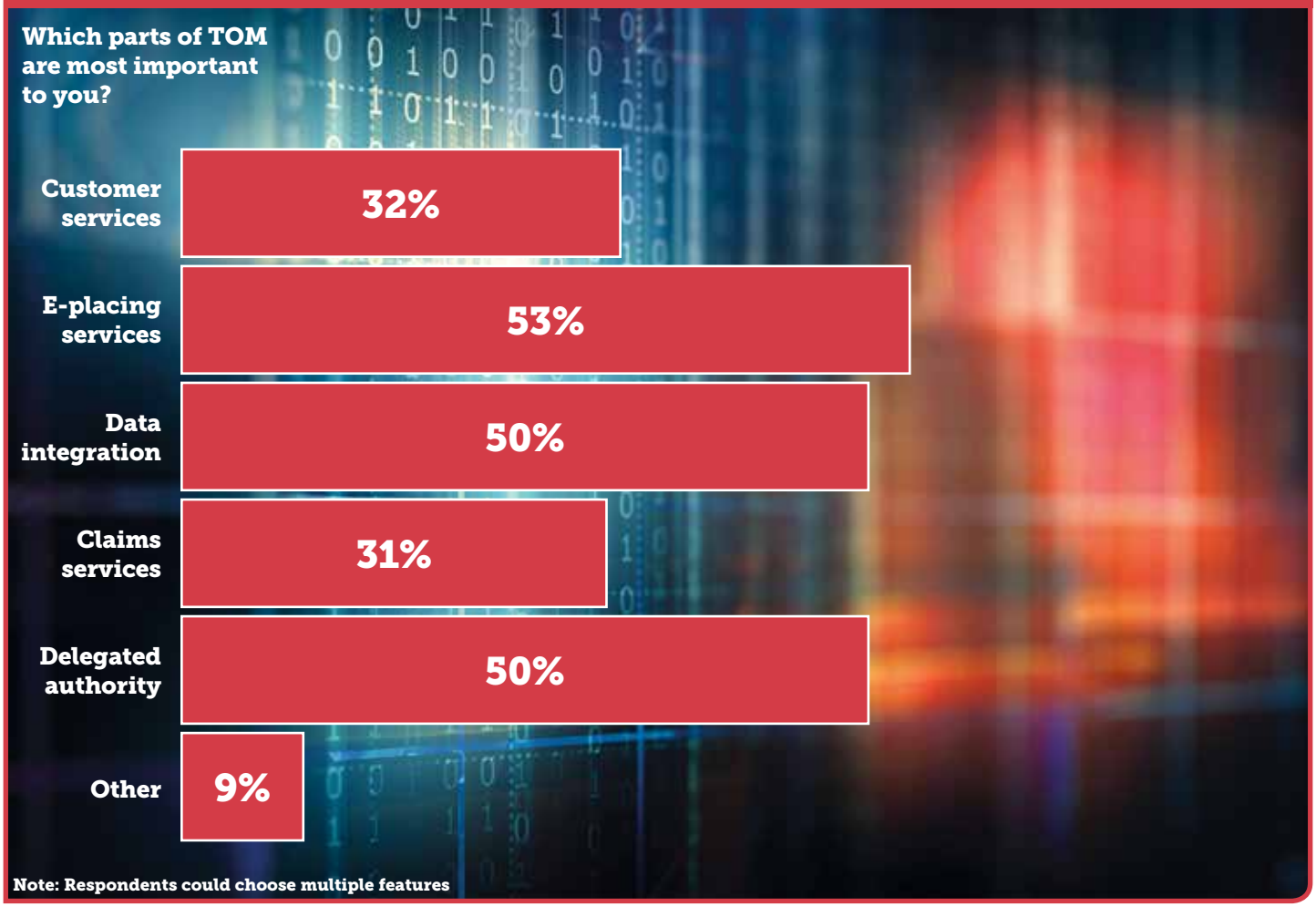
Today, the need to bring greater diversity to the industry is matched by the need for modernisation and we must keep enthused in spite of past failures – the success of these projects, namely the London market Target Operating Model, will in many respects be defined by market collaboration. This is also the case with Placing Platform Limited and the Central Services Refresh Programme.

The pursuit of efficiencies and automation is critical if we are going to succeed in a market with challenging growth prospects and increased competition.

While these initiatives are hugely important, we must also focus on attracting and developing our talent. Not doing these things in tandem is not an option if we want to ensure the long-term sustainability of the market. It is now or never. ■

Andrew McMellin is UK and Ireland chief executive of XL Catlin

Graph 12



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Technology

A core component of the London Market Group's modernisation agenda is the Target Operating Model, more commonly known as TOM. The model was announced in the first half of 2015 and aims to increase the ease of doing business in London through electronic data capture for placing, signing, closing, claims and renewals. A notable development in recent weeks – particularly impacting the way in which brokers do business – was the launch of an electronic placing platform called Placing Platform Limited (PPL), which is considered to be a crucial step of the TOM programme, allowing brokers and insurers to quote, negotiate and bind business electronically.

We asked participants in the survey for their opinion of the TOM, which provided a mixed response. Overall, there is a mutual recognition the programme needed to happen, with one respondent summing it up in one word: "Vital." However, there was also some criticism of the way in which the project has been communicated to the market, in addition to a worry the steering board does not have sufficient representation from the smaller players in the market.

One respondent went as far to say there are "too many egos" involved. Another respondent said: "I think it's a good idea in principle but I'm not sure how they're going to get the whole market to buy in to it… and I also think the relationships need to be managed better to stop people from getting frustrated with the changing scope of the project (which is to be expected but perhaps not well communicated)." The other train of thought is that it is all a little too expensive, too slow and too late.

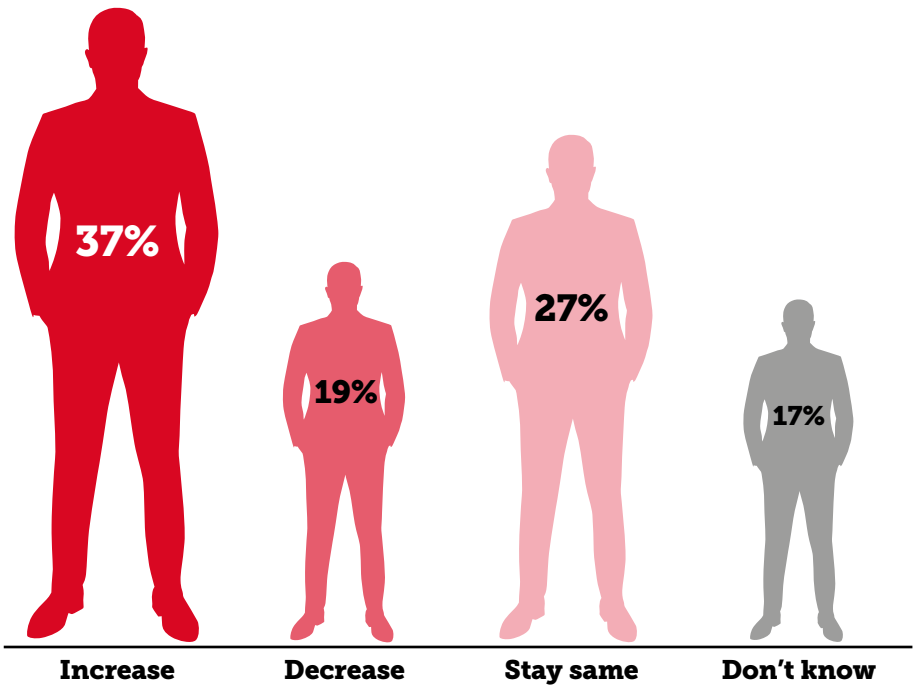
However, most had an opinion on what elements of the TOM were important to them. Allowed to choose more than one option, the majority (53%) said the e-placing services were most important to their business. This was jointly followed by data integration and delegated authority (50%) and then customer services and claims services (**graph 12**).

Continued on p14 >>

> **"I think [TOM] is a good idea in principle but I'm not sure how they're going to get the whole market to buy in to it… and I also think the relationships need to be managed better to stop people from getting frustrated with the changing scope of the project"**

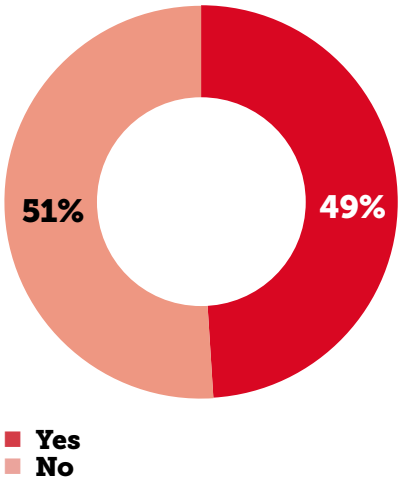
Graph 13

Do you expect to increase or decrease your headcount over the next 1-3 years?



Graph 14

Do you see recruitment becoming more difficult over the next 1-3 years?



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The talent challenge

Talent is another area on which the market is focusing a lot of effort, in light of concern about the lack of a future talent pool and skill-sets required to maintain London's reputation as a centre of excellence. We asked respondents if they expected to increase or decrease headcounts over the next one to three years. Sixty-four percent of respondents said they would be looking to either increase their headcount or keep it the same. Out of this 64%, the majority (37%) said it would increase (**graph 13**). Looking at locations where businesses would like to increase their headcounts, most respondents highlighted the UK (including London) and Asia.

However, recruitment was seen as a challenge by nearly half of the survey participants, with 49% saying they expect recruitment to be more difficult over the next one to three years. The remainder said it would not be (**graph 14**). Additional comments in response to this question suggested the difficulties would centre on struggling to attract the right talent and limited experience. One respondent said: "Ageing talent has not been effectively replaced and there are new risks that few understand. Securing talent in a competitive market will therefore be more difficult." Another said: "Unless we can create a compelling and attractive proposition to younger people and, more importantly, change to be more progressive and innovative, what are we doing?"

However, several respondents consider there to be a lot of opportunity as a result of M&A deals, going as far to say that supply will exceed demand. One respondent said: "There may be redundancies from the merger and the need to reduce costs will mean movement in the market, and reduced headcount for some brokers, increasing the offer (not the demand)."

In terms of whether respondents felt their businesses lacked people with the appropriate skill-sets and expertise, this was very much determined by the size and capabilities of each respondent's business. However, a theme emerged with regards to technological skills, claims, commercial awareness and regulation. ■

Survey methodology: all data taken from a snapshot survey, which takes into consideration 43 responses from more than 100 participants.