HD **Capital, compliance and cyber liability key issues in Australian market**

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Asia Insurance Review invited 13 highly respected Australian insurance industry senior executives to share their views during the annual breakfast roundtable hosted by law **firm**Clyde & Co in Sydney. Their wide-ranging discussions covered a raft of topics. Kate Tilley reports.

Emerging risks, like cyber liability; litigation funding; abundant capital in the market; and the increasing compliance burden were among hotly debated topics for a gathering of senior Australian insurance industry executives.

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The executives shared their candid opinions and varied perspectives in a roundtable session in Sydney, moderated by Clyde & Co Partner Mr John Edmond.

Nat CAT - Focus shifted to mitigation

The **group** agreed the natural catastrophe focus had shifted to mitigation in the last 12 months, particularly in Queensland.

Mr Edmond sought participants' views on the Insurance Council of Australia's (ICA) efforts to be proactive in encouraging mitigation strategies and to work more closely with media outlets. He said ICA seemed to have "bulked up its communications team" and consequently there were more good news stories reported by the media.

Suncorp CEO **Commercial** Insurance Mr Anthony Day said ICA had done a lot of work with state and local governments since the barrage of negative publicity the industry suffered after widespread flooding in the summers of 2011 and 2013.

"The key question is how do we mitigate, rather than just pay losses. The industry paid a lot of claims and certainly Suncorp's brand loyalty has gone through the roof. But, in the few cases where there were claims issues, the industry was hit by a disproportionate level of criticism," Mr Day said.

"Mitigation is something we must fight for as an industry. It's the best way to manage the risk. We must prepare [for natural disasters] in the right way. We need to have that dialogue with the community as a whole," he said.

Government shares flood data

ICA has signed a memorandum of understanding with the Queensland Government to work together on sharing flood data and other measures and the state and federal governments have committed funds to mitigation measures.

ICA CEO Rob Whelan has said prudent investment by all levels of government in appropriate, permanent, well-designed physical mitigation infrastructure, such as levees, can reduce the damage toll from floods. "A relatively small investment, typically A$15 **million** (US$13.4 **million**) to build a levee around a mid-size town, may be recouped 100-fold over the life of the levee," Mr Whelan said in a 2013 comment piece.

Mr Day told the roundtable federal Assistant Treasurer Arthur Sinodinos has been in Queensland talking to state and local governments about disaster mitigation and planning. He emphasised the insurance industry's need to be involved in pre-event planning, as well as co-ordinating post-disaster recoveries. "We have the industry expertise to manage the aftermath [of natural disasters]," he said.

Mr Richard Enthoven, Managing Director of The Hollard Insurance **Company** Pty Ltd, agreed ICA and insurers had been proactive in better managing insureds' expectations in catastrophe-affected and catastrophe-prone regions. They had done "an exceptional job".

Learn from prior events

Mr Heinrich Eder, Managing Director of Munich Re Australasia, said the industry had been proactive with communications and ICA had performed well, but he also emphasised the need for industry involvement in discussing pre-event resilience. He stressed the importance of learning from prior events.

Mr Eder contrasted the situation in the United Kingdom (UK), where floods had devastated parts of England and Wales, with The Netherlands, which he said had sustained no big losses since 1953. "Their resilience measures are incredibly effective to prevent losses. We could learn something for Australia there."

Mr Edmond understood the problem from first-hand experience. "Two Clyde & Co partners in the UK are currently staying in hotels because of the floods," he said.

Lloyd's Australian representative Mr Adrian Humphreys said there had been agreement in the UK in the past about insurers providing affordable flood cover in return for government investment in mitigation programmes, "but nothing was built". "That created a lack of trust...which must be avoided elsewhere."

He said insurers could no longer assume their image would be positive because they were paying claims. "We have to be proactive on the media front as well; we must talk to people quickly post-event."

Immense effort improves image

Mr Enthoven agreed, saying improving communications directly with communities was "the biggest lesson" from natural disasters. "Dealing with the uncertainty around systemic issues has made a big difference." He praised the industry for making "an immense effort" in its dealings with individual policyholders, which helped improve the industry's reputation.

Mr Pietro Toffanello, Managing Director and Regional Treaty Manager, Asia & Pacific, for General Reinsurance Australia Ltd, said much of "the fallout" had been because of a lack of clarity on how policies would respond to losses, creating expectations that eventually could not be met. Consumer education would assist. "ICA has been creating transparency and that helps a lot. We're selling an intangible product that only becomes tangible once there is a loss. We need clarity in advance; the rules must be clear from the start."

Mr Toffanello, who is an Insurance Council of New Zealand**board** member, said post-disaster co-ordination was difficult because of the multiplicity of stakeholders involved, especially with ongoing settlements after New Zealand's 2010 and 2011 earthquakes.

New capital

Mr Edmond moved discussion to the state of the **property** market and Mr Day was quick to point out it depended which sector of the market was being referred to.

"Corporate **property** is soft [because] there's an abundance of capacity, and new capacity coming in all the time. But the SME/home market is fairly stable. You can't label the whole market the same way, it's pretty diverse," Mr Day said.

Guy Carpenter Pacific Region CEO Mr Tony Gallagher agreed there was a lot of new capital around supporting the industry in both long and short-tail classes.

Mergers 'remove opportunities'

He predicted that would continue, but said the non-traditional market was "still not a prevalent player" in Australia. Any mergers in the market would "put more pressure on the reinsurance market which will look to make up any short fall in income. "With long tail, you'd expect prices to increase but, on the contrary, there's a lot of capacity in the market and it's often seen as a balance to a short-tail portfolio. I don't see that changing," Mr Gallagher said.

Mr Day agreed there was "a massive appetite in the reinsurance market for long-tail business".

QBE Executive General Manager Corporate Partners & Specialty Mr Tim Plant said a greater level of sophistication in catastrophe modelling had contributed to a more stable environment.

Mr Gallagher said there were two schools of thought on new capital. “Either it’s here to stay or it’s short term with markets looking for quick returns. The answer is probably a bit of both. One test will be after a loss and whether it was a modelled loss. Pension fund capital is likely to stay; it’s long-term capital and it’s taken a long time to enter insurance market.”

He said the models were not perfect – “we still have a way to go” – but they were “getting better and that gives investors more confidence”.

Mr Toffanello said part of the oversupply of capacity in the reinsurance industry was due to the contingent economic situation with interest rates being kept artificially low, but there was “a secular movement with capital markets seeking better returns than they could find anywhere else. This will create interesting dynamics, with reinsurers being forced to re-evaluate their value proposition to ensure their long-term relevance.

“It will also be interesting to see how resilient this new capital is, especially in cases of complex events. The experience with the New Zealand earthquakes has shown CAT business is not necessarily short tail and this may not coincide with some of these new investors’ time horizons.”

Capital markets reliant on models

Mr Toffanello said technological advances that enabled development of more reliable models were “a great reminder of the need to put more science, rather than art, into what we do. As an industry, we rely on a very limited number of models and every time there’s an event we find out they are pretty much wrong.

“It will be interesting to see how this will eventually play out with the capital markets, which are heavily reliant on a much larger number of models for investment decision-making.”

Mr Eder said: “There is an insatiable appetite for long-tail business but, with this whole euphoria, we must not forget that, in long-tail business, inflation will creep up over time and superimposed inflation is a constant ‘companion’.

“In general, as interest rates go down, the prices for long-tail covers should normally go up. A falling Australian dollar also has the consequence that we import inflation. If we ignore all these facts, we will certainly feel the negative effects at the end of the tail.”

Mr Toffanello shared Mr Eder’s concerns, saying: “We must not forget when we use the term liability we’re talking about several different lines of business, subject to different dynamics. Soft pricing, a deterioration of underwriting discipline and a looming inflation increase make this space one to watch closely.”

XL **Group**’s Regional Manager for Asia Pacific Mr Craig Langham pointed to insurance-linked securities providing capital for long-tail business and said that added to the market’s fluidity. Mr Humphreys said there was “a problem if capital is getting detached from the risk”.

Mr Gallagher said the retrocessional market was “also very competitive, so it’s at all levels”. While the level of sophistication in modelling was improving, he suggested boards and managements “need to step back and examine the different models and understand them, but not wholly rely on them”.

Mr Plant said modelling had “raised the bar for policyholder security and the way we operate. Twenty years ago modelling was not on the same level”. While some of the increased sophistication and analysis was regulatory driven, it was also fuelled by lessons learnt from other parts of the finance sector.

Mr Humphreys lightened the mood, asking his fellow roundtable participants if they had heard the analogy that “insurance is like driving a car with the front windshield blacked out”. “The sales team has one foot on the accelerator, the underwriter has one on the brake, and an actuary is looking out through the rear window giving directions.” His comment raised a laugh, but no denials of its legitimacy.

Regulator ‘asks right questions’

Mr Edmond moved on to the Australian Prudential Regulation Authority’s (APRA) requirements for modelling.

Mr Gallagher said the regulator was “asking the right questions. You need flexibility about what your portfolios are doing, [be it] horizontal or vertical exposure. Models won’t tell you their strengths and weaknesses; you’ve got to be able to figure that out in relation to your portfolio.

“APRA has got it right in relation to cat modelling; management must have an understanding of the strengths and weaknesses of the various models. [New Zealand insurer] AMI’s situation was a good lesson - one of the threats for insurers is inadequate protection following a catastrophe event,” Mr Gallagher said.

AMI was purchased by IAG in February 2011, but the Australian-based giant did not take on the troubled insurer's earthquake liabilities.

Calliden Group CEO Mr Nick Kirk said APRA was "pushing to make sure directors understand the models. Most major Australian companies would be in deep trouble if they hadn't bought their programmes based on Australian not NZ [scenarios]".

He said Calliden's programme was "tiny compared with some of those around the room, but a couple of years ago reinsurers didn't want Australian and New Zealand aggregate; now they want diversification. It will spread into the direct market. The fear of Australasian catastrophes has been replaced by a need for diversification and a fear of losing out to pension funds in the US".

Memories short, competition creeping

Gen Re's Mr Toffanello warned memories "are short and competition is creeping up again. The reinsurance market has learnt some hard lessons in recent years. Diversification works if you collect the right premium in the right geographies. You need commitment and discipline to be there to pay claims in the long run".

Mr Langham said: "Look at how much money is going into the Singapore market and it is taking bets in some geographic regions with no data."

Mr Toffanello responded: "History has shown this is not going to work. Companies writing business that way are destined to destroy shareholder value. It won't end well."

Mr Enthoven said the attitude to catastrophe risk had seen a phenomenal change in Australia. "Two to three years ago we were being told it's really hard to support your prices. Now there's a flood of people wanting to get on our programme…it's not wishy-washy capital, it's serious paper."

Mr Kirk agreed. "There's been surprisingly renewed enthusiasm from the reinsurance market. People just want to write the aggregate now. A few years ago I was being lectured about [the state of] the Australian market; they said they weren't going to write [business] here; now that's all gone out the window."

In the context of Australian and New Zealand portfolios being a means of global diversification, Mr Eder warned that underpriced covers were not good diversification. Discussing competition for the region's reinsurance business, Mr Eder said he was confident cedants were well aware of the reinsurance support over the last five years and appreciated their business partners' reliability and capital strength.

Mr Langham said: "The reality is, it's not new capital [but] the economic conditions are right. Are buyers recognising the longevity of the relationship with the traditional reinsurance market?"

Asian market expands

Mr Humphreys raised the Asian market's growth. "Australia is a safe, predictable, easy bet compared with the rest of the region, but Singapore is very proactive and attracting people there."

Mr Giles Ward, ACE Country President, Australia and New Zealand, said the growth was driven by differential pricing between Asia and the London market. "Clearly it's different. You can get the same stamp cheaper in Singapore than in London."

Mr Humphreys said that "happens everywhere – look at London versus Bermuda. It happens [in Australia], too". The same risk could be priced differently in Sydney and Melbourne.

Mr Edmond moved the discussion to a perennial topic, the insurance industry's talent shortage.

"In graduates' minds, is insurance 'getting any sexier'," he asked.

Mr Day said the focus needed to be on gender diversity in senior management – "it's just not there at the moment". But he said graduate programmes were attracting better quality candidates compared with a decade ago and the industry was offering more diverse career paths, with opportunities in finance, IT, risk engineering and other fields.

Mr Plant agreed. "The quality of applications and the diversity of backgrounds have improved. We must retain graduates once they rotate through the business. There are some interesting roles developing."

Insurance competes for employees

Although insurance competed against banks for potential employees, the industry's ability to better weather the GFC's impact had improved its image and appeal. Mr Humphreys noted Lloyd's new CEO was female, which was a positive move. But he lamented that issues like affordability of child care still affected women's ability to work.

Mr Eder agreed the industry needed flexible work arrangements.

Allianz Australia Ltd Chief Financial Officer Mr David Hosking said there had been "a few bumps and bruises" during the GFC, but the industry had "carried itself well". "We're not so much in the shadow of the banks any more. Working in insurance is now seen as presenting great career opportunities."

Mr Ward agreed the industry now offered better career paths and more diverse opportunities.

"Young people are interested in building and accelerating their careers. They are less inclined to settle into a slow climb up the corporate ladder. Companies are more likely to attract talented people when they reward execution and performance, and offer opportunities to develop careers in different disciplines or locations."

Mr Edmond said graduates were "more focused on career paths than getting on the treadmill and seeing what happens. This industry has a good story to tell in diversity of career paths".

Mr Day agreed. "The industry is providing people with choices. For example, Suncorp has just established a specialist career pathway initiative, which enables people to have the choice of staying within a specialist area rather than becoming managers to progress their careers. We're attracting and retaining talent though things like work-from-home initiatives. The industry needs to retain people rather than losing them."

Wages 'too high'

As the discussion turned to managing costs, wages was seen as a key factor. "It's not a lack of talent, it's a lack of affordable talent," Mr Humphreys said. Australian wages were much higher than those the UK, with a "decent claims person" earning at least A$100,000 in Australia.

Mr Ward agreed wages were an issue. "With industry wage increases running ahead of inflation, and ahead of growth in some product lines, the result is pressure on margins in sectors of the industry."

Mr Toffanello said because Australia was "a reasonably small market, people move around and therefore there's inflation. With three or four specialists in a market, it's like musical chairs with salaries 30% higher".

The Asian market's growth also fuelled wage inflation. Mr Langham said Asia was drawing talent away from Australia. "A lot of good talented people from this market have gone into Singapore in recent years. You can't get people from the UK to come here anymore; it's too hard for them to get into the housing market now."

Mr Hosking agreed wages, like any expense, were "an issue, 2%-3% can make the difference between a target ROE and a ROE that's sub cost of capital. There's only so much you're going to get from your customer; you have to look at all costs, including **acquisition**, internal and employment costs. There's no easy answer".

Every cost had to be scrutinised carefully and relentlessly. Mr Hosking likened it to painting the Sydney Harbour Bridge – "it's a continuous process".

Compliance costs onerous

Compliance costs raised more ire than wages. Mr Hosking said, tongue in cheek: "There's not enough hours in the day for me to rant on that one. The reality is, apart from stand-alone compliance functions, it is not an easily identifiable separate cost." Insurers were being asked to prove the impact of compliance costs on their bottom lines, which was hard because compliance costs were more of an opportunity cost.

Mr Kirk said the impact was greater for small insurers. "For example, we must have a majority of independent directors. That's not insignificant – it all adds up. It's the overall impact.

"We're a relatively small country and we want a regulated environment but there's competition to lower costs. We have more politicians per head than many other countries and they're dreaming up [more regulations]. We're competing against countries that have lower costs."

Mr Enthoven said the problem was a layering of compliance requirements. "Individually they're OK but, in the aggregate, it all adds up." For example, new anti-bullying requirements demanded extra monitoring and additional **board** presentations. "Clearly no one wants bullying in the workplace, but it all adds up. Regulators don't conceptualise the collective impact of iterative regulation."

Mr Ward said: "**Board** meetings are becoming more focused on compliance and regulatory issues, which means, in relative terms, there is less time to spend on business strategy than there should be."

Regulation increases, despite insurer strength

Mr Hosking said he was more sanguine. "As part of the financial services industry, we are custodians of other people's money. It's fair game for regulators to look at us. Mis-selling of risk products globally" had been a problem.

"From a prudential perspective, we've been safe in Australia, but I can see where the agenda's going. As a community, do we want to accept the chance an insurer might fall over, no matter how remote that risk is?"

Mr Langham said the industry was told regulatory reform was over and there would be no more changes, but "two months later something else comes along".

Mr Toffanello agreed. "APRA likes to engage in a different way, but it's still prescriptive. We want a world with certainty, so we must have regulation. With increasing oversight and reporting requirements, the cost for compliance - in terms of time and resources - continue to escalate, sometimes with very little to gain for the regulated entity. This is especially harder and more expensive for smaller companies.

"It's difficult for the industry to convince APRA we manage risk every day, that's what insurers do. Apart from AIG, no insurers were affected badly in the GFC; we fared well as a whole. The industry has shown a remarkable resilience; we did so much better than the banks."

Mr Mark Lingafelter, Managing Director of Chubb Insurance Co of Australia Ltd, said Australia's regulatory regime was considered best practice and being copied by other nations.

Mr Langham agreed. "Yes, the model's being exported. Singapore is copying the APRA model; **Hong Kong** is doing something similar. Insurers will need more locally-based capital. That will affect pricing in those markets."

Allegiances head offshore

When Steadfast **Group** Ltd CEO and Managing Director Mr Robert Kelly joined the discussion, the focus shifted to broking. Mr Kelly said the broking sector also was impacted by the push for higher wages.

"Today, if a brokerage's P&L is under 50% in wages, we do handstands. In the past, if your cost base was 20% it was high; I'**m** now seeing 60% of revenue going into wages in distribution. We need to align with strong, powerful capital, but there's [a plethora] of money and we have to play to the orchestra we are in front of, we must look outside Australia," Mr Kelly said.

"We can't always keep our allegiances [in Australia], and that will happen more because a lot of capital around the world is wanting better returns in sophisticated markets like Australia. That's something we must look at - models without the overhead structure of some of the bigger companies. We must align ourselves with that, because the real challenge of traditional models is with cost structures.

"We must look at companies with thin head offices and delegated authority. Those that want to share profits, not gouge commissions. It's a warning to traditional insurers in the Australian market to not just reduce costs by reducing commissions. There are others outside the parameters of the traditional APRA-regulated insurers."

Mr Day questioned whether that had changed in the last 20 years. "Doesn't it just go in waves?"

But Mr Kelly was adamant there had been "a paradigm shift". "It used to go in waves, with ebbs and tides, but capital is more sophisticated, and this market is, too. The cost to do business in Australia is far too high. It takes a monolith to feed up to 5,000 people. I'**m** saying delegate to your distribution, give authority to distribution, let them do it for you and profit share."

Moderator and Clyde & Co Partner Mr John Edmond finalised the discussion by asking participants for one thing they considered would improve the industry this year. The responses varied.

Mr Mark Lingafelter, Managing Director of Chubb Insurance Co of Australia Ltd, favoured underwriting discipline; XL **Group**'s Regional Manager for Asia Pacific Mr Craig Langham innovation; Mr Richard Enthoven, Managing Director of The Hollard Insurance **Company** Pty Ltd, finding a way to make social media work for the industry; and Suncorp CEO **Commercial** Insurance Mr Anthony Day said: "Reducing the cost of distribution, no matter which channel we use; and meeting our customers' needs in each of our markets."

Calliden Group CEO Mr Nick Kirk favoured adapting to change; QBE Executive General Manger Corporate Partners & Specialty Mr Tim Plant creating choice for customers through multichannel distribution; and Mr Robert Kelly, CEO and Managing Director of Steadfast Group Ltd, also spoke of the need to work with distribution channels.

Allianz Australia Ltd CFO Mr David Hosking was concerned about pricing. “We have worked hard to get the margins to where they are now and it looks like we’re about to give it away in one fell swoop.”

Mr Pietro Toffanello, Managing Director and Regional Treaty Manager, Asia & Pacific, for General Reinsurance Australia Ltd, was keen to see greater “clarity and transparency in the risk transfer process”, and Mr Giles Ward, ACE Country President, Australia and New Zealand, said talent management was “an ongoing battle; we need the right people with the right skills”.

Guy Carpenter Pacific Region Chief CEO Mr Tony Gallagher’s focus was on harnessing technology and information, and creating new products. Mr Humphreys said reducing duplication was his goal.

Mr Heinrich Eder, Managing Director of Munich Re Australasia, stressed the importance of risk commensurate prices for a sustainable market and the benefits of increased resilience for keeping insurance prices affordable.

Moderator and Clyde & Co Partner Mr John Edmond moved the discussion to a proposed class action being mounted by plaintiff law firm Maurice Blackburn against the Queensland Government. The action is seeking more than A$1 billion (US$902 million) to compensate property owners who sustained damage in the 2011 Brisbane floods.

Maurice Blackburn alleges improper management of water storage dams was responsible for much of the devastation. Bentham IMF is funding the action. Mr Edmond asked whether any insurers were likely to join, but no participants responded in the affirmative or said they were aware of any insurers joining.

Mr Edmond sought participants’ views on litigation funding and whether any insurers were providing input to a Federal Government request for submissions on litigation funding rules.

“Unfortunately [rules] have been developed reactively because of court decisions, rather than proactively. The UK has no class action regime, but one is being developed there in the wake of post-global financial crisis (GFC) claims,” he said.

Mr Giles Ward, ACE Country President, Australia and New Zealand, said: “While any one case may not have significant market repercussions, the broader issue of class action funding in Australia is likely to. The trend towards class actions has been going up for a few years now. Inevitably, it will increase litigation and settlement costs.”

Class action maths required

Mr Mark Lingafelter, Managing Director of Chubb Insurance Co of Australia Ltd, said his company had had class actions on its radar for about five years “in terms of likely changes with the maths in professional lines”. The advent of litigation funders, contrasted with the size of the premium pool, was “a concern”.

“We as an industry must accept there’s a lot of support from the government for consumer protection. But it’s a reactive regime.” Litigation funders in Australia were in “an advantageous position”. They could “sit and wait and don’t have to go through some of the same steps as in other regimes. There’s a pretty low bar”, compared with other countries, Mr Lingafelter said.

He agreed with Mr Edmonds there was a need for reform.

Lloyd’s Australian representative Mr Adrian Humphreys suggested most insurers built the potential for litigation into their pricing. He did not expect any legislative change “until it affects insurance affordability. When affordability becomes a problem, [the Federal Government] might look at the nature of the [domestic] market”. He cited a lack of professional indemnity (PI) insurance for financial planners as an issue, but said it was insufficient alone as a catalyst for change.

Regulator wins rare

Mr Ward said the threat of class actions was “a giant stick”, but “economically it may not be the best way to achieve protection and regulate the market”.

From a political perspective, Mr Ward could see why regulators might be happy for civil court processes to occur. “We have seen criticism of regulators for not having many wins and they are perhaps prepared to let someone else take it on,” he said.

Mr Edmond said regulators were sometimes happy to start investigations, “then step back and allow plaintiff law firms to rake over the coals”.

XL Group’s Regional Manager for Asia Pacific Mr Craig Langham said litigation funding posed a challenge to the industry because “class actions are huge claims, particularly in PI”.

Mr Lingafelter was concerned the industry had not priced adequately for potential large PI claims. “We spend too much time looking in the rear view mirror. Do the maths on your D&O book going forward; I’m not sure the industry has the pricing model right.

“It’s a big call to offer entity coverage for large public companies. The industry has not woken up to the [potential] severity of the impact. The industry hasn’t done the maths,” he warned.

Mr Edmond queried whether there was increased awareness among directors and senior management of the need for higher limits or lower deductibles. “Do we need an event before capacity will dry up?”

Insurers ‘have broad shoulders’

Mr Lingafelter said he was “not sure what more we need as a wake-up call, but there have been a series of very large class action losses over the last five years and more are in the pipeline”.

Mr Ward agreed. “The problem with PI is there are usually a small number of very large losses so, if you haven’t been touched by one of those losses, there can be a perception you are still winning. But that assessment doesn’t give an accurate picture because the outcome may be very different next year.”

Mr Humphreys said there was a perception “big insurers can take it, they have broad shoulders. It’s only if it affects consumers that there’s any political willingness” for change.

Suncorp CEO Commercial Insurance Mr Anthony Day said there is too much duplication between manufacturing and distribution. He said: “How do we reduce costs between the two? We’re not delivering products as efficiently as possible. How best can we reduce manufacturing and distribution costs? If we can get to that, we can improve the industry.

“For example, brokers have different technical platforms, but it adds costs and that’s silly. We all do our own thing and think [we’re] differentiating. The customer looks at the product, not if we do it better than [another insurer]. We need to focus on that to reduce costs.”

The issue of aggregators entered the discussion and Mr Day said the Federal Government was pushing for them to get into strata business in north Queensland. “Why do we need an aggregator? That’s what a broker does; they’re an aggregator in themselves.”

While Mr Day did not consider the aggregator market was large in Australia, particularly compared with the UK, other roundtable participants disagreed.

“It’s already here. You see it on TV every day,” Mr Robert Kelly, CEO and Managing Director of Steadfast Group Ltd, said.

Mr Richard Enthoven, Managing Director of The Hollard Insurance Company Pty Ltd, said: “A lot of businesses are doing it here. Aggregators don’t influence what insurers charge; it’s the insurers’ fault if they get the pricing wrong. They got their pricing wrong in the UK, but that’s not the aggregators’ fault.”

Price correctly for strong base

Mr Kelly responded: “This market forgets – it’s your capital, you price it. If you price correctly, you will have a strong base market. I see it all the time.”

Allianz Australia Ltd CFO Mr David Hosking said while everyone was price conscious, some customers would always buy on price alone. Aggregators were writing more business today than they did yesterday, but many customers still liked a brand and its heritage, “so it’s not a race to the bottom”.

Mr Enthoven agreed. “The personal lines landscape would be very different if customers’ only concern was price.”

Calliden Group CEO Mr Nick Kirk accused insurers of making it hard for brokers by avoiding the ability for them to conduct strict product comparisons. When his fellow insurers argued they were trying to differentiate, he said: “Yes, but is that differentiation what the customers want? If motor is pretty standard, other than how you’re treated with a claim, why not chose the lowest price on an aggregator site? Big companies overcharge long-term customers and that’s the truth.

“You can talk about differentiation [being for customers], but that’s not why we do it. It’s a deliberate choice [to have different brands]; it’s about what insurers want, not consumers. You have different brands to maximise returns.”

Mr Day said customers all **buy** in different ways. “We have multiple brands because customers want different things. They all have different experiences, and want those experiences, an aggregator is one experience.”

Services move to aggregation

The participants agreed most service industries were moving towards aggregation and the trend would accelerate. “Go to Google and you can get multiple [insurance] quotes within four minutes. Why would I pay again to an aggregator **site**?” Mr Hosking said.

As Mr Edmond steered the conversation towards other changes in distribution, retailers’ moves into the insurance market and telematics were hot topics for discussion.

Mr Enthoven said retailers were “the big dynamic”. “They have more opportunity to disrupt the market than aggregators, they deal with price and brand in one and they have all kinds of customer insights we as insurers will never, ever have.”

Mr Kelly agreed. “In reality, 90% of people go to Coles or Woolworths weekly.” And Mr Humphrey said: “They can even tell when [their customers] are going on holidays.”

While Mr Tony Gallagher, Guy Carpenter Pacific Region CEO, thought technology would change distribution and telematics would change the product, others were sceptical of telematics’ ability to make a difference in a relatively small market.

Mr Kelly said: “How can you do that with 23 **million** people and make it worthwhile? You have to be realistic about applications that require volume. This market is not dynamic, wired up and you suddenly write A$4 **billion** (US$3.6 **billion**) of premium. We must be careful with innovation in a small market. You must dominate the market or you are wasting your time.”

The roundtable participants considered emerging risks and Steadfast **Group** Ltd CEO and Managing Director Mr Robert Kelly’s key concern was fidelity coverage. “Insurers should start rating it, not just including it in management liability and D&O. It was once a 20-page application, now it’s being paid out hugely and not being rated.

“We have had three cyber attacks this year that have flat-lined brokers’ systems. It’s an emerging risk and should be in a separate class that’s underwritten, not just [provided as] an add-on. If we don’t transfer the risk, we will have some real issues going forward. Eventually people will shut down their systems with internet access.

“I am horrified no premium is being allocated. No one has a clue, attacks are happening in a different way every day.”

Mr Kelly said he had “just spend a considerable amount of money on 280 audits of brokers’ back offices.

“I felt like jumping off the roof at the finish. I don’t think [cyber liability] is going to be insurable long term. There are so many wide open ways people can get in. You close the door and another one opens. You can exclude it but then the product is completely inane. Private networks will come into their own, where no one can get in. We virtually have all-risks cover at the moment and no one underwriting it actually understands the depth and width of the coverage and what’s occurring.”

Cyber liability uninsurable?

Participants agreed cyber liability as a whole was perhaps uninsurable. Mr Giles Ward, ACE Country President, Australia and New Zealand, said: “Although there are clearly certain parts of the risk the industry can envisage and provide for, I don’t anticipate blanket coverage against everything bad in the cyber sphere.”

Lloyd’s Australian representative Mr Adrian Humphreys said the same issue occurred with cross-border business interruption (BI), for example, after the Thailand floods. “No one had a clear view of the exposures. You’re dealing with different cultures, legal systems, regimes. You never know what the risk is until it hits you. It’s like asbestos, it’s the unknown.”

Mr Ward said client boards were now more aware of cross-border BI risks, “but it’s a complex area and there’s a lot of risk that is difficult to get a handle on, particularly for companies expanding overseas for the first time”.

On the topic of innovation, XL **Group**'s Regional Manager for Asia Pacific Mr Craig Langham said the industry must provide new solutions that go well beyond traditional products if the industry is to remain relevant to its clients. “We must find new ways to look at new risk and deliver new solutions.”

Mr Pietro Toffanello, Managing Director and Regional Treaty Manager, Asia & Pacific, for General Reinsurance Australia Ltd, said there were always “known unknowns and while from one side the industry tries to cater for clients’ needs, on the other it has to face uncertainties and limitations connected with availability of data to develop reliable pricing models and the ability to develop products that are relevant to clients”.

Clients’ needs were continually evolving and, particularly for larger insureds, the more risk they chose to retain, the more they marginalised insurers.

Tattooists’ ink – ‘new asbestos’

Mr Humphreys said the “new asbestos” could be something as obscure as tattooists’ ink imported from **China**. “Is it safe? It’s just a random example, but it’s always something you haven’t thought of that can side swipe you.”

Another potential emerging risk was medical malpractice, for example the recent class action for faulty hip replacements. “We model for CATs and capitalise for them so we are prepared, but it’s random risks that often **lead** to failure,” he said.

What will improve the industry? Class action and litigation funding Pricing and aggregators Emerging risks

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