Autumn 2018

Inside FAC

MONTE CARLO ROUNDTABLE 2018

Turning the tables

D&F is as challenging a class to write as ever, but cedant appetite is turning back to fac

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Fac is back

It seems like every year we predict that fac is on the up, after languishing in the doldrums for years on end. But the reality is, of course, a little more nuanced.

Carriers purchase fac for a variety of reasons. As one of the brokers at this year's *Inside FAC* Monte Carlo roundtable summarised it: "The three key drivers for people buying fac are: taking away some of their aggregate cat accumulations; protecting their net retentions; or using fac as a tool for leading or getting bigger shares of programmes."

Spot fac still has its place. As another participant noted, cat events in 2017 and beyond have landed cedants with an increasing amount of per-risk losses, and fac has always been an effective, albeit short-term, solution for volatility protection.

And let's face it, while arbitrage is something of a dirty word, that brokers use in private but harrumph about when it's mentioned in public, fac is a useful lever for carriers who are looking to lead a slip or hoping to get a bigger chunk of a programme.

But it's clear that glib references to the 'strategic' use of fac are more than just a buzzword. Fac has held its own as a part of the hybrid solutions that combine different forms of reinsurance capital.

Look no further than Lloyd's for evidence of the increasing utility of fac, as syndicates engage in a significant amount of re-underwriting, looking to de-risk troubled portolios and shift capacity to more attractive risks.

Ironically, some of the de-risking has involved D&F itself, indicating the challenges still facing the sector.

But while our roundtable participants seem to agree that fac volumes are up, there's no one single factor driving that. Yes, there's a bit of rate. Yes, there are bigger limits being bought. But overall, submissions aren't up in any meaningful way.

What is shifting, it seems, is the perception of fac. Rather than being viewed as treaty's disreputable sibling – a rather shameful family secret that nobody likes to admit to – it seems that fac is increasingly being invited to family gatherings. We all know major cedants still use fac with impunity when it suits their need – they just don't like to admit it.

Brokers may have increasingly moved away from spot fac transactions towards facilities and hybrid solutions, and carriers may have ramped up their programme business to reduce their reliance on large single-risk placements, but the growing perception is that fac is simply another tool in the general reinsurance kit.

Brokers facilities might not be to everyone's taste, and in the view of some participants, they are very much a cyclical thing. But their utility as halfway house between treaty and fac is undeniable. What will be interesting to watch is if, in the current regulatory environment, they retain their appeal.

If I were to sum up the conclusions of this meeting – and the outlook for fac in the quarters ahead – it would again be in the words of one of the brokers present: "There is more positive noise around fac which is driving opportunity".

Hallelujah to that!

Gavin Bradshaw
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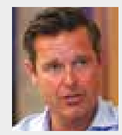

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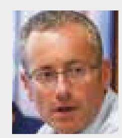

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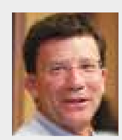

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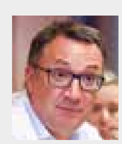

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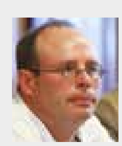

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Monte Carlo
Roundtable 2018

Marcus Alcock
Welcome to the 2018 *Inside FAC* Monte Carlo Roundtable. Let's kick off with your thoughts about some of the key drivers for fac purchasing over the past 12 months.

Markus Bassler
What we have seen frequently from the multinational insurance companies, but also from the Lloyd's syndicates, is that recent results have been driven by cat events and also by the increasing amount of per-risk losses. There is a significant amount of re-underwriting, which has driven the demand for buying more facultative business. Secondly, we've also been seeing top-line growth pressure, which has created additional demand for facultative coverages.

Beat Strebel
The word of the year is "de-risking". De-risking portfolios, for exactly the reason that Markus has mentioned, on top of all the other motivations, leads to the buying of fac.

Joaquin Orejas
Rate, or lack of rate perhaps, has also driven some of the purchasing. There isn't enough margin in the books to cover attrition and large loss for many cedants. So, regardless of whether fac pricing is competitive or not, its value is driven by the fact that it enables companies to protect their net retention from larger or medium-sized losses. It's net purchasing protection that matters.

Dom Tobey
There are generally two dynamics, one is cyclical and one is a short-term reaction to events. On the cyclical one, I agree with Joaquin – it's due to the continued soft market that's motivating people to de-risk.

Bernard Ray
From our regional point of view, we've continued to buy fac on the basis of capacity building and volatility protection, but there's no doubt over the last nine months or so, certainly post the events that we talked about sitting here last year, the focus by treaty participants on the bottom line has forced a lot of companies into buying more fac to look at the volatility protection.

Henry Lawrence
Leverage and scale in local markets is still a key driver of facultative purchases across our book. As such, we're seeing increased volumes emanating from indigenous markets. Continued attempts to reduce portfolio volatility, combined with arbitrage opportunities in the post-HIM environment are also driving volume – especially as some of the optimism around rates post storms has dissipated. In general, fac continues to be widely used as we go through the cycle as an efficient and surgical alternative to fixed protections for managing an insurer portfolio.

Vanessa Macdonald-Smith
If you ask the question of whether we have seen a change in the buying of fac over the last 12 months I would say probably not – it's about the same as it was last year. The three key drivers for people buying fac are: taking away some of their aggregate cat accumulations; protecting their net retentions; or using fac as a tool for leading or getting bigger shares of programmes. None of these reasons has changed – particularly where the current original pricing levels can't provide for both attritional and large losses.

Marcus Alcock
Has there been a resurgence in fac in terms of submissions and premium volume?

Michael Papworth
I agree with Vanessa that there hasn't been a massive shift from last year to this one, but what we are seeing is just a reaffirmation that we had about 10 years ago when fac was almost a dirty word. People have seen that it's actually a very effective tool to cover everything we've just been talking about. In terms of volume, you guys have a wider distribution network than us, but we don't think there's been a massive upsurge in submissions; it's simply being used as an additional tool chest, so the number of submissions is roughly the same.

Igor Best-Devereux
The global participation on our platform gives us a broad view across the market and we're not seeing a huge increase in numbers of submissions, but we are seeing an increase in premium. It seems to reflect a repositioning of fac in many cases. The average transaction size is going up more than we'd expect to see from rate increases. There's certainly been growth in the market – our volume of fac as measured by premium is up, year on year, 13 percent.

Beat Strebel
That is consistent with what we see. We have had a very similar number of submissions, from January to August both this year and last year. However, the portfolio is growing close to 10 percent so it's the average size of the transaction that's increased. I believe it's a combination of different structures, different kinds of deals, a bit of higher rates in some areas and larger capacities.

Henry Lawrence
I don't see it as resurgence because I'm not entirely sure the use of fac has structurally diminished. I do sense, though, that there is more positive noise around fac which is driving opportunity. In terms of premium volume, we are certainly growing with the value of individual transactions increasing as they become more sophisticated. There is also some element of positive rate movement on overall premium.

Dom Tobey
I see it as an uptick but it's an uptick driven by a little bit of rate and a little bit of demand; when you combine the two, you probably get to 10 percent, so that's pretty good. Having said that, we have managed to grow over 100 percent during the past year.

Joaquin Orejas
Submissions for us are up noticeably but I agree, it's not that everybody is out buying a lot more. There are maybe a handful of cedants who are out buying consistently more and then a small number of them marginally up.

Vanessa Macdonald-Smith
We're still suffering from the fact that there's too much capacity in the market. There are a number of cases where people buy fac to have an increased line or to protect the book and then they unfortunately get signed back or they get left off due to surplus capacity. We're seeing a lot of that going on.

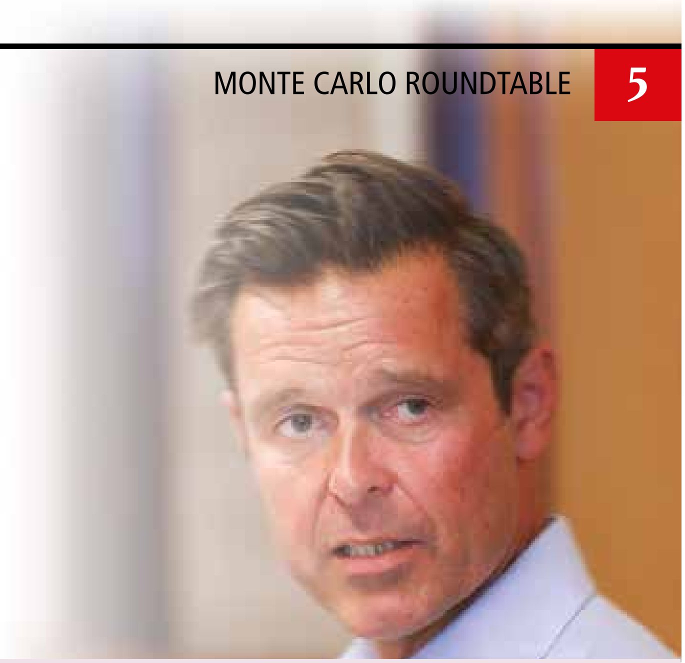
Markus Bassler
Mirroring what Beat said earlier, it's partially because of the de-risking that people are doing and re-underwriting of the book following the losses that they had. And they are buying more strategically and are looking into spot fac here and there, where they saw they had the biggest problems. That drove all the demand forward for the fac that we see in our book.

Marcus Alcock
On the broker side, it seems that fac facilities continue to be in vogue. How long will the fashion last and are carriers seeing lasting value from facilities?

Vanessa Macdonald-Smith
It follows straight on from what Henry said about Willis Re and treaty people saying that fac is in vogue again. We have a very close relationship at JLT between the fac and the treaty side and what we're seeing is that if insurers are struggling with their treaty placements either due to not as much use of treaty layers as they had before, or the feeling that they're not going to make their minimum deposits, they are using fac placements or fac facilities for these treaty layers instead. We're not trying to eat treaty's cake, but it makes sense to use fac in the circumstances outlined. If it turns out that there's a much bigger use of that fac facility, you just turn it back into a treaty and both the JLT clients are happy, as are our treaty colleagues.

Markus Bassler
Facilities come and go – they are the flavour of the day and then nobody likes them anymore, so it's very cyclical. At the same time, broker facilities might change over time when we bring a little bit more technology into the game. There's a lot of talk about blockchain and how we use that to reduce the value chain or make it more efficient.

By bundling business and packaging risks, it is certainly more efficient. How we handle it today is probably not the most efficient way because then we have a brokerage of a brokerage of a brokerage and that doesn't really help ultimately.



"I don't see it as resurgence because I'm not entirely sure the use of fac has structurally diminished. I do sense, though, that there is more positive noise around fac which is driving opportunity"

Henry Lawrence

Dom Tobey
If you look at the spectrum between fac and treaty, fac is for very specific purposes but the least efficient from an expense and processing point of view and treaty is the opposite extreme. I see broker facilities as closer to the treaty side in those dynamics. It's more efficient than individual fac but not quite as efficient as a quota share treaty. But there's always a competition between the quota share treaties and broker facilities. If the market is softening, the quota share treaties will become less efficient, because the ceding commission goes up, and that makes the broker facilities more attractive.

Igor Best-Devereux
I agree, but you can't look at efficiency just in the historical context. We've seen significant growth in the use of our automated rating module for facilities and I know that other tools like Swiss Re's Swift Re and Gen Re's Connect products are proving to be viable alternatives to treaties. Automation is going to be a key factor for efficiency.

Michael Papworth
The broker fac facilities can be pretty technical in that one thing we are very good at as fac brokers is risk assessment on behalf of clients. We are able to go into far more granularity about the risk exposure and therefore they're more cost-effective for the buyer.

The counter-argument from capacity providers is that you're cheapening the market by lowering the rate. But my argument is that when we analyse all these risks individually, work out the premium and bundle it, it's less than the whole view that a treaty would take. For the treaty guys, if it goes beyond the minimum rate on line they're not interested. I don't really care about the minimum rate on line. The client is interested in paying for only the capacity he needs. With the treaty you have to pay up front; with these you can pay as you go.

"The US fac market is a fraction of what it used to be because more of the business has been written as co-insurance in a shared and layered insurance market"

Dom Tobey

Dom Tobey
That is consistent with what I was saying, in that there's a competition between the quota share treaties and a broker facility and if the ceding commission or the other terms of the quota share treaty become less attractive, the broker facility becomes relatively more attractive.

Michael Papworth
But with the quota share you've made a commitment to always cede that premium. But with the fac, you can stop buying it. Rates go to a position, or your capacity, your capital goes up, and you start retaining less.

Igor Best-Devereux
So really more treaties should be converted to fac.

Michael Papworth
No, I'm agnostic – but it's really about efficiency. Increasingly, the buyers are not looking for treaty or fac, they're looking for a solution.

Igor Best-Devereux
That's a good point. Historically, we ended up with treaty and facultative markets partly because on the treaty side you couldn't underwrite the individual risks in anything like real time. You'd put a whole bunch of these risks in the bucket and call it good because of belief in the law of large numbers. Now we have the computational power to consider the individual risks in a more granular fashion. Rather than switching from treaty to fac and back again depending on market conditions, the solution becomes more like a facility.

Vanessa Macdonald-Smith
Let's face it, most clients want the treaty at the fac cost!

Joaquin Orejas
A facility might be efficient in terms of speed and the cost of placement, but is it efficient when defined as value in terms of recoveries versus spend? Maybe or maybe not. As for value in terms of risk conversations, coverage and a feel for market dynamics, I don't believe facilities are the right tool to achieve any of the things the fac market can deliver.

Beat Strebel
Our appetite for facilities depends on two dimensions. Firstly, is it strategic or opportunistic? The ones that come and go, which are mostly a soft market tool, we try to avoid. The ones that are more strategic, in the sense of value-adding, sustainable, creating efficiency for the various parties – that's where we want to play.

And the second dimension is whether it is a broker facility for ceding companies or multi-ceding companies – direct or via brokers? That gives us quite a different focus. The main challenge we have seen with broker facilities over the last couple of years have been the total deductions. It's not really from an expected loss perspective – it's the total deductions that often make it unattractive for us.

Henry Lawrence
The definition of value in a reinsurance contract is always an interesting point. In my experience, value is often perceived solely as a function of the recovery rate under the contract which ignores many of the other benefits from the use of fac facilities. For example, advanced analytical capabilities in the fac space can significantly enhance the value of facility transactions. We transact a number of facilities based around 'sub-portfolios' where the source data is almost always a bulk coded EDM – which in many cases is miscoded, incomplete or has not correctly recorded direct policy conditions.
The use of analytics to digest large quantities of data and build bespoke facility data files can drive real efficiencies in generated pricing and structure in these scenarios.

Marcus Alcock
OK, moving on. Hiscox CEO Bronek Masojada recently said broker commissions were a core cost base for the market to address, and carriers must be willing to have conversations with intermediaries about 'the direction of travel'. Is the fac market travelling in the right direction?

Dom Tobey
I see signs that the fac market is moving in the right direction, but not necessarily for everyone. There is obviously overall cost pressure on the whole business, driven by competition and automation. You can see at a macro level some of the shifts over the last 10-20 years. For example, the US fac market is a fraction of what it used to be because more of the business has been written as co-insurance in a shared and layered insurance market. Another example is the international London property market, where business is increasingly staying in the regions; the reason for that is the cost of the additional brokerage involved in both London and facultative reinsurance.

Michael Papworth
The Hiscox statement was somewhat political – as was that of Chubb who followed. Now we have this FCA wholesale review of the London market looking at acquisition costs and whether the big three brokers have so much power that they are becoming uncompetitive. The question of whether you're taking double or triple commissions on both the front-end

and back-end was a specific review on fac efficiency and "know your client" issues.

But the one they're really going for is the contingent commission side where you're getting your normal transaction commission, be it fac or direct, but also then taking these extra fees from the market – which is now a significant part of their revenue. So that's an attack on the market as a whole.

Bernard Ray

Clearly, expenses are a thing on the table for everybody. But this issue of the tied business – which is the term that they use for it in the FCA investigation – is a global issue, it's not just limited to the London market. If you are tied in on a reinsurance deal because the retail broker has the original client and it's taken out of your hands as to how the deal is going to be structured, the original cost to the original insured no longer is in your control as the cedant. It's of great concern in the South African market, so we are watching the London investigation carefully because it may have a knock-on effect.

Henry Lawrence

In my view, the synonymous use of the word 'client' between direct client, reinsurance client and retro client will be under some scrutiny. The outcome is difficult to predict although more definitive separation between retail activities and reinsurance activities would seem a natural outcome.

Michael Papworth

It's going to be more focused on the contingent commission side.

Marcus Alcock

The cost and potential benefits of fac have been subjected to a fairly rigorous analysis in recent years. Are we now a more efficient market than we were before this analysis?

Dom Tobey

Worldwide there is a gradual lowering of costs and therefore a more efficient market in fac. That's driven by an excess capacity situation that drives excessive competition and automation, which enables different parts of the value chain to become more efficient.

If you look at our markets, very often there are many potential capacity providers. More underwriters and especially more quoting markets generates a double-whammy for cost ratios: one, because the more independent underwriters, the more underwriting infrastructures and expense have to be covered by the market portfolio; and two, the more quoting markets, the lower the average premium as the lower cost quotes usually win.

As an alternative, partnering with a transparent, well-run MGA, you cut out a lot of that cost and the excessive competition by having one decision-maker and underwriting infrastructure that services multiple capacity providers.

Joaquin Orejas

I think the question is more about the recoveries issue – are we spending money and not getting enough recoveries versus the efficiency of the placement. If you take recoveries as a measure of efficiency, one of the issues we've had is we've gone through probably a 10-year period of fairly benign losses. If you look at a lot of the purchasing, you might think that's not efficient, so let's not buy it. But the last 18 months have actually turned some people around to thinking the smarter thing might be to buy, because whether it's our Colombian losses or ADNOC or any number of traditional fac risks, they have paid out.

Henry Lawrence

As previously stated, the cost/benefit analysis of fac has historically often been limited to the recovery rate only. Fac is often a tool without which the reinsured would not be able to participate in the original risk and this financial benefit is rarely captured on a systematic basis. In addition, it can provide an insurer scale in a particular market or product segment which can lead to substantial cross-sell opportunities with specific clients and greater leverage, both with individual clients and brokers. The positive effects of all of these elements are rarely measured in totality, in my view, and form an essential part of the holistic benefit of the transaction. In terms of increased efficiency of the market around the execution of the placement, we are travelling in the right direction, but there is clearly a long way to go and greater use of technology clearly has a significant role to play.

Igor Best-Devereux

A lot of the cost benefit is going to come back to efficient handling of the business via technology. Whether it's better data capture, analysis, reduced manual effort through e-placing and integration with downstream processes. Distribution cost continues to be a big factor and it's where technology will play a major role.

Markus Bassler

Another point we haven't talked about is contract certainty – it's still a driver. When you look at a facultative risk, it can take up to two-and-a-half to three months until you have

"Expenses are a thing on the table for everybody. But this issue of the tied business – the term that they use for it in the FCA investigation – is a global issue, it's not just limited to the London market"

Bernard Ray

a signed and stamped contract to send back to the client. That is a general issue. While we might get back to the client within 24-48 hours with a quote, it's what's behind that is often missing.

Marcus Alcock
Last year we heard about the generational change and the shortage of skills in the market. Have you seen anything being done to address this in the past year?

Markus Bassler
With 10 people sitting around the table, I see only one woman. So what about diversity? We don't have enough women. And when you look at the younger generations, they have a totally different perspective. They want to have career development after two or four years. This is where you then have a problem with keeping people motivated and happy. It is also a question for people like us, who are little bit more senior, to manage these expectations and build career plans.

Joaquin Orejas
I haven't seen anything being done about the skills shortage. In fact, it's the opposite, because as people are putting pressure on expenses, training is one of the first things to be cut – it's an easy target.

Beat Strebel
I would disagree. I don't think we have an issue today; it's more about when you picture it in the future, and what you believe is the profile of an underwriter in five years' time. Then I see big gaps and we need to invest in them today and develop the underwriting community of the future.

Igor Best-Devereux
With the increase in automation we've been talking about there will be fewer people employed in the market. But as a market, we can certainly be competitive for talent. I was speaking with one of our interns the other day and he said he's been amazed to see the potential opportunities in reinsurance. We do need to get that message out.

"Swiss Re's strategy is that we want to be a thought leader in cyber. We're investing in R&D. We are playing in the space, but cautiously"

Beat Strebel

Joaquin Orejas
And the skills will be different in future too. There will probably be fewer people like us – whether that's due to diversity or numbers or other issues. But there's another generational issue: if you go into the Lloyd's building, many of the people at the desk don't remember September 11. it's ancient history. Katrina is ancient history. And that is a challenge.

Dom Tobey
I remember a few years ago sitting in a forum in London and I think it was Les Allen who looked round the room and said: "I hardly see anybody without grey hair in this room." He was making the point that we don't have young up-and-coming people. And then just this week, I was in a conversation where some of my colleagues were saying the problem with Lloyd's is everybody is too young and they don't have the experience – they have no confidence that the right decisions are being made. So it's seemingly contradictory but the reason is the young up-and-comers are not getting as much development and training from us old guys as they used to.

Marcus Alcock
That presupposes there was a golden age of training and development.

Vanessa Macdonald-Smith
There was a lot more on-the-job training, though, in the past, in terms of senior underwriters and junior underwriters – as well as senior and junior brokers The market is now so entrenched in compliance and reporting and other factors that the senior underwriters are sitting in their offices writing report after report for Lloyd's or the FCA and it's the junior underwriters who are out there. They're not getting on-the-job training and probably aren't experienced enough in making effective underwriting decisions and interpreting the plethora of models and data that they have to review.

The second thing we need to concentrate on is having more millennials that we should train and invest in. The current problem is that we are investing in training them now, but we probably don't manage their expectations and ambitions as well as we should and they then decide that they are not progressing quickly enough and they move on.

Henry Lawrence
It is certainly true that there are a number of underwriters who have largely traded through a relatively benign post-KRW period. When combined with increasing reliance on model-based pricing, it is difficult to predict what effect this may have had on the ability to evaluate risk or 'experience based underwriting'.

Michael Papworth
There are also brokers who have never brokered increasing prices, so they go to the box and the underwriter says the price is going up and they say: "What do I do?" They had already told the client it was going to come down and of course it never came down, so the client management was very weak. As brokers, we messed up a bit there.

"People still need a feeling for numbers, you need to have the basic training, but we should also anticipate how future trends in technology will change the nature of jobs in our industry"

Markus Bassler

Henry Lawrence

In reality, our investment in technology is driving our need for a more technically enabled skills base.

This investment is heavily data- and analytics-focused and centred on automation around data-cleansing and model outputs, electronic trading and the ability to create more advanced reinsurance products and solutions. As a result, we need a new generation of 'analytical broker' that will embrace this technology and utilise it to meet their future aspirations and the needs of an evolving business.

The talent we are now acquiring is in a unique position as the first generation to grow up with advanced analytical tools which provide a unique and exciting opportunity for the right individuals.

Markus Bassler

We should also be careful not to assume that what we have learned and how we grew up is going to apply in the same way in the future. I remember one or two years ago, we had many conversations about a lack of understanding of wordings, especially among the younger generation. They sometimes seem not to have enough experience in understanding the true value of a certain clause or exclusion. However, coming back to Beat's point, maybe that's not necessary any more once we implement more AI-driven solutions.

When you look at Amazon, algorithms are running the world. When you have a machine that can apply wordings, why would you need somebody who is highly trained and paid in that field? People still need a feeling for numbers, you need to have the basic training, but we should also anticipate how future trends in technology will change the nature of jobs in our industry.

Beat Strebel

In the past, you had people serving the same markets and lines of business for 20-30 years. Nowadays they only stay on for five to eight years, but we see also that they grow much faster into their role. They learn fast, and we empower them – you don't have to do two years of admin and then maybe after five years you are given underwriting authority. We see people who after two years are already doing very good underwriting, and so you have a positive return on investment already after three years.

Marcus Alcock

Looking at emerging risks, is cyber still as much a concern in terms of non-physical BI damage as it was last year? Should we be scared?

Henry Lawrence

The opinion across the industry still appears to be that cyber, as a stand-alone coverage, is everything from a 'great opportunity' to 'uninsurable' and pretty much everything in between. Some of the substantial losses resulting from the inclusion of non-damage cyber coverage and resultant business interruption in property policies have clearly caused much greater scrutiny of this coverage – which, in many cases, was neither understood nor rated for. It seems likely that this form of cyber coverage at least might be restricted in the general property market. As a product, it will no doubt continue to evolve as knowledge of the risk becomes clearer and the ability to mitigate better understood.

Vanessa Macdonald-Smith

After some serious losses such as Petya and Wannacry last year, many insurers are totally reviewing how they give cyber coverage under general policy wordings

Joaquin Orejas

For me, the most worrying thing is ensuring clarity on whether a particular loss is coverable or not. The one thing we cannot afford to have is lack of clarity on whether there is (or is not) coverage. If one does not have certainty on what the insurance industry is providing, the client has no certainty of what they're buying.

We need to package a product that has a coverage, whether it is wider, narrower, cheaper, more expensive. I don't know how we aggregate it, but we have to move away from silent to a specific product.

Beat Strebel

In a Swiss Re Sigma publication from the 1960s, we wrote that hurricane is uninsurable! And yet, today it's quite commoditised. So while our first view on cyber is that it's uninsurable because of the uncertainties around the modelling and then the huge challenge in terms of accumulation risk, in the future it's going to be one of the main risks in our society and our economy and it is insurable.

Vanessa Macdonald-Smith

It is one of the main risks already!

Beat Strebel

Exactly – so we need to have solutions for that, although they're not going to be perfect. Swiss Re's strategy is that we want to be a thought leader in cyber. We're investing in R&D; we don't want to be overweight in exposure because of all the uncertainties. We are playing in the space, but cautiously. A few years ago, everybody was talking about cyber insurance but nobody was buying it, people are now buying, capacities are increasing – so, as an industry, we have to learn how to deal with it.

Bernard Ray
In terms of technological risk, cyber has been there all along. But from the reinsurers' point of view, it's still an emerging risk because we don't know enough about it. So, if your question is should you be scared, the answer is yes, be very scared. And maybe what Beat's doing is the way to get rid of that fear.

Igor Best-Devereux
Hurricane is more reasonable to cover than people thought it was in the 1960s because there are things you can do to help control that risk – better construction standards and so on. On the cyber side, over time there will be more tools to help rein in the risk and more that can be done technically to control it. It's not just about how you finance that risk, it's a full risk management package akin to boiler and machinery inspection and insurance from a past technology revolution.

Vanessa Macdonald-Smith
Or a broker that's developing bespoke cyber analytics as JLT Re is doing. Analytics is becoming much more sophisticated and we are seeing increasingly sophisticated and relevant tools being developed to deal with these critical exposures for our clients.

Bernard Ray
The Internet of Things is probably a bigger risk than pure cyber risk, however you want to define that. In preparing for this, I was reading an article titled, 'How my fridge closed down 100,000 websites'. I never thought about that before!

Vanessa Macdonald-Smith
One of the stats that we have outlined in our latest JLT Fac Market update – which includes two sections on cyber – is that globally cyber-crime is now estimated to cost businesses up to $400bn a year.

Marcus Alcock
What other emerging risks should we be embracing?

"Reinsurers may have figured out how to pay for [CBI], but reinsurers don't appear to have worked out how to price it or manage it"

Joaquin Orejas

Bernard Ray
I'm more worried about weather, to be honest. Some of the biggest weather events ever have all occurred in the last couple of years. Weather is something we deal with every single day and it's quite clear that the modelling that we have for weather events just isn't adequate to show us what's going to happen.

Igor Best-Devereux
Just look at California this year, with wildfires.

Beat Strebel
Wildfire is going to become a big topic north of the Alps, believe it or not.

Joaquin Orejas
The other one is CBI, which is still a challenge that needs to be figured out properly. Reinsurers may have figured out how to pay for it, but reinsurers don't appear to have worked out how to price it or manage it.

Vanessa Macdonald-Smith
Yes, I agree. If you look at the fire at the aluminium plant in Michigan recently and the knock-on effect that this had on many motor manufacturers in the USA, it has generated a potential loss of over $1bn that I'm quite sure whoever was writing any of the relevant policies had not priced for the relevant exposures or dependency.

Beat Strebel
Another risk, which might be quite impactful, is 3-D printing; that technology is going to massively change our lives as well. I've read a few reports about how in the Netherlands they're starting to print houses. Just thinking of all the implications and liabilities that might create, is also a bit scary.

Henry Lawrence
I tend to think about it more in terms of evolution of existing risk. Climate change is clearly a huge potential driver of exposure. Traditional modelling techniques, which are largely based on historical data, will have to evolve to capture the risks associated with a changing weather environment. The other huge issue in my view is the ability to understand, evaluate and aggregate risk in a more globally interconnected world – whether it's CBI through complex supply chains or 125 billion interconnected devices through the Internet of Things. Evaluation of risk in a rapidly changing world will only become more complex and mitigation techniques will need to evolve to keep up.

Vanessa Macdonald-Smith
The problem is that it is very difficult to price for and, frankly, in the current market climate, clients won't pay for it. You're absolutely right with the CBI risk because if we're in a soft market with an oversupply of capacity, you can assess it and try and charge for it as much as you like but the client will say thank you very much, Gen Re or whoever, I'm actually going to go and buy the combined All Risk policy from another carrier at a fraction of the cost you want to charge for this exposure.

Marcus Alcock
That's a good point to end on.