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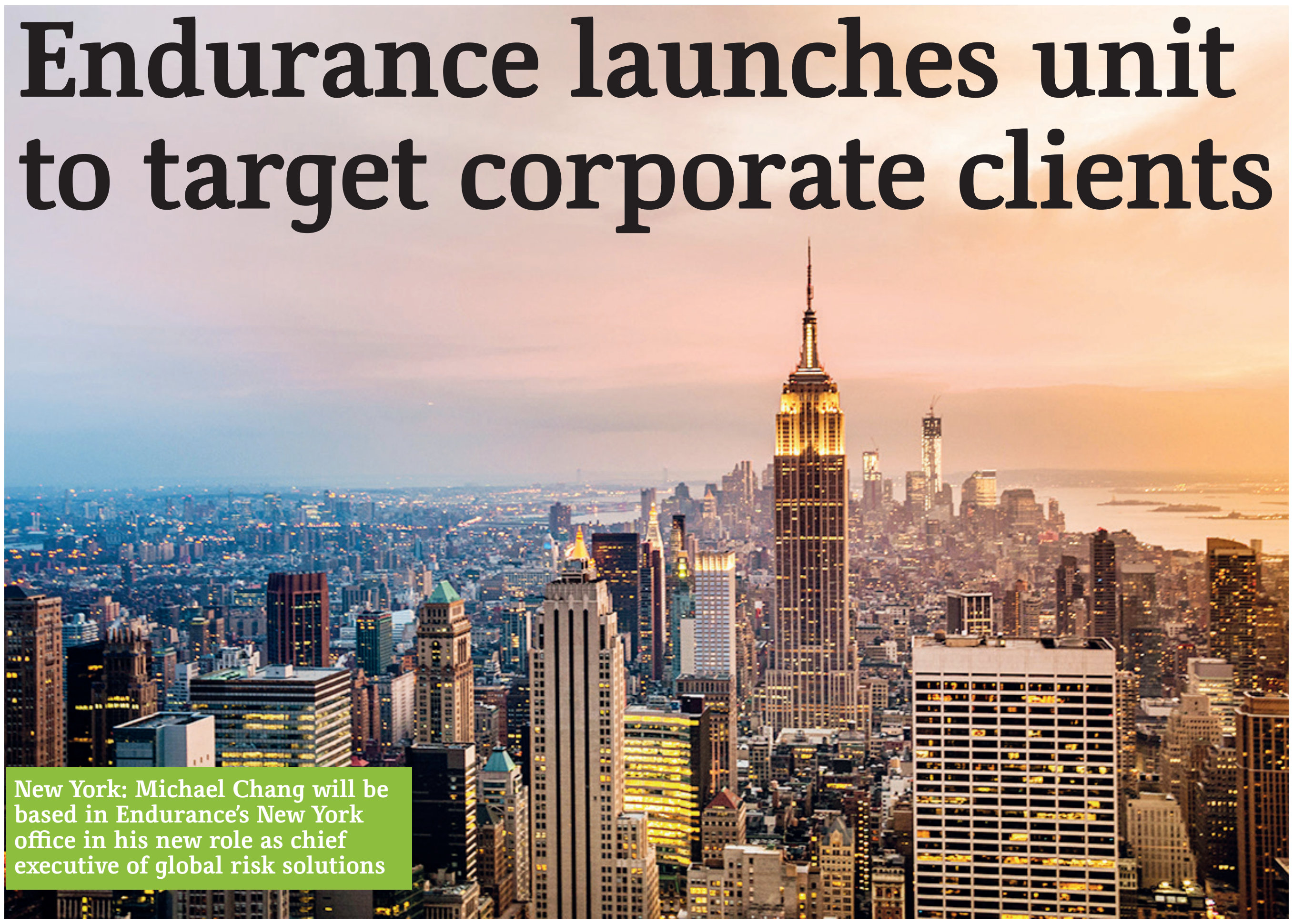

New York: Michael Chang will be based in Endurance's New York office in his new role as chief executive of global risk solutions

Hires former Chubb executive Michael Chang to lead unit

Michael Faulkner
Editor

Endurance Specialty Holdings has appointed former Chubb executive Michael Chang to lead a new business unit focusing on large corporate clients.

Chang will join the Bermuda-based specialty re/insurer on February 22 as chief executive of global risk solutions.

Endurance said Chang will be responsible for building a platform "targeting global industry vertical solutions for large account risk management clients".

Chang was most recently executive vice-president of the real estate and hospitality practice of Chubb. He joined Chubb in 1997 and has served in various management capacities.

> **"[Michael Chang is a] talented and innovative leader with a reputation for driving profitable growth"**
>
> **Jack Kuhn**
> **Endurance**

In his new role, Chang will report to Jack Kuhn, chief executive, global insurance, and will be based in Endurance's New York office.

Endurance, led by John Charman, has been building its insurance portfolio in recent years.

Last week the carrier reported gross written premiums in its insurance segment had grown 21.5% year-on-year in 2015 as a result of efforts to expand its global underwriting platform with new products and into new geographies.

Kuhn described Chang as a "talented and innovative leader with a reputation for driving profitable growth", who is "known for his ability to build and motivate high-performing teams".

He added: "The entire leadership team at Endurance is looking forward to working with [Chang] as we expand into this important segment of the global insurance marketplace."

BP Marsh plans further investments in year ahead

Insurance investment vehicle BP Marsh & Partners said it has a strong investment pipeline for the year ahead, having reviewed 71 new potential opportunities during the financial year, which ended on January 31, *writes Scott Vincent*.

In a statement to the London Stock Exchange, the group said it is working on a number of potential opportunities that fit with its business model and provide interesting opportunities for investment.

The company said it had £3.6m ($5.2m) in net cash available for new investment opportunities, with a further £7.3m in cash expected in July from the realisation of its remaining 1.6% stake in Hyperion.

In December, BP Marsh increased its shareholding in Nexus to 13.7% following an additional £1.5m investment, taking its total investment in the MGA to £4.6m. Its strategy is to increase its shareholding in Nexus over time to support its growth aspirations.

BP Marsh's portfolio also includes stakes in London broker Besso, UK financial adviser LEBC, Spanish broker Summa and South African firms Bastion and Bulwark.

Across the industry, BP Marsh said it expects further M&A activity in 2016 with organic growth remaining challenging, while technology continues to be an important consideration for the industry, with new innovations attempting to disrupt the status quo.

BP Marsh has declared a dividend of 3.42p for the year and will publish its full results in June.

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NEWS

Scor cuts marine and aviation book at 1/1

Reinsurers scale back exposure as pricing defies expectations

Michael Faulkner
Editor

French reinsurer Scor scaled back its marine and aviation business at January 1 as pricing continued to defy expectations, the group said yesterday.

The reinsurer also said Solvency II had led to increased demand for reinsurance.

The Paris-based group increased its gross premiums by 2% at the key renewal season, writing €3bn ($3.36bn) of business, on the back of growth in US property/casualty business and some specialty lines.

While the reinsurer said the reinsurance market showed some signs of levelling out for certain types of contracts and exposures, competition "regained momentum" at the very end of 2015 in marine and energy business, prompting the company to reduce its exposure to these classes.

Victor Peignet, chief executive of Scor Global P&C, described the continued softening rating environment in marine and energy business as "a mystery".

He told *Insurance Day* he was surprised the losses experienced in these lines have not had an impact on the market. Both markets have been hit by a spate of losses, such as the explosion at Tianjin that hit the marine market, yet primary rates have continued to fall.

"In aviation you would expect the losses to wake up the market. And in marine you would expect the accumulations to have an impact," Peignet said.

He said Scor had taken measures to reduce its portfolios in these lines.

Other reinsurers have scaled back their exposure to these classes. Last week Hannover Re said it reduced its aviation premium by nearly 18% and it marine business by 9%.

In contrast, reinsurance rates were levelling out in US catastrophe business and some non-proportional motor business, Peignet said.

In the US, capacity was starting to exit the market as years of rate decreases meant return hurdles were no longer being met.

Rate reductions on motor excess-of-loss programmes in France, Spain and the UK were also levelling out as a result of rising loss costs, for example as a result of periodical payment orders in the UK, Peignet said.

Across Scor's January 1 renewal book – which represented 68% of its total annual volume of treaty premiums – rates were down 1% on a risk-adjusted basis.

Scor said rate reductions were limited because of a high level of exposure to more resilient primary insurance markets through proportional business.

Proportional business represents 70% of Scor's treaty book, a weighting Peignet said would be maintained.

Scor said the growth of its January 1 portfolio was "sustainable" in spite of the pressures on prices worldwide.

The reinsurer said it had continued to find pockets of profitable new business, which more than outweighed increasingly selective underwriting and heightened portfolio management, with opportunities in the US offsetting reductions in shares and cancellations in both mature and emerging markets.

At January 1, property/casualty treaties gross premiums grow 2.4% to €2.14bn, with growth of 24% in the US more than offsetting reductions of 2% in Europe, the Middle East and Africa and Asia-Pacific regions.

Gross premiums for specialty premiums rose 0.9% to €880m.

Peignet said Solvency II had led to increased amounts of catastrophe reinsurance purchased.

He said insurers were now looking at reinsurance cover to protect 200-year return periods or longer rather than the shorter return periods they previously sought to protect. "Before [Solvency II] they bought reinsurance to protect earnings, now they want to use their capital in the best possible way," he said.

Scor said total gross premiums were expected to reach €6bn in its global property/casualty business.

The expected technical profitability remained "quasi-stable" compared to January 2015. The overall gross underwriting ratio increased 0.3 percentage points, mainly because of non-proportional business, while the overall gross loss ratio fell slightly, it said.

Scor expects to deliver a net combined ratio of 94% for the year, based on normal loss experience.

Peignet said: "In view of the difficult business environment in which we operate, this is yet another renewal season that can be considered a success.

"Despite the headwinds in front of us, this is a good start to the year and gives us confidence in our ability to maintain profitability on target for 2016," he added.

Last week Hannover Re said it renewed premium of €4.36bn at January 1, down 1.5% on last year's renewals. Munich Re said it increased its January 1 book by 0.7% to around €9.2bn. Prices fell by around 1%.

Standard syndicate to write general casualty in 2017

The Standard Club's syndicate 1884 plans to enter the general casualty market in 2017 as it continues its strategy to grow by adding lines of business, *Insurance Day* can reveal, *writes Sophie Roberts*.

The syndicate, which began writing business on April 1, 2015, was established by protection and indemnity club the Standard Club.

Robert Dorey, active underwriter of the Standard syndicate, told *Insurance Day* the syndicate's growth strategy is closely aligned with the needs of the members of the club.

"We asked the board of the club what they spent on insurance, what covers they were getting and where it was placed and then we extrapolated that information from the whole of the membership of the club," Dorey said.

In total, members of the club spent approximately £2.7bn on insurance in a year – £1.5bn of that outside of Lloyd's and £1.2bn, within Lloyd's.

"They spent it on marine, energy, cargo, property, D&O, E&O, political risks and general casualty and with that information, we have our growth plan," he said.

This follows the syndicate's announcement towards the end of last year that it would be entering the political risk and terrorism market in 2016.

"Additionally, we're looking to recruit a specie underwriter and will break out the specie sub-class from the cargo class," he added, "to broaden the depth and quality of our class offerings."

The Standard syndicate has a 10-seat box, but has applied for additional boxes to facilitate its 12-strong and growing number of underwriters. Three of those underwriters, including Dorey, have moved over from the club to bridge further opportunity.

"We see a number of cross fertilisation opportunities between the club and the syndicate at Lloyd's," said Dorey. "We see it as being able to export some of the best bits of the club into Lloyd's and equally some of the best bits of Lloyd's into the club. We want both platforms to benefit from each other."

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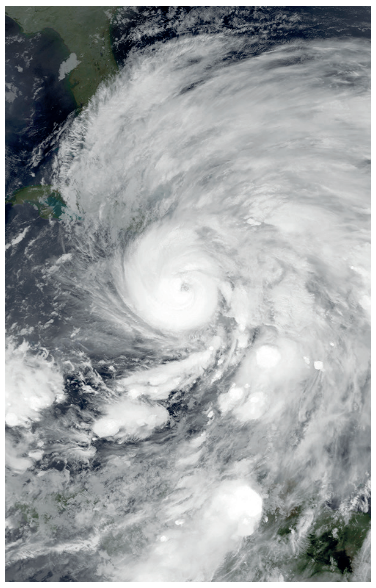

Next two hurricane seasons to be 'costliest for more than a decade'

The next two Atlantic hurricane seasons will see the largest number of US landfalls since the record-breaking seasons of 2004 and 2005, according to forecaster David Dilley, chief executive of Global Weather Oscillations (GWO), *writes Scott Vincent*.

Dilley has forecast the 2016 and 2017 seasons are likely to be the most dangerous and costly periods for the US in more than a decade.

He has forecast 17 named storms and nine hurricanes for both years, with four major hurricanes of category three or greater strength in 2016 and five in 2017.

Dilley said a "climate pulse hurricane enhancement cycle" is now in place, which will provide very favourable atmospheric conditions for hurricane development and landfalls in the next couple of years.

Dilley has operated GWO since 1992, having previously served as a meteorologist at the US National Weather Service.

Long-range forecasts issued in December by Colorado State University suggested this year's hurricane season would see activity close to the historical average, with a likely 12 to 15 named storms, six to eight hurricanes and two to three major hurricanes.

December's forecast from London-based forecasting unit Tropical Storm Risk expects 13 named storms, five hurricanes and two major hurricanes in the Atlantic basin in 2016.

BIG INTERVIEW

Culture club

Standard syndicate active underwriter Robert Dorey on the challenges of bringing a P&I club ethos to the Lloyd's market

Sophie Roberts
Deputy editor

Robert Dorey, the active underwriter of newly launched syndicate 1884, is extremely pleased with the way the syndicate's first nine months have gone. Syndicate 1884, established by protection and indemnity (P&I) club the Standard Club, commenced underwriting on April 1, 2015 with a focus on marine and energy risks.

When we speak, final audited results for the syndicate's first nine months are yet to be published and Dorey was giving his executive summary some thought. "We've had a very strong start which is in part due to the enormous amount of good will bestowed upon the syndicate," he says. "The level of support has been better than we had possibly expected."

Because of this, Dorey expects to report the syndicate is within the upper quartile of its planned income for 2015. "The plan was always that we would be in the red [for 2015], with the intention to break even in 2016 – a significant task in its own right – and see profitability after that," he says.

The launch of the syndicate marked Dorey's first time underwriting in Lloyd's, having spent the previous 10 years working on offshore business for the Standard Club. "I was asked to develop a Lloyd's business plan as part of a strategic add-on to The Standard Club offering and that's how the Lloyd's journey really started," he says.

"Within the P&I world there are not many mutual clubs that can say they can underwrite for profit because mutuality, by its own definition, is underwriting at cost. The Standard Club defines its underwriting appetite by quality rather than volume. If we were to write more volume, the likelihood is that we would probably erode the balance sheet rather than strengthen it, so we needed to look outside the umbrella of mutuality to support the balance sheet of the club," Dorey says.

He says the club reviewed three possible avenues as part of its plan to diversify its balance sheet. First, the club considered acquiring a commercial insurer, but this was ruled out. "The Standard Club doesn't really have the balance sheet to buy insurance companies and more broadly, doesn't have the corporate appetite as it is very capital intensive," Dorey says, also referring to regulatory challenges in relation to relevant trading applications.

Second, it was proposed the club develop and run a managing general agent (MGA) using other capital and the club's distribution system to bring business into that MGA, but this also was vetoed. "We have run some MGAs or similar structures in the past, but we found that we were very much writing to the appetite of the security of the MGA," Dorey says. "Although this isn't unreasonable, it wasn't really delivering our plan. Culturally, for the club with its service ethos and problem-solving mentality, it was not a solution that was going to work for the long term.

Robert Dorey CV

Robert Dorey is active underwriter and class liability underwriter at the Standard Club's syndicate 1884, a position he has held since 2015.

He joined the Standard Club in 1996 as a claims executive and also served as syndicate underwriter. Dorey was appointed underwriter of the offshore syndicate in 2004, which included the responsibility for underwriting the club's offshore business and was named head of the offshore syndicate in December 2006.

Dorey graduated from the University of Southampton in 1993 with a law degree and was then called to the Bar.

"I think at the end of the day, if you're going to define your risk appetite, it needs to be your own capital," he adds.

Lloyd's ambition

The third and winning consideration was entering Lloyd's, with all the competitive advantages the market can offer. Dorey says there were four principal drivers behind the club's entry into Lloyd's, a process that is, he says, with good reason, difficult. For the club, there was a strong investment case behind going into Lloyd's. "If you have a broad-based business plan over many classes, you are more likely to be able to ride out under-performance in particular classes and provide a better chance of having a positive return. Lloyd's investors have made money for a reasonable period of time and in this market, you can't ignore that."

The move also fit with the club's ambitions to have access to an international structure which Lloyd's global licensing facilitates. "We want to use our skill set within the confines of that international structure to hopefully make a difference and not be the same as everybody else in Lloyd's," Dorey says. "We know that Lloyd's is a fantastically efficient distributor of capital and it's been enormously successful on that, but its approach to claims is different from mutual insurers' approach."

According to Dorey, one of the reasons that so much business is led by the Scandinavian markets on hull, for example, is because they provide a mutual-style claims service. "If we are going to bring new business into Lloyd's, it's going to be competing with overseas markets and we think the values that we can offer are things that people are prepared to move markets for to support us."

The claims element within that proposition is extremely important to Dorey and a significant component to the club's cultural ethos. The fact that syndicate 1884 is managed by Charles Taylor Managing Agency is also something Dorey is encouraged by, as the broader skill set employed by the services provider on claims and other areas is a strong contributing factor to the overall proposition.

"We have the reputation of the club in terms of ethos when it comes to claims handling. The fact that I've moved over from the club, as well as Gillian Musgrave, who's the director of claims, should give a very clear signal to the people who know 'the Standard' as a brand that a similar kind of ethos and service ethic is going to be imported into Lloyd's," Dorey says.

However, entering Lloyd's was never just about what the club could bring to Lloyd's in terms of bringing in new business. "We see a number of cross-fertilisation opportunities," Dorey says. "We see it as being able to export some of the best bits of the club into Lloyd's and equally some of the best bits of Lloyd's into the club. We want both platforms to benefit from each other."

Culture club

One of the main differences when moving from "club life" to Lloyd's is the way business is handled. Dorey says he has moved from underwriting low volumes of business, with high contact time with the insured, to seeing high volumes of business, with contact with the insured being replaced by the broker, "which is intense".

Another difference is the time in which he has to make a decision on whether or not to take on a risk. "It's gone from having up to a week or more to deliberate over a risk, to 'we need a decision in 10 minutes'," Dorey says. "At the club, we'd normally do a number of audits, which would allow you to differentiate between the quality of the risk and the overall operations, and trying to introduce that culture into the team at Lloyd's is one of the challenges."

The syndicate currently has a 10-seat box, but has applied for additional boxes to facilitate its 12-strong and growing number of underwriters. Three out of the 12 underwriters have come over from the club, which Dorey says helps to uphold the underwriting disciplines of the club.

"Keeping decision-making aligned with the club's culture is one of things our clients will expect," he says. "We are very fortunate in the sense that with the club, we have enormous resources behind us. We have access to people in the club who can help us out with certain parts of our decision-making and, importantly, they can supplement gaps in broker information."

For Dorey, one of the other big differences between the club and Lloyd's are broker relations. "This has been a very interesting learning journey for me," he says. "Within the club world, the broking community is relatively small for P&I and they tend to know the individual characteristics of the clubs very clearly. In many cases, brokers will preselect because they know which club will be best for a particular type of shipowner, so the number of enquiries we would get a year in the club, are relatively low, but the business that we would write as a proportion would be higher."

In the syndicate, Dorey has learned that life is a little bit different. "I think we've seen something like well over 3,500 enquiries since April 1 and have written less than 40%," he says. But he's not complaining about the high volume of enquiries, by any means. In some instances, it has allowed the syndicate to source some new business for the club which was one the main opportunities the club saw with an entry into Lloyd's.

"We've had it when we've been presented with a hull risk which we might deem as a really good risk, so why we wouldn't we have a look at the P&I of that particular ship," Dorey says. "The cross-selling opportunities are really great for us and we've already managed to source some new enquiries back to the club, and this is mainly because we're simply seeing a lot more business from brokers."

Being the "new kid on the block" in a subscription market, where the balance of holding the pen is certainly biased towards the broker for desirable risks, cannot be easy. "The link to the club has definitely been advantageous for the syndicate," Dorey says. As a result, the syndicate has seen business it perhaps would not ordinarily have seen, given its infancy at Lloyd's and less established relationships with the brokers. Dorey explains the syndicate's first bit of business came from a link to the club's board. "That's the measure of what relationships mean for us," he says. "If we didn't have those relationships, I think it would be impossible to do what we're doing. I don't see how you could make the case that you could rely on the Lloyd's broker distribution model to bring new business to you."

He adds: "We have come into the market with a slightly different perspective in that we probably touch up to 25% of world shipping – potentially a higher proportion of offshore and energy business – and the really big supporters of the club will be telling their brokers 'we want to align our business with the club, because it's our club, our syndicate'. There's a relationship there already that doesn't involve the broker and the irony has been that [the brokers] probably didn't realise the strength of the relationships we have."

In addition, through the club, syndicate 1884 has its own distribution system, allowing Dorey and his team to access and bring in business from teams in New York, Athens, Rio de Janerio and Singapore. "These teams in overseas markets are managing north of 40% of the club's relationships. We have the benefit of that and so does Lloyd's in terms of new business," Dorey says.

"This was very much part of our MO when applying to become a syndicate at Lloyd's. Famously, the hull market, according to Iumi [the International Union of Marine Insurance], hasn't made money for 19 years. It's a core business to Lloyd's and a good diversifier, but I think Lloyd's is a lot more focused on whoever is coming into the market now they do actually have something new to bring which will add to the franchise, not water it down," he says. "We evidenced this as much as we could and I would go as far to say that it was probably the most significant element of our underwriting application."

Growth plans

The syndicate launched on April 1, writing marine and marine energy covers including hull, liability, energy, property, cargo and specie and corporate lines. Following a strong start, in June the syndicate received approval to underwrite a range of marine and energy insurance covers in Asia through a new Lloyd's Asia service company.

"We're seeing good-quality enquiries through Singapore," saysDorey. "We have one underwriter out there at the moment, but we will look to grow that. Our service company strategy is really to complement the club's distribution, as well as being as customer centric as possible, which will mean being on the door step of shipowners. [In Asia] we will look to have an underwriting lead presence and claims presence so that clients can have matters dealt with in their own time zone."

This is just a snapshot of the ambitious plans Dorey has for the region, as he acknowledges that all this in addition to other strategic initiatives he plans to roll out, cannot be done in one year. "A timeline for our growth plans in Asia hasn't been put in place, but I think this is a clear indication of the measure of our overall commitment," he says.

With regards to the service company strategy, the US is a priority focus for Dorey, who would like to have one established by 2017. "We already have a man on the ground there. We had initially thought it might have had to wait until we were in 2017, but we are currently reviewing this as to whether there is an opportunity to bring this forward."

He adds: "Making sure we have the right distribution is really important: a) to deliver our service proposition and b) to capitalise on the opportunities within the club. We already have a European service company in London which helps to ensure that our portfolio remains balanced. We have no problem in attracting hull business, so the service company looks at getting cargo, ports and other lines of business."

As part of Dorey's growth plan, the syndicate may enter the political risk and terrorism market. Dorey explains the syndicate's growth strategy is closely aligned with the needs of the members of the club. "We asked the board of the club what they spent on insurance, what covers they were getting and where it was placed and then we extrapolated that information from the whole of the membership of the club," Dorey says.

In total, members of the club spent approximately £2.7bn ($3.9bn) on insurance in a year – £1.5bn of that outside of Lloyd's and £1.2bn, within Lloyds. "They spent it on marine, energy, cargo, property, directors' and officers', errors and omissions, political risks and general casualty and with that information, we have our growth plan," he says.

The introduction of political risk and political violence onto the platform in 2016 further cements the syndicate's alignment with "club needs". The only other class missing is general casualty, which Dorey says the syndicate will enter in 2017. "Additionally, we're looking to recruit a specie underwriter and will break out the specie sub-class from the cargo class," he adds, "to broaden the depth and quality of our class offerings."

For 2016, it's all about "ventilating" the syndicate's existing classes. "We estimate across the whole syndicate about 25% comes from members. If you break it down to core areas, on the marine side about 30% of the business is from members and on the energy side it's about 40%." For Dorey, there is still a lot more work to do, particularly on the marine side, where he would like to push 30% of member business up to 50%.

Syndicate 1884's stamp capacity for the nine-month period from April 1 was £36m. For 2016 it will more than double to £86m. The soft market has prompted some reforecasting, according to Dorey, and, given its relatively new position in the market, the syndicate has little influence on pricing.

"If you are a really big syndicate with a big balance sheet, big retentions, you could probably in a softer market take the view that it's better to take a volume perspective and ride out the storm," he says. "But I think that kind of economic option does not really apply to a lot of syndicates, including us, so we have to go for a completely different strategy, which is around risk selection and focus on pure profitability and the longer term profitability of the business rather than what we can achieve now."

He adds: "For us, it's just about picking better-quality business that's going to have less claims and less attritional claims attached to it which is actually very similar to how a P&I club underwrites. We've come full circle." ■

Building a base in Scandinavia

In December, the Standard syndicate 1884 appointed Hydor AS as a Lloyd's coverholder, extending its distribution into Scandinavia. Hydor AS began writing business on behalf of syndicate 1884 from January 1, 2016, marking the next stage in the syndicate's strategy of bringing business to Lloyd's by building distribution in operators' local markets.

"The club has always found it quite difficult to have a sufficiently strong presence in Norway in order to deliver its own strategy due its very strong domestic market," Dorey says. "While the club had established its own relationships in the past, we probably needed to go that little bit further, so this time, rather than be in a club relationship in Norway, we decided to start with a syndicate relationship."

Across the Scandinavian region, Hydor AS will provide hull and machinery, energy and other marine-related insurance covers, with the main focus on Norway. "There's a lot of energy business out there, some interesting cargo business and actually we'd seek to put Hydor in a position where we could put as much of the syndicate's backing into doing non-P&I business," Dorey says.

"We realise this will need a physical local presence, more than the local headcount of Hydor can offer. We're working with Hydor to see how we can deliver that together."

RISK FORESIGHT

Islamic State strengthens presence in Libya

Large oil assets, well-established and lucrative smuggling routes to sub-Saharan Africa and porous borders all make Libya attractive to the group

Islamic State accelerated efforts to expand and consolidate its presence in Libya during December 2015 and January 2016. The Islamist militant group has managed to take control of further cities west and south of Sirte, its de facto capital in Libya, to stage a prolonged offensive on two oil export terminals in the so-called "Oil Crescent" area and to increase the frequency and the lethal nature of its terrorist attacks against security forces targets.

The group has also attempted to capitalise on the negotiations for the national unity government, announced on January 19, hastening its operations so as to undermine the potential implementation of the UN-backed agreement. The agreement's collapse would guarantee the persistence of the security and political vacuum that has ultimately enabled the group to emerge and proliferate.

The latest push in Libya is also part of Islamic State's regional strategy, aimed at alleviating pressure on the group's "caliphate" in Syria and Iraq. It is likely Islamic State sees Libya as the most favourable country in which to establish a regional hub of its caliphate. The presence of large oil assets, the existence of well-established and lucrative smuggling routes to sub-Saharan Africa and porous borders all make Libya as attractive as Iraq and Syria to Islamic State, if not more so.

Libyan soldiers on patrol in Benghazi: Islamic State is aiming to consolidate and expand its presence in Libya

Second phase of jihad

In accordance with its stated strategy, Islamic State has begun the second phase of its jihad in Libya, expanding its presence after having conclusively consolidated its position in Sirte. The city, under Islamic State's control since March 2015, has been converted into the de facto capital of the group's Libyan wilaya and it is now functioning as the hub for the group's operations in Libya, and potentially beyond. The group's main training camps are located around Sirte, and from the city the group dispatches jihadists to other battlefronts in Libya. According to Libyan security officials from both governments, Sirte is also the location to which an increasing number of Islamic State fighters have been redeployed from Syria.

Concurrent with its military activities, Islamic State is replicating in Sirte the model of proto-governance typical of the caliphate in Iraq and Syria. According to a local source with knowledge of the situation contacted by IHS Jane's, this includes imposing taxes on all the business activities that take place in the city; confiscating lands and properties of individuals opposing the group; and establishing administrative departments and local police forces.

All the indications are Libya will be the focus of Islamic State's expansion in north Africa. Factors include: the presence of large oil assets the group can potentially exploit and use to generate revenues; the existence of well-established and lucrative smuggling routes to sub-Saharan Africa the group can control and potentially use to smuggle oil and other illegal goods; and the porous borders with countries such as Algeria, Chad, Egypt, Nigeria, Sudan, and Tunisia that can provide a constant influx of recruits. All these make Libya the only country with even greater geographical advantages and financing opportunities than Iraq and Syria. In addition, it is likely to become much easier for foreign fighters to join the group in Libya, rather than in Syria or Iraq, where Turkish action is tightening security on the Syrian border. ■

Acting defence minister, Masoom Stanekzai (right) and commander of US and Nato forces in Afghanistan, General John F Campbell

Afghanistan: peace deal not stopping southern offensive

While the Taliban threatens another key town in southern Afghanistan, the "big four" (US, China, Pakistan and Afghanistan) met in Islamabad and announced peace talks between the Taliban and the Afghan government could begin as early as the end of this month. However, as the Taliban offensive in the south indicates, announcements about a peace process are unlikely to change or reduce attacks, as the Taliban continue to seek maximum leverage over the Afghan government.

Also, with the Taliban continuing to splinter and with several factions not accepting the leadership of Mullah Akhtar Mansour (several factions have condemned Mansour as a stooge for Pakistan), any peace process will be dependent on how many factions actually sign up for it. ■

IHS Country Risk leverages the company's detailed qualitative and quantitative analysis of 204 countries, covering political, economic, legal, tax and security risks.

Russia: line of control with Ukraine not changing

On February 4 the Ukrainian Ministry of Defence (MoD) said the pro-Russian separatist militants in Donetsk and Luhansk regions had shelled Ukrainian army positions 55 times in the previous 24 hours; this compared to eight to 12 times a day in the first weeks of January. In the previous week ceasefire violations, including the use of heavy weapons, were registered in numerous locations along the Line of Contact (LoC) between the Ukrainian army and the separatist militants, especially east of Mariupol, west and north of Donetsk, and west of Horlivka.

The Organisation for Security and Co-operation in Europe (OSCE) verified the separatist militants used 82 mm and 120 mm mortars in many locations.

On February 4 the Ukrainian MoD said the separatists had shelled army positions near Sakhanka village, east of Mariupol, from nearby Kominternovo, taken by the separatists in December 2015, using 122 mm Grad multiple rocket launchers. According to the OSCE monitoring, both parties in eastern Ukraine have failed to withdraw about 30% of their heavy weapons. This caused an increase in the numbers of casualties and collateral damage to property along the LoC. However, despite the recent re-escalation since mid-January, the LoC has remained relatively stable since late February 2015.

Neither side is likely to use force to make significant changes to the LoC. As the LoC was heavily reinforced in 2015 by both sides, a separatist offensive would require direct Russian military involvement. This is unlikely, as it would trigger further economic sanctions against Moscow. In particular, in recent weeks Moscow has renewed its demands for Ukraine to provide autonomy and amnesty for the Donetsk and Luhansk regions as a precondition for settlement of the conflict. ■

Improving service is critical to maintaining the industry's relevance

Industry must respond to clients' needs if it is to secure a sustainable future

Robert Iremonger
Abingdon Risk Consulting

Evolution of new risks such as cybercrime putting companies on alert

The insurance industry is in danger of losing contact with its client base, upon which its very survival depends. Without addressing the key fundamentals, the industry is in danger of withering away. One may ask as to how such a situation can be resolved.

The answer lies in part in seeking companies' views on the level of services as provided by the industry and where improvements to the existing structure can be made, together with the ability to retain high-quality staff who can offer clients sound, well-informed technical advice. Only by employing such a strategy will the industry be able to secure a sustainable future.

Over the past few decades we have seen the growth of multinational companies. These corporate vehicles possess two distinct features not present within company structures in the past: the first is that because of their size they are often prepared to underwrite a much more substantive element of their own risk than companies might have done in the past. This can be evidenced by the increasing numbers of captive insurance companies and greater retention of risk.

In many cases, the larger companies have created a corporate structure that encompasses the employment of specific risk-qualified personnel. The companies concerned have reached a position whereby their only interest in the insurance market is as a vehicle purely to transfer financial risk.

While they rely to some extent on the experience the insurance market can offer as regards marketing their programmes, they are increasingly becoming dependent on internal resources to handle risk-related issues. While there has been a growth of multinationals, the vast majority of companies still rely on the insurance market not only as a vehicle to transfer ground-up risk, but also as a means to gain access to a dedicated resource, which possesses expertise not present within their organisations.

As the business model under which companies operate has evolved over the past few decades, so too has the level and number of risks to which these vehicles are subject. This can be evidenced by the increasing number of companies seeking protection from eventualities such as cyber attacks and from scenarios whereby a company's reputation may be called into question.

Evolving risk landscape

As time passes, it is clear the range of risks will only increase further. As the number and size of risks increases, companies will seek ever-greater protection. While the insurance market has started to embrace cyber risk, the protection offered is still very much in its infancy, and the market has so far largely failed to respond to the increasing level of reputational risk. While companies may seek ever-increasing levels of insurance coverage, they will also become more dependent on experts who can offer sound technical advice on key aspects of their risk regimes.

Many companies, even those that have the required internal resources, fail to understand either the complexity or the extent of the risks to which their organisations are subject. Many only act on the accrued knowledge of past experience and do not necessarily seek to carry out a full analysis of their risk profiles. The vast majority of companies only appreciate a lack of cover when claims occur, by which time it is too late.

In some instances, the lack of adequate cover can result in the demise of the organisation concerned. The principal issues that arise result from a lack of breadth of cover and to the limits of cover as purchased. While relatively small uninsured losses can be digested by a company without too much difficulty, the presence of a potentially large claim will send alarm bells ringing throughout the entire corporate structure.

While in some instances lessons are learnt from previous claims, these experiences are all too frequently forgotten over time as managers and directors are replaced by new personnel who do not possess a similar knowledge base.

Adding value

Many within the market consider that pricing is key to the retention and acquisition of clientele. Many corporate vehicles possess limited knowledge and as a consequence are driven by price when purchasing insurance; should a company be fully informed as to its risk profile and the potential exposures to which it is subject, it is highly likely to consider pricing regimes as a secondary factor when compared with the level and breadth of cover. In all too many instances, insurance buyers make an ill-informed decision, because the necessary level of expertise is not present either internally or within the insurance community.

While in the past brokers would offer an all-embracing service, this has increasingly disappeared. While brokers and insurers alike frequently claim to offer value-added services, there are two key problems that arise in this regard: the first is the level of expertise in the broking/underwriting community has largely dissipated over the past few years, meaning the quality of advice provided has deteriorated; the second problem is that as clients are increasingly asked to pay for services in the past were offered for free, the role of the broker and to some extent the insurer is being reduced. The brokers are, rightly or wrongly, increasingly perceived to offer only a mail box facility, which adds little value to the equation.

The insurance market must always remember it is not selling a commodity such as oil. It is selling a service that is measured by the level of expertise available to clients and also the level of trust clientele have in the insurance market.

Many incorrectly see the insurance market as possessing an increasingly transactional role. Such thoughts are misguided and will, if not resolved, lead to an increasing rift between the insurance market and its client base. ■

Robert Iremonger is a director at Abingdon Risk Consulting

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P&I clubs set to face increased pressure from members at 2016 renewals

Clubs will need to justify price rises at renewal, rating agencies warn

Scott Vincent
Editor, news services

Protection and indemnity (P&I) clubs are entering the 2016 renewal period facing increasing pressure from members to justify price increases at a time when the shipping industry continues to navigate through turbulent conditions.

Pressure is also mounting to return capital with free reserves now at record levels and shipowners facing a challenging commercial environment, according to rating agencies.

P&I clubs have significantly strengthened their financial position since the financial crisis of 2008/09 and enter the renewal period in strong financial shape.

Analysis by AM Best shows the 13 principal clubs of the International Group boasted record free reserves of more than $4.2bn for the 2014/15 policy year, but capital levels are expected to come under pressure in the coming year amid a difficult investment environment.

In a sector review ahead of the P&I renewal season, AM Best said the sector will need to report near-breakeven underwriting results if current levels of free reserves are to be maintained.

The rating agency said this will be difficult to achieve, given the pressure on premium rates and challenging claims environment the sector is facing.

The underwriting fortunes of the market will likely be determined by large loss experience. While International Group members posted a combined ratio of 96% during the 2014/15 policy year, this was largely the result of an absence of large losses.

While the frequency of small and medium-sized claims is falling, the cost of each claim is on average increasing, driven by an upward trend in shipowners' liability limits and technological advances that now allow deep water wreck removal.

The fortunes of the global economy will also have an impact on claims levels. In recent years, a slowdown in world trade has led to fewer voyages by ships, lower cargo volumes and less competition for experienced crews, all of which has reduced the volume of claims.

Ahead of the renewal, clubs have announced general increases varying from zero to 5%, but these show only part of the renewal picture. Most member renewals are driven by individual loss records and risk exposure. AM Best has reported more clubs are using deductibles to control exposure and improve underwriting results.

Investment performance will also be a major driver of P&I club performance in the coming year and has traditionally helped clubs turn a profit in years when underwriting has delivered a marginal loss.

Investment strategies diversify across the International Group. Most clubs keep the proportion allocated to equities steady at around 20%. American Group has the largest appetite for equities, which accounted for 42% of its portfolio at the end of the 2014/15 financial year. In contrast, Japan Ship Owners and North of England have portfolios comprised almost entirely of cash and fixed income securities.

Mark Nicholson, lead analyst for non-life and marine at Standard & Poor's, said bonds were predominant in the investment portfolios of most P&I clubs.

"There is a perception clubs take on more investment risk than their peers. While that probably was the case before the financial crisis, latterly there has been a very moderate amount of risk being taken on," he told a briefing in London.

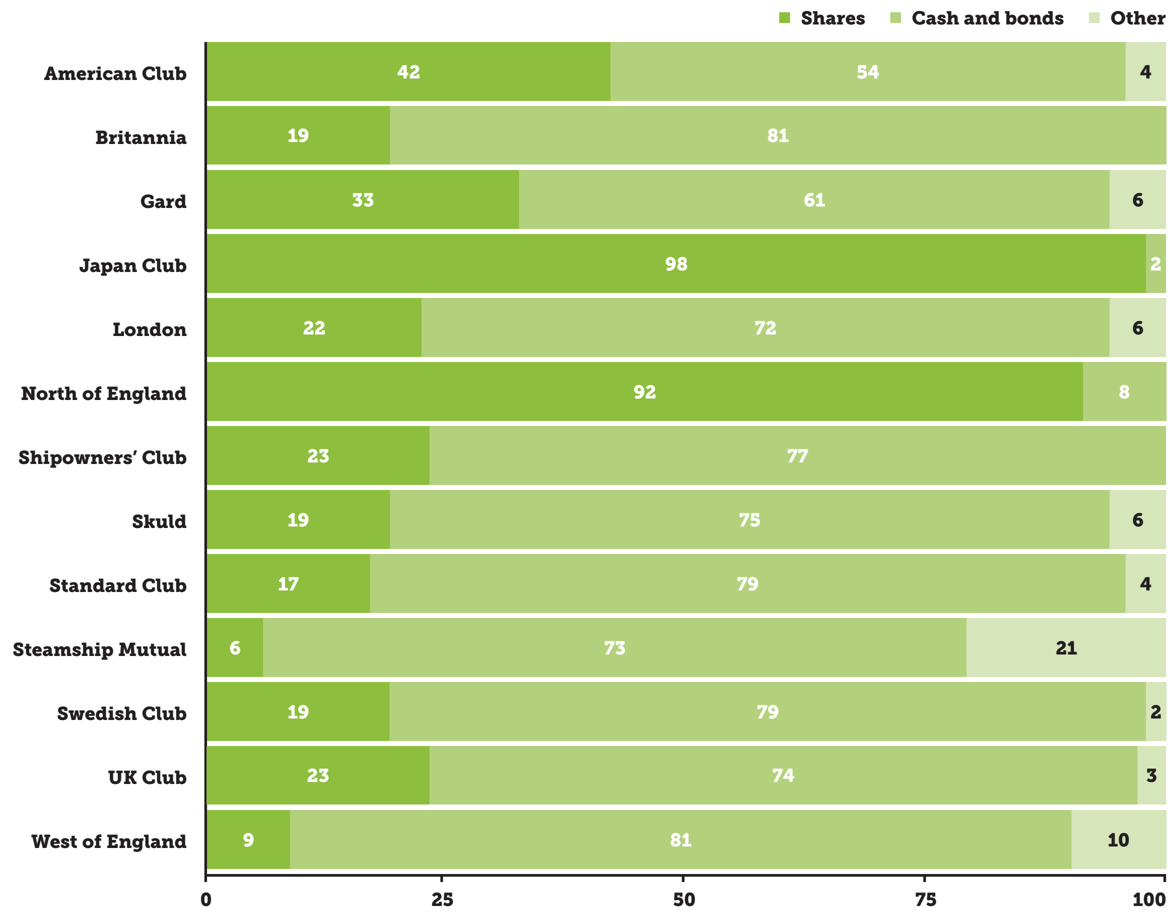
Nicholson said the lower investment return environment was likely to be here for the foreseeable future, limiting clubs' ability to recoup any underwriting losses through the investment side of the balance sheet.

"There is also pressure on clubs to return capital to their members at what is a difficult time for shipping," he said.

Despite these pressures, Nicholson said there had been a general improvement in clubs' risk position in the past six years, with clubs benefiting from the longstanding relationships they enjoy with members, as well as geographic diversification through having vessels spread across the world.

"In general, we do not see the volatility of underwriting result we saw in the past. The risk positions of most clubs are moderate," he said.

Graph: International Group of P&I Clubs members' investment allocations, 2014/15 (%)



Source: AM Best

Table: P&I club key figures

Club	Gross written premiums ($'000s)	Profit/(loss) before tax ($'000s)	Capital and surplus/ free reserves ($'000s)
American Club	110,181	4,366	64,807
Britannia	269,726	19,285	371,267
Gard[1]	953,277	86,370	969,053
Japan Club	240,652	49,076	172,370
London	111,290	-3,189	157,414
North of England[2]	526,195	63,023	172,901
Shipowners' Club	251,221	402	300,273
Skuld	438,616	13,093	347,685
Standard Club	356,300	11,900	380,300
Steamship Mutual[3]	365,300	74,996	376,187
Swedish Club	190,426	18,389	184,135
UK Club	408,909	26,772	547,766
West of England	216,798	19,140	243,692

1) includes marine & energy business
2) 2014/15 profit before tax excludes impact of Sunderland Marine merger
3) combined accounts
Source: AM Best