



Institute
and Faculty
of Actuaries

London Market Looks Ahead: Preparing for the Next Big Insurance Event

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Background

It is over fifteen years since 9/11, the last truly market-turning event.

Much has changed since then:

- Solvency II
- New regulators in the form of the PRA and FCA
- A new cadre of senior management

The three objectives of the dry run:

- **Support clients' best interests**
Pay claims quickly and fairly, and ensure cover continues to be offered
- **Maintain financial stability**
Ensure sufficient financial resources to provide for the normal operation of the London Market
- **Uphold the London Market's leading position and expertise in the global marketplace**

Contributors:



Notes:

- Participants were provided with up-front loss estimates (gross loss ratio impact)
- The capitalisation or health of participants' ultimate parent company was not tested
- Anonymity of insurers preserved by indexing to a base case in order to protect commercially sensitive information

Each event was designed to test participants in a different way



Week 1

'Halloween Blackout'

- \$45bn insured losses
- Cyber-attack on power infrastructure
- 93m people impacted across 15 US states



Week 1

Global equity crash

- 16.2% drop in global stocks
- 28.3% drop in (re)insurer shares



Week 2

'Hurricane Guy Fawkes'

- \$150bn insured losses
- Category 5 hurricane over Miami
- Wind, storm surge and flood damage

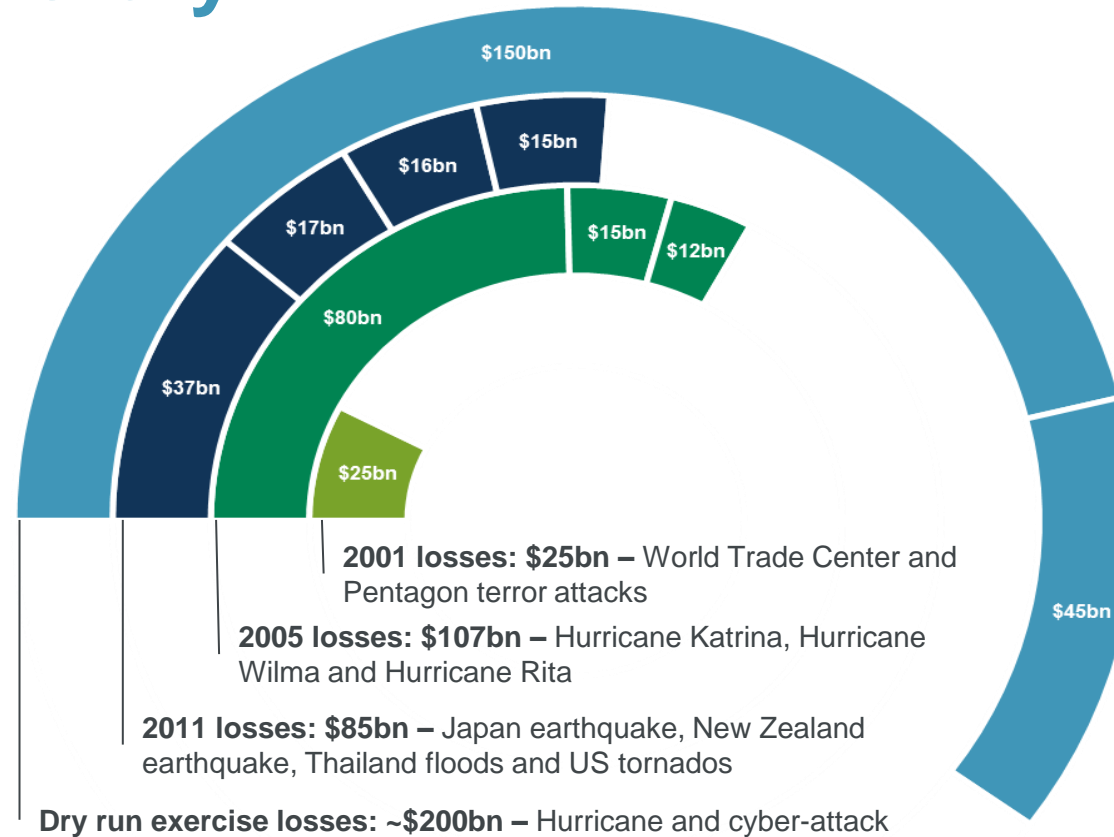


Week 2

Liquidity stress

- Major reinsurer(s) failure
- Delays in recoveries
- Limits on reinsurance capacity

At ~\$200bn, insured losses were among the largest in history

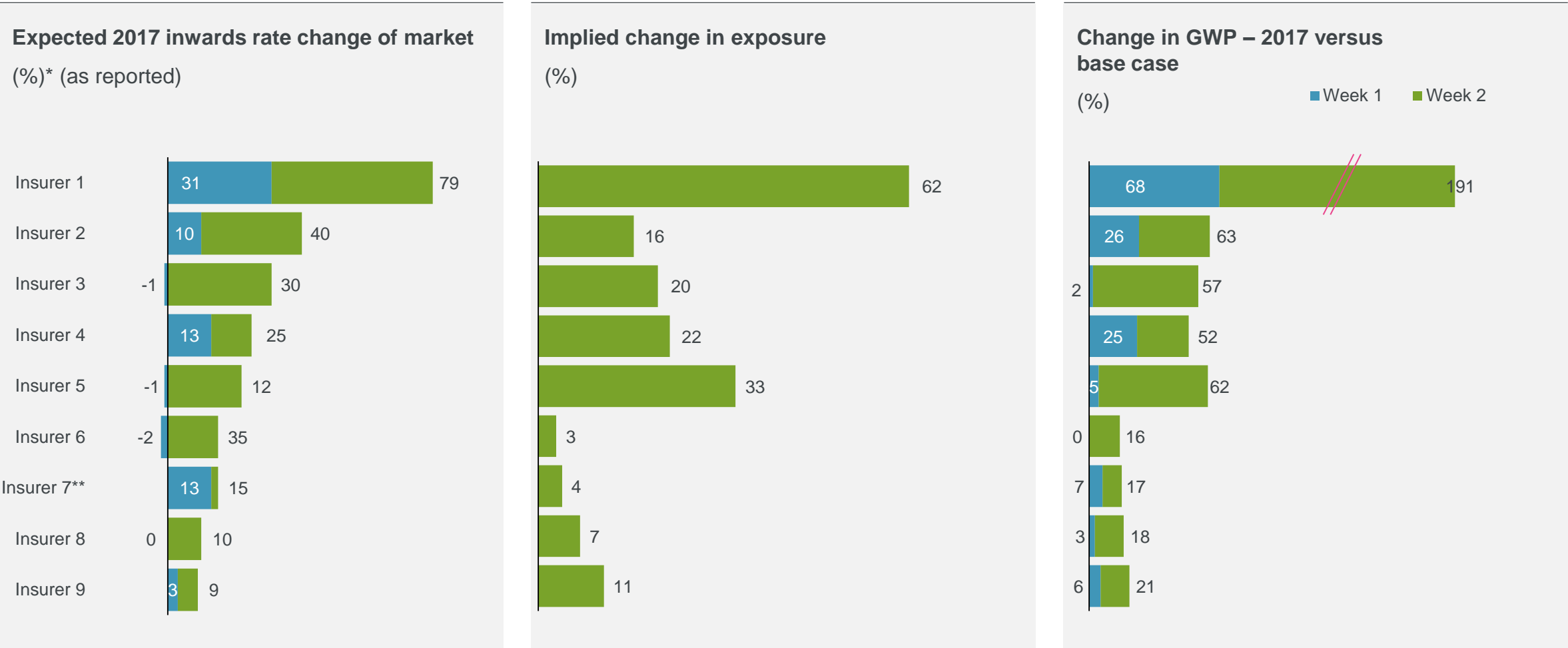


SCR coverage ratios changed significantly post-events

| | | Ending SCR Coverage Ratio for 2016 | | | |
|--------------------------------------|-------------------|------------------------------------|----------|----------|------------|
| | | Greater than 175% | 125-175% | 100-125% | Under 100% |
| Starting SCR Coverage Ratio for 2016 | Greater than 175% | 1 | 2 | - | - |
| | 125-175% | - | - | - | 1 |
| | 100-125% | - | 1 | 2 | - |
| | Under 100% | - | - | - | - |

- More than half the participants incurred losses of over 90% of their reported net capital base prior to the catastrophic events, with the biggest loss being 120%.
- All participants assumed that capital could be replenished quickly so that the impact on year-end SCR was mitigated.

Expectations on rate increases influenced participants' underwriting plans



*Rate change shown relates to expectations at highest level reported.

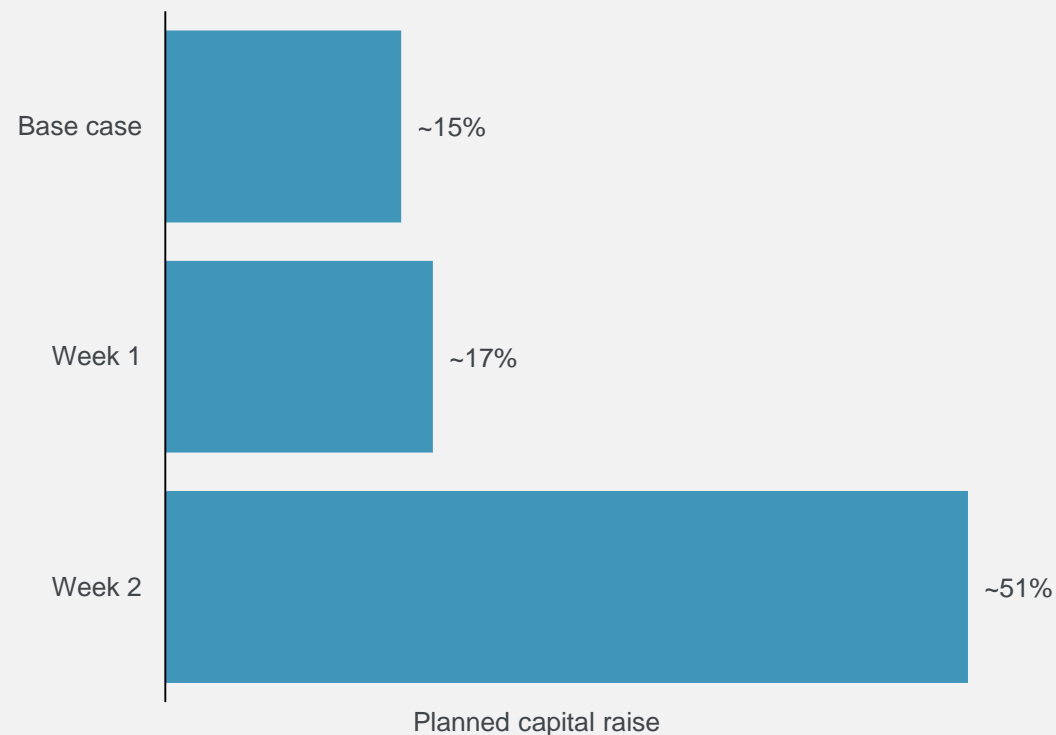
**Insurer 7's expected 2017 inwards rate change of market was 15% for Week 1 and 13% for Week 2.

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Additional capital requirements exceeded 50% of the opening net capital for participants in aggregate

Planned capital raise as a proportion of opening net capital

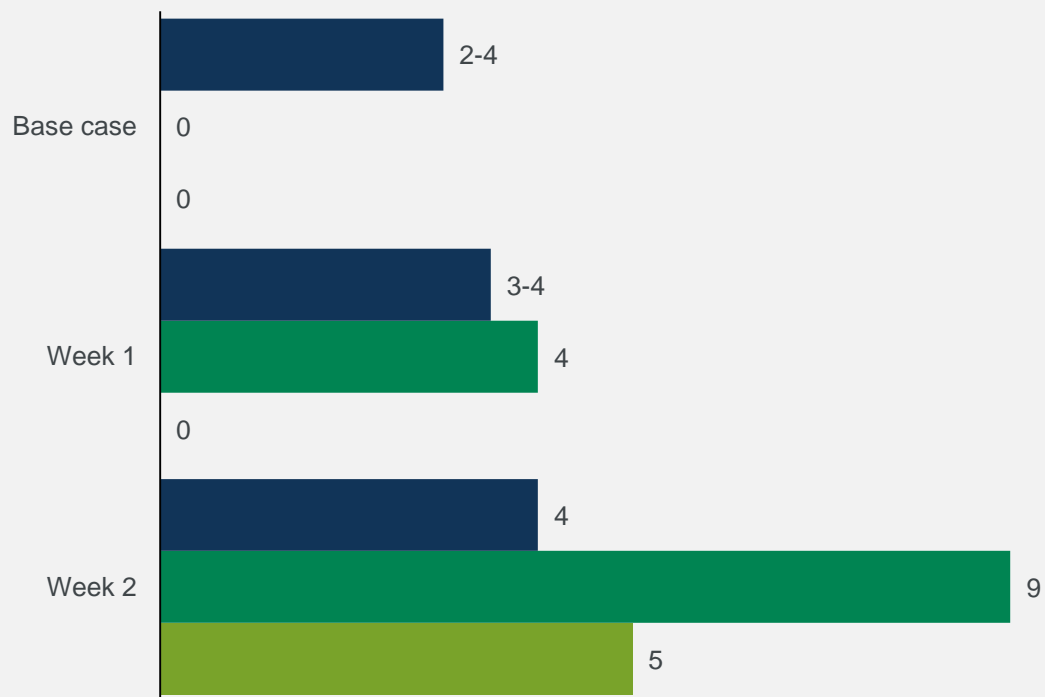
% of opening net capital



Uses of raised capital

Number of (re)insurers

■ Planned growth ■ Opportunistic growth ■ Replenishment



White Paper

Three recommendations for the industry

Ensure customers are well served by putting in place internal processes to respond effectively to market-turning events

- Establish crisis management training programmes
- Ensure that a robust and well-tested response is in place
- Maintain clear plans for raising additional capital following a market-turning event

Maintain the London Market's leading position and expertise in the global marketplace by strengthening Lloyd's position and proactive stakeholder interactions

- Further strengthen and differentiate Lloyd's position
- Navigate a broad set of key stakeholders to maintain confidence during times of dislocation

Collaborate with the PRA to clarify mutual expectations and ensure an effective post-catastrophe response

- PRA supervisory statement released in July this year which responded to the white paper and clarified expectations

<http://www.hiscoxgroup.com/london-market-looks-ahead>

Considerations for actuaries

- **Updating your capital model post-loss, how quickly can it be done?**
 - Estimating size of loss and payment pattern
 - Proxy tools combined with expert judgement to get quick initial estimates
 - Different models across different entities
 - Documented information flows helpful
- **Interactions with the regulators**
 - Expectations in post-SII world
 - How will Lloyd's deal with changes to the business plan?
- **Consider the customer**
 - How do we continue to operate?
 - Clients will need coverage the day after the event
- **Where will you find your additional capital?**
 - Relative competitiveness of the London Market
 - What happens if Lloyd's suffers a ratings downgrade?
- **How will you support senior management in making quick decisions?**
 - What information is important to them?
 - War Room

Pragmatic approach with
clear, timely and
consistent
communication with all
stakeholders

Questions

Comments

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