

# THE FULLCOVER

MDS GROUP MAGAZINE • SHARING OUR PASSION FOR RISK AND INSURANCE



ALLIANZ CEO  
**OLIVER**

**BÄTE**

RARE INSIGHT INTO  
THE GERMAN GIANT

**MOZAMBIQUE**  
A RISING ECONOMY

# AVIATION

PUSHING THE BOUNDARIES OF INSURANCE

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**JOSÉ MANUEL FONSECA**  
MDS Group CEO



## EDITOR'S LETTER

All around us the world is changing, and so is the risk landscape. The pace is overwhelming; the last few years have changed the way we communicate, the way we buy things, how we take care of our health and our plans for the future. New diseases or new forms of old diseases have appeared, new concepts such as 'digital', 'artificial intelligence' and 'sharing economy' have become part of our vocabulary, sci-fi ideas such as autonomous vehicles and cyber attacks have now become realities and this is before we mention the deep unrest within the geopolitical landscape. The West is no longer the 'centre' of the world as activity in the East and South have a greater influence on the worldwide economy. It's good to know that, in the midst of all this chaos, great, reliable institutions such as insurers are still just that – reliable, having bravely overcome the financial crisis with their reputation intact. Even if, as Oliver Bäte, CEO of Allianz Group tells us in this exclusive interview, they are constantly adapting to the new challenges, namely that of a digital world.

While survival demands constant adaptation to disruptive environments and technologies, we should never forget the human factor, and there's no one better than Ralph Mucerino, a senior AIG executive and longtime friend, to tell us how this was always his priority during a highly successful career.

At FULLCOVER we always keep pace with the times, looking forward, bringing you the latest news on risk and insurance and sharing views on this changing world. Among the many interesting articles we have selected for you, you'll find 'Anticipation is not solution' by Devadas Krishnadas, an article discussing new ways to transact insurance in 'The Sharing Economy', an interview with Gabriel Bernardino, the Portuguese chairman of European supervisory authority EIOPA, a piece about Mozambique and its developing insurance sector and our usual technical dossier – this time dedicated to aviation risks – with information that varies from the date of the first insurance of an aircraft to solutions for new realities such as space mining. Other articles include the latest news about our Group and Brokerslink with a special piece about our partner in Poland, EIB.

With FULLCOVER 11, as usual, we promise to take you on a journey highlighting the recent developments in risk and insurance. So fasten your seat belt and enjoy the flight!

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INTERVIEW WITH ALLIANZ CEO

# OLIVER BÄTE

For over 125 years, the financial services giant Allianz has been providing global insurance and asset management support to more than 86 million clients in 70 plus countries. FULLCOVER speaks to Oliver Bäte about the path to this success and how he intends to ensure Allianz remains a market leader in the digital world.

**Before choosing a career in insurance you worked for a bank and served with the German Air Force. How did you end up working in this sector and becoming CEO of Allianz?**

After my apprenticeship in a bank and university studies, I went on to work for McKinsey & Company and I was originally eyeing the investment sector because I thought it would be very attractive in terms of career opportunities. Then I was given a task in the insurance sector and quickly realised that insurance is a really exciting and rewarding business. Insurers help customers in need and can help them navigate difficult life circumstances. It's a rewarding business to be in and there are a lot of opportunities to improve topics like processes and productivity. It's a challenge I could not resist. Having served this industry for 25 years now, I never had a moment of regret. As far as Allianz is concerned, I always admired the integrity and competence of its people. It's one of the most resilient institutions I know. So, when the opportunity to join arose ten years ago, I didn't have to think twice.

**What was the appeal of the insurance industry and in particular a senior role with Europe's largest insurer?**

What makes the insurance sector most appealing to me is very simple: Insurers are the backbone of society: no large infrastructure project is possible without the involvement of insurers, we are long term investors and also bring stability to markets, we use our assets to support greater good. That includes throwing our weight behind environmental, societal and governance topics. And while individuals might not wake up thinking about buying insurance, most people rely on it to secure and grow their assets.

**When you were appointed Chief Executive in 2015 you launched your Renewal Agenda strategy with objectives to increase growth, lower costs and drive digitalization. How are you going to achieve these objectives and how is this progressing?**

Yes, two years ago we decided to shape our own future success and launched a set of efforts under our "Heritage and Renewal" program, many revolving

around digitizing our business in order to provide the best service possible to our customers. A service that meets them where they are, whenever they want and goes beyond the traditional set of products. This implies simplifying the entire product set value chain, collaborating across countries to bring the best of Allianz to scale for our customers everywhere. We have also sold activities, including Life insurance operations in Korea and Taiwan, that will permanently lift our earnings power and boost our capital position. We are making good progress on this journey.

**Your partnership with Brokerslink ensures Allianz has greater access to MidCorp customers within 100 countries, working towards your increased growth objective.**

**How do you see this partnership working now and in the future?**

I truly believe this partnership is a great opportunity. Brokerslink combines an impressive global reach and capabilities for commercial enterprise clients.

Allianz provides worldwide expertise and market access. We already see growth resulting from our partnership and this is just the start. As part of our strategy we want to expand our solutions for MidCorp customers and we also like to grow in the so-called growth markets.

**How have the recent natural catastrophes – the Mexican earthquake and hurricanes Harvey, Irma and Maria – impacted upon these targets and your growth potential?**

Allianz saw natural catastrophe losses of 530 million euros this fall compared to only 30 million one year earlier. That's a huge difference. There were the three hurricanes you mention, plus two earthquakes in Mexico and heavy storms in Europe. The amount of destruction brought to lives is devastating. It's exactly in such moments that I know what Allianz's purpose is: to help people get back on their feet. Those events will not deter us from our 2018 targets nor will they have any impact on our future growth potential. If anything, the third quarter 2017 confirmed just how resilient Allianz is.

**In addition to natural catastrophes, climate change and a changing geopolitical landscape are key risks. What role, if any, does the insurance sector have in mitigating these risks, what do you consider are emerging risks and what is Allianz doing to minimise their impact through insurance solutions?**

Climate-related risks, including natural catastrophes, are rising, as is geopolitical uncertainty. Insurance can't cure these ills but it can mitigate the impact and help people and businesses to become more resilient. Insurers are crucial to helping economies and societies bounce back after such set-backs. New threats include the risk of cyber-hacking. Allianz is a leader in cyber insurance, protecting companies and governments from the consequences of online attacks. More than simply offering financial support, insurers also offer a wealth of expertise and advice on how to prevent risks. We work hand-in-hand with customers on mitigating risks and improving resilience. Plus, as an insurer and long-term investor we also help to stabilize markets.

**Do you see any other challenges and threats to society, companies, insurers, mankind or our world today?**

I'd probably highlight two issues: one is climate change and the other is rising inequality – and here specially the uneven access to education. Both issues are at the core of many troubles we are facing today. On both, Allianz has a role to play and engages actively through either insurance or investments. Here more dialog with stakeholders is needed to address the issues.

Are we hopeful for the future – yes! But it is not getting easier, because climate protection and greater equality seemingly face short term trade-offs. Here our long-term perspective helps to keep working on those topics steadily.

**As Europe's largest insurer by market capitalization, how do you intend to maintain growth?**

Allianz will continue to grow in numerous ways. The best growth comes from serving clients well, because if we do, they will stay with us, recommend us and trust us with more of their assets. We also believe scale matters and as such we are always looking for the right partnerships and potential



Above: Allianz SE global headquarters in Munich

Below: Global Digital Factory, located in the eastern part of Munich in a former production factory



complementary fits to our portfolio. We will grow, but we will do so prudently and not get into acquisitions that are expensive and create no clear strategic value.

**Do you think there is a difference between the long and short term management perspectives of European and American insurers? If so, how do they differ?**

The fundamental differences are limited as customer behavior and innovation are the key drivers for the future of insurance in all markets.

There are some differences in demographic dynamics and the place granted to the private sector. The presence of insurance businesses will remain higher in the US with much larger business opportunities for insurance due to the more litigious environment. The demographics, the culture of entrepreneurship and innovation gives the US a larger growth potential for the business, too. Along these lines we can see the potential for M&A remaining larger in the US, with a lot of small/mid-size companies under threat

by larger players, who have more money to invest in innovation and brand. We also see the first insurtechs with cutting-edge technology ready to attack the large inefficiencies of the insurance market.

We believe that Europe remains a great place to do business despite a somewhat lower growth perspective, as freedom to operate and flexibility to underwrite business in the various EU countries is in many dimensions superior to what is required in the US to operate in all states.

**Your vision to create ‘the most digital insurance company in the world’ is widely reported, as well as is your operation in India being the driver behind Allianz’s global digitalization and Turkey responsible for your CX – customer excellence – software which gathers feedback prior to product development. Can you explain more about what’s happening in these countries and the initiatives they and others are developing?**

To be the most digital insurer is not our priority, we rather look at all the aspects

to attract customers and increase customer loyalty. In doing that, for Allianz, digital and global go hand in hand. For example, we just released a motor claims app globally, starting in UK and Austria. It was developed together by Allianz entities across the globe through our Global Digital Factory and supported by the internal IT provider Allianz Technology. The customer gets everything with one click: coverage details, claims status, their Allianz agent – and of course emergency assistance. But as a global, customer-driven project, it’s flexible enough that we can offer it in many markets with easy modifications.

**How quickly do you expect your subsidiaries and global functions to adopt digitalization and what innovations will you expect them to embrace?**

Our Group-wide “single digital agenda” focuses on both frontend and backend digitalization and the plan is for our subsidiaries and global functions to adopt all relevant elements as soon as possible.



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**Insurers are the backbone of society: no large infrastructure project is possible without the involvement of insurers, we are long term investors and also bring stability to markets, we use our assets to support greater good. That includes throwing our weight behind environmental, societal and governance topics.**

The subsidiaries are embracing innovation that allows them to focus better on the customer needs while at the same time increasing overall efficiency. At Allianz, we know that increased productivity and increased customer centricity are not mutually exclusive: we need to achieve both with digitalization, simplification and innovation.

**As you steer Allianz towards a digital transformation, where do the changes need to be made, how will they lower costs and what are your key areas of focus organisationally and geographically?**

Changes are already being made and will continue to be made in how we serve our customers. In order to have a systematic Group-wide approach, we have created customer journeys for retail, starting in one region then rolling out globally. These new digital journeys enable more direct interaction with the customer which reduces transaction costs—both for Allianz and our partners. On the other side, digitalization also means standardizing the backend systems to allow more automation. This speed of processing not only provides a better customer experience, but also allows us to leverage the benefits of scale resulting in lower admin costs.

We expect that digitalization will also increase our revenues. Not only do costs go down, but with new products, services and solutions delivered in a customer-centric manner, we expect business will increase as we attract new customers.

**Like MDS Group, Allianz is expanding its footprint in Africa. What are your thoughts on its long-term potential?**

Allianz has been in Africa for over 100 years. Today, we are present in 17 countries with 1,500 employees across the region. We believe in the outstanding long-term potential of the continent and specifically of its insurance sector. That's why we actively invest in Africa. Over the last five years, Allianz successfully expanded in South Africa, Congo Brazzaville, Mauritius, Ghana, Kenya, Morocco and most recently in Nigeria. Our strategy is clear, we want to continue to enlarge our footprint in Africa in the coming years, make a significant contribution to the development of the African economy and above all offer much needed protection to the African people. Apart from South Africa, most Africans

and African businesses are currently not insured, or underinsured. They have no safety net when they are hit by a loss.

Insurance also plays an important macro-economic role: it is a savings aggregator that reinvests in infrastructure, local equity, etc. Therefore, developing the insurance sector will contribute to accelerating Africa's development.

**During your recent speech in South Africa you said 'Africa is poised to become the digital insurance leader' – why is this?**

Anybody who comes to Africa these days to do business would agree with me that the dynamism and optimism tangible across the continent are impressive. Africa has become a place of bold entrepreneurship and striking innovation – especially in the digital space. In fact, “mobile” is everywhere. It is the fastest growing sector and innovation enabler in Africa. Already today, the continent is leading when it comes to mobile payment. This enables huge opportunities for insurance too, with the possibility to take out insurance policies and handle claims by mobile. As a leading pan-African insurer, Allianz will need to offer digitalized products and distribution channels that meet the needs of African customers.

**At the last FERMA conference, there was talk of customers looking to insurers to provide more insight and data to help them manage their risks more effectively. How do you see this evolving and how are you planning to manage their expectations?**

Since our foundation 128 years ago, data has been one of our biggest assets to help our customers. The rise of Big Data will now lead us to an even superior delivery and further expand our services – as expected by our customers. For example, via an insurtech application we identify next generation liability risks for business customers far earlier than by relying only on current methods. Or we develop a big data tool that will use over 30,000 public sources to identify and visualize supply chain risks for our customers. At Allianz, we are dedicated to supporting our clients by working with them to deliver the best possible solutions for the management, control and reduction of risks – wherever and whenever these occur.

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The partnership with Brokerslink is a great opportunity. Brokerslink combines an impressive global reach and capabilities for commercial enterprise clients. Allianz provides worldwide expertise and market access. We already see growth resulting from our partnership and this is just the start.







**Similarly, a change in consumer behaviour and how they interact with insurers is greatly impacting the insurance market – what do you see as the key issues and how are you tackling them?**

I see two main areas: First, how customers think about their lives, safety and values in general, and, secondly, shifting expectations towards service providers, regardless of industry.

On the first, it's often been quoted that millennials are less willing to plan or bind themselves for the long term, and would generally question traditional value models. I'd be careful to generalize here and it needs to be seen how such observations develop as Generation Y customers grow up, found a family, etc.

Coming to my second point, I'd like to point out that tech companies in fact have already altered expectations on customer interaction. Also, social media and comparison platforms provide unprecedented transparency on offer, price, and customer satisfaction. Without a doubt, today's customers are much more empowered.

These customers expect much more simplicity, speed and flexibility in interaction. Frankly, that is something insurance has not been famous for. We are investing to transform from a "push" to a more attractive "pull" business model. That needs a truly integrated distribution approach which after all will allow agents to spend more value added time with the customers.

**You've called for the business to be more client service than sales focused and suggested more client-facing personal advisory roles are necessary. How are you preparing your organization for this transformation?**

It is about enabling customers to get in touch with Allianz and to buy our products and services anywhere and anytime. The "pull" model implies that customers come to Allianz because they get simple and easy to understand products as well as superior service and advisory that exactly meet their needs.

We have started this transformation quite some time ago, for example, with a needs-based advisory approach in Germany or a modular product offer in Italy that allows customers and agents to easily configure products they like.



Global Digital Factory, located in the eastern part of Munich in a former production factory

New digital solutions allow our sales people to spend less time on administrative tasks like appointment preparation and rather focus on advice. For generating leads, for example, we optimize our digital marketing capabilities for better client targeting. We also have improved many digital support tools. All of this frees up time of our sales organization to really focus on advisory. Needless to say that we are continuously training our people to equip them with the right skills and capabilities to become superior advisors. And last but not least, we measure the satisfaction level of our customers with the so-called Net Promoter Score and permanently learn from it.

**How does this more customer-centric approach fit with your strategy for increased digitalization? The use of impersonal software to calculate premiums and process claims could be seen to contradict the more personal touch you're calling for?**

No, by digitalizing our business we increase our customer centricity. The two go hand in hand. Digitalization gives the customer more options for when and how they get in touch with us. It's all about the interfaces. The process itself has already been automated for the last 20 to 30 years.

Through digitalization we can offer customers the choice. When the customer reaches out, whether to make a claim or

request a quote, they can decide how they interact with us, whether via their mobile, via a bot, via email, or, if they prefer a more personal touch, there will always be an option to contact a call center, their agent, or their broker. Customer centricity means giving the customer the choice over how they experience insurance.

**In the last few years, Allianz has invested in emerging countries such as China. Where and what markets do you believe will develop further and what is your strategy to support them?**

Allianz Group has been active in many emerging markets for many years, and we aim to further strengthen our presence in promising economies in Asia, Africa and South America. This follows our strategy of expanding our footprint beyond our historical strongholds in Europe and enhancing our profile for long-term, profitable growth. But we are not under pressure and would only go for acquisitions or partnerships that clearly fit in strategic, financial and cultural terms.

We do believe that bringing our risk management expertise, combined with our sustainable, long-term perspective, to these markets is also supporting them on their journey for building the necessary environment for business growth and to create better living standards, health systems and financial safeguarding for their people.

**In 10 years time, what type of technology do you think people will want to use to manage their insurance portfolio?**

We expect digitalization will continue to evolve as an integral part of our lives and our customers' lives. Doing things in a digital way will be the prevailing way. The number of connected ecosystems will increase as the Internet of Things allows more devices to be connected and utilized for insurance as a service. This will create even more interfaces for the customer to interact with us, when and how they choose. Customers will have a wide choice of what interfaces they could use to interact with us or manage their insurance portfolio ranging from their mobile phone or connected watch, through to TV, car or maybe even their toaster.

However, I believe that face-to-face interactions on issues that truly matter will increase.

**For years, there has been a special relationship between Sonae SGPS (one of the MDS Group shareholders) and Allianz. At first, Belmiro de Azevedo was a member of the Allianz International Advisory Board, but now it is Paulo Azevedo, Sonae Group co-CEO. Can you tell us more about this Board and the contributions from Belmiro and Paulo?**

Firstly, please allow me to express how deeply saddened I am by the passing of Belmiro de Azevedo. I send my heartfelt condolences to his family and friends. It was an honour to have known him, he was a great person and we will miss him. I always had the highest respect for the guidance we were receiving from Belmiro as well as from Paulo, who followed his father as member of our International Advisory Board in 2012, especially on the international market for insurance for small and mid-sized enterprises. This board is advising the Board of Management of Allianz SE, regarding strategic topics and particularly the international activities of Allianz Group. We are very lucky that with Paulo we can continue to count on the valuable market knowledge regarding Portugal and many other countries. I am looking forward to further expanding our collaboration.

**Can you tell us more about your operation in Portugal and whether you have any expansion plans?**

Our operation in Portugal has been running quite successfully over the years. Allianz is a reference in the local market, both in terms of performance and innovation. In fact, we are front runners on digital insurance transformation in Portugal, putting us in a privileged position to continue to gain market share, addressing new agents' and clients' demands.

Considering our track record, the consolidated operation and the current signs of economic recovery in the country, Allianz will continue to promote growth in Portugal.

**You've talked about the need for greater social mobility, is this why Allianz is involved with the investment ready programme 'Encouraging Future Generations'? Can you explain what this is, when it started and how you see it developing?**

For many years, Allianz supports children in need all around the globe. In our latest project, Allianz investment ready program, we are assessing start-ups with innovative solutions to improve life conditions for underprivileged young adults.

The project was launched in August 2017, and over 90 start-up-teams have applied. The winner will get funded with startup capital of 40.000 euros and be supported by Allianz mentors and business angels. This approach is very successful, because it is more than classical charity and generates long-term impact in the local communities.

**What are the main challenges you face leading an organisation that's nearly 130 years-old? Has there been a cultural shift since you arrived?**

Our current business strategy is still spot-on, while the challenges are amplifying: Political uncertainties are at higher levels, financial markets are still far from back in balance and technology companies are increasingly revolutionizing one industry after another. However, Allianz shows strong financial success. This means that we can embark on our transformation from a position of strength — it should not mean that we can sit back and enjoy the ride. Making sure a healthy sense of

urgency exists in the organization and creating a vision, a purpose that is worth coming to work for every day is a key priority for me.

**What drives you to succeed?**

It's the sense of doing something that will impact lives for the better. As a leader, I have to see the bigger context in which we operate and I have to communicate and stay in dialog with our employees, customers, investors and parts of society to understand and balance needs and interests. Ultimately, life is not about premiums and operating profit, it is about doing something you are proud of.

**The insurance sector is not seen as one of the most appealing sectors to work in. How can we change this perception and attract the best talent?**

As the competition is intense, insurers have to come up with fresh ideas to attract scarce talent. It takes more than posting job ads and going to university fairs, neither typical marketing campaigns will show effects as talent gets bombarded with such initiatives. What will stand out to talent will be how a company acts, whether what they read about it matches the experience they or their friends have with the company. Having modern communication tools like chat bots, presence on social media channels etc is one thing, but giving the future talent a taste of our values and commitments at every touchpoint of interaction is the key differentiator. With Allianz, top talent will often find their own values matching those of the company. Values of trust, integrity, competence and responsibility towards society.



Allianz Treptowers, Berlin

**What advice would you give to anyone considering or starting a career in the insurance industry?**

Times have never been better for starting a career in the insurance sector. Digitalization and changing customer needs are disrupting the industry and will keep creating new job profiles in the next decade. The transformation additionally leads to agile and open company cultures and attracts a broader spectrum of candidates. To succeed in insurance business talents will need more than good grades, they must be willing to take on responsibility, work collaboratively, be willing to learn every day and show that they can implement great ideas sustainably.

**How do you relax after a day's work? Do you have any hobbies?**

My first thought after work is my family and thanks to modern technology, I check in with them every day. Spending quality time with my family and travelling are my favourite activities. I also enjoy tennis and some Yoga and a good dinner among friends. •

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The rise of Big Data will now lead us to an even superior delivery and further expand our services – as expected by our customers. (...) At Allianz, we are dedicated to supporting our clients by working with them to deliver the best possible solutions for the management, control and reduction of risks – wherever and whenever these occur.

The Allianz Group is a global financial services provider with services predominantly in the insurance and asset management business. 86 million retail and corporate clients in more than 70 countries rely on their knowledge, global presence, financial strength and solidity. Allianz SE, the parent company, is headquartered in Munich, Germany.

## HIGHLIGHTS OF ACHIEVEMENTS

As an insurer and long-term investor, social and environmental responsibility is fundamental to our day-to-day business

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Score for ESG in insurance integration by Dow Jones Sustainability Index

**508**

Insurance and investment transactions assessed for ESG risks

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CO2 emission reduction per employee since 2010



Source: Allianz Group: facts & figures. August 2017.



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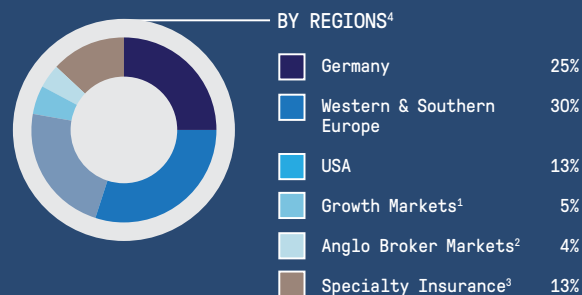
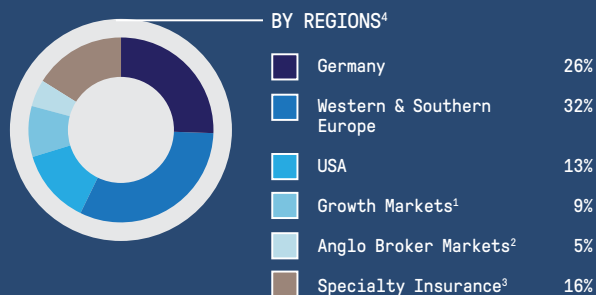
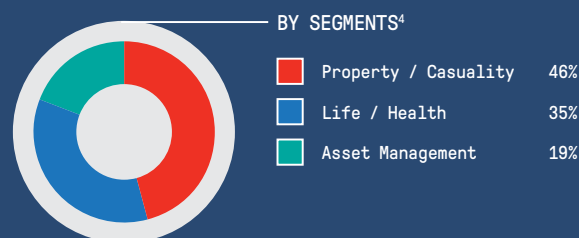
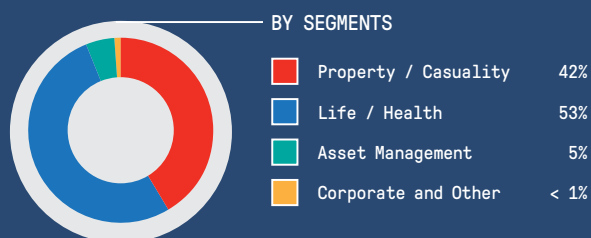


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### Life and Health insurance

- 2016 investment margin drives rise in operating profit
- Shift toward capital-efficient products was reflected in the rise of the new business margin to 2.7 percent

### Asset Management

- PIMCO flows stay positive in 4Q;
- Efficiency improves
- Full year 2016 sees better cost-income ratio.

<sup>1</sup> Asia-Pacific, Central and Eastern Europe, Latin America, Middle East and North Africa

<sup>2</sup> Australia, Ireland, UK

<sup>3</sup> Allianz Global Corporate & Specialty, Euler Hermes, Allianz Worldwide Partners, Allianz Re

<sup>4</sup> Relation of positive parts of operating profit. By segments: without Corporate & Other; All figures as per December 31, 2016

# ANTICIPATION IS NOT SOLUTION

## THE WORLD AS WE KNEW IT

BY DEVADAS KRISHNADAS

Over most of the last 25 years the United States has dominated the geo-political scene. It has consistently upheld its policy of promoting free trade and supporting international frameworks such as the UN, the World Bank, NATO and the International Monetary Fund or IMF where the US has the largest share of votes.

The post-world war II period referenced the perceived mistakes of the inter-war years. It also saw the advent of defining features of modern times – leadership of the United States and the promotion of internationalism.

The United States did not withdraw from the international scene but took on the mantle of leadership. It based substantial military forces in Western Europe, established the North Atlantic Treaty Organisation or NATO and introduced the Marshall Plan to reactivate the devastated economies of the West. In Japan, it similarly established permanent bases and made significant interventions – political and economic – to redirect the future of Japan away from the militarism of its past.

The United States also strongly supported the formation of the United Nations, the Bretton Woods Monetary agreement and the sustained promotion of free trade.

The United States projected its leadership through the agency of security umbrellas such as NATO, its naval fleets

deployed to the Indian Ocean, the Pacific and the South China Sea, defence pacts with Japan and South Korea.

Over most of the last 25 years the United States has dominated the geo-political scene. It has consistently upheld its policy of promoting free trade and supporting international frameworks such as the UN, the World Bank, NATO and the International Monetary Fund or IMF where the US has the largest share of votes.

For more than half a century these have been the defining geo-political, geo-economic and geo-strategic parameters and references. The US led with an emphasis on shared commitment to Trade even if not always Free Trade, recognition of the value of International Order manifested in tangible frameworks, stability under a benevolent security umbrella and the preservation of moral ideals as a premise for the use of force.



## Weak Signals

Weak signals are harbingers of change. Whereas in hindsight all may be clear, in foresight we take risks in detecting weak signals and in assigning them meaning.

## Lessons from Disruption

In the United Kingdom, in a range of Western and Central European nations – the National Front in France, the AfD in Germany, the PVV in Netherlands – we have and are seeing the rise of the new right wing. Brexit and the Trump Presidency are perhaps the most obvious manifestations of this weak signal.

These right-wing forces are disrupting traditional political trajectories. They are anti-globalisation, nationalistic, anti-immigration, and anti-progressive. They are also unenthusiastic about internationalism and its associated frameworks.

There are several lessons to be drawn from the phenomena of the rising right.

First, political leaders and their parties have to deal with issues at the practical level and not be limited to ideas and theories. Policies need to be translated into tangible day to day benefits to the individual citizen and not merely appear desirable at the conceptual level.

Second, maintaining a large political centre is in the interest of all mainstream political parties. A growing middle class with a healthy sense of optimism is critical to ensuring a broad political centre.

Third, alongside inclusive economic growth, maintaining a broad political centre is also about pacing the change in social norms. Changing long standing social norms often results in political push back.

Fourth, acceding to rapid changes in the social make-up through immigration makes the mistake of assuming a stable society is a self-enacting phenomenon. Far from it, societies are fragile and do not react well to abrupt changes especially on the 'street level' where the world rather suddenly looks and feels different.

Fifth, managing the internal perception of how a country is being treated on the international stage can be a double-edged sword. It is better for a country to be modest about its

importance than to exaggerate it and risk building up unsustainable expectations domestically.

The lesson from rapid change in social make-up is that identity politics is visceral and animal like. Once awoken it is difficult to put back into its cage.

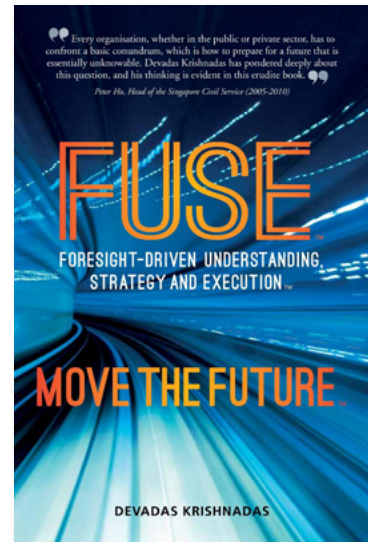
## The Time of Trump

The domestic focus of the Trump administration and its explicit nationalism would imply a diminishing of US attention if not commitment to the stability and security of Europe and Asia.

The Trump administration's abrupt lurch and shifts in its foreign policy, while confusing and sometimes perplexing, indicate a general lack of interest amounting to carelessness of foreign policy.

President Trump, in one of his first actions as President, withdrew the US from the Trans Pacific Partnership or TPP negotiations when it was already at its mature stage. His 'America First' message confuses and irritates America's trading partners who understand that trade rewards all parties, even if unevenly.

The mixed messages from various institutions – the White House, the State Department and the Department of Defence – on foreign policy intent reduces the credibility of the United States and increases the danger of strategic miscalculation.



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## Devadas Krishnadas Chief Executive Officer, Future Moves Group Pte. Ltd.



- Devadas is the Founder and CEO of Future Moves Group Pte. Ltd (FMG), a strategic management consulting firm. He is also an Independent Director of the reinsurance firm PartnerRe Asia Pte. Ltd. and the direct insurer, Auto & General Insurance Singapore Pte. Ltd.
- Prior to founding FMG, Devadas spent over 15 years in the Singapore Government, playing a key role in developing Singapore's security, fiscal and social policies.
- Devadas is also a recognized public intellectual and author. His latest book, The Seduction of the Simple, an anthology of his public commentaries, was released in 2016.

## The Coming of China

In contrast, the Chinese increasingly appear as rational, stable and more strategic.

The Chinese are pursuing a complex and multi-dimensional strategy of extending their sphere of influence through deepening financial, economic, political and security linkages.

China has formed strategic linkages with countries who are sources of raw materials to feed its hungry economy and who have young populations who will serve as sources of demand for its products. Across Africa, in South and Central America and in South-East Asia countries are all increasingly caught in the Chinese economic net.

China is not an inert large player. It has ambitions and these are geared by a world view which is informed by history and a visceral sense that they represent a civilisation not just a country.

China's strategic perspective is truly global. In March 2017, the first freight rail link between Western Europe and China was initiated between London to Beijing. It has taken ownership or is the key operator of several major transport nodes – the Greek port of Piraeus, the Pakistani port of Gwadar, the Sri Lankan port of Colombo are only the more notable examples of China's so called 'String of Pearls' strategy.

The new transcontinental rail link and the maritime initiatives are closely associated with the better known "One Belt and One Road" strategy which represents President Xi Jinping's vision of the economically networked China and Eurasia. The Chinese are not waiting for events to shape themselves but actively driving the realisation of this grand vision. Their approach is foresight in action.

[The lesson from rapid change in social make-up is that identity politics is visceral and animal like. Once awoken it is difficult to put back into its cage.](#)

Chinese leaders, almost incredulous over the advent of Trump and the Brexit decision, and more than a little alarmed these resulted from democratic processes, feel embolden to take advantage of the flux. It has strengthen their conviction that the centralised authoritarian model of governance is justified.

China's characterisation of itself is best thought of in terms of its historical persona of a benevolent tribute demanding 'Centre'. Those who position themselves as tribute nations will benefit while those which choose to resist or to challenge will feel the full pressure of its displeasure.

The Chinese can be expected to push for the Regional Comprehensive Economic Partnership or RCEP. This is an ASEAN wide Free Trade Agreement with Australia, China, India and South Korea.

The Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund and the One Road, One Belt strategies are practical, tangible and sizable commitments China has made to the future of greater Asia.

## Resetting the Compass

Countries do not make strategic realignments lightly. However, after the neglect of the George Bush years, the rhetoric centric Obama administration and the erratic nature of the Trump term, the compass needle of geo-political alignment is spinning from West to East.

## Anticipation is Not Solution

Foresight requires us to confront unpalatable prospects and places the onus for action squarely upon our own shoulders. Paying attention to weak signals – political disruption from rapid change, geo-political realignments and growing uncertainty, is critical to anticipation. But anticipation is not solution. For that, we must be prepared to respond and to engage in and with an increasingly uncertain world. •

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# THE SHARING ECONOMY

## A CHALLENGE FOR THE INSURANCE MARKET

BY JOANA CAMPOS CARVALHO

The terms sharing economy and collaborative economy have been used to refer to companies such as Airbnb, Uber, Taskrabbit and Craigslist who, by breaking the mould of traditional business models, have come to revolutionize the way in which we access goods and services.

Many companies seek to be part of this phenomenon, since it associates them with innovation or even disruption, increasing the popularity of their brand. The sharing economy is trendy – though no one is clearly saying what the sharing economy exactly is. The definitions are multiplying, with scholars seeking to introduce rigor to allow them to study the phenomenon and companies seeking to extend and blur its limits in order to join this trend which has conquered younger generations.

Most definitions of sharing economy include business models where a digital platform is used to connect people, allowing a better use of goods and services.

Digital platforms serve as intermediaries, allowing them to connect more efficiently the demand and supply of particular goods or services. However, caution is needed by those who view such platforms (and the companies operating with them) as mere intermediaries.

Analyzing the reality, we conclude that the platforms in fact, have differing degrees of intervention in the contract between users. On the one hand, the

platform serves only as a meeting point between the parties (in the case of Olx or Craigslist). On the other, the platform assumes a leading role to such a degree that it must be considered part of the main contract (as in the case of Uber, with whom the passenger concludes a transport contract). Between the two extremes there are platforms that influence the main contract by defining applicable contractual terms, setting prices and withholding payments in the event of a dispute, etc.

The existence of the platform as a third-party in the contractual structure poses major challenges to contract law, which essentially means to regulate contracts concluded directly between two parties. For example, in many cases the third-party turns out to be the player with the greatest power within the relationship, and it seems unfair that this party receives the profit (arising from commissions) without accepting part of the risk of the contract completion between platform users (for example non-compliance).

The second feature of the sharing economy is the fact that the business model allows a more efficient use of goods and services, acknowledging the fact that many fail to maximise their potential (idling capacity).

This more efficient use can be achieved through the shared use of a particular asset (type of access) or its reuse (for example by purchasing second-hand).

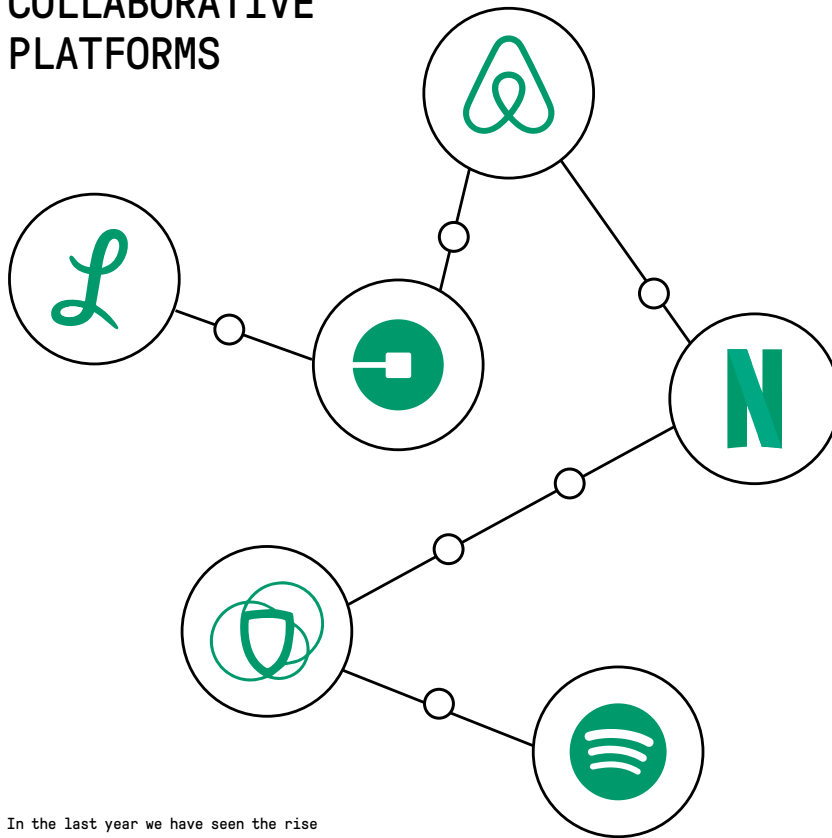
Nevertheless, improved use can be linked to this simple business model, due to it being less cumbersome than the traditional model or by granting greater responsibility to the parties, allowing more efficient access to a product or service. This is the case in the insurance sector, as we shall see later.

The shared use of goods is increasingly based on the fact that people value access to goods rather than possessing them. An example cited by Rachel Botsman and Roo Rogers, in one of the most important books on this subject (*What's mine is yours*, Harper Collins, 2011, p. 83), is that a person does not need a drill, there just needs to be a hole in the wall. Similarly, people do not need to have a car, they need to be able to move around by car and they do not need DVDs, only the movies they contain. This paradigm shift is what allows for the success of streaming companies such as Netflix and Spotify and carsharing firms such as Citydrive and Drive Now.

Finally, a significant part of the sharing economy platforms are peer-to-peer (P2P), which means contracts are concluded between two private people, as opposed to the traditional structure of business-to-consumer (B2C), between a professional and a consumer. For example, if I list my house on Airbnb, the contracts I conclude with the guests are P2P, as house rental is not an activity I engage in professionally.



## COLLABORATIVE PLATFORMS



In the last year we have seen the rise of several sharing economy platforms such as Lemonade, Uber, AirBnb Netflix, Friendsurance, Spotify

### The sharing economy and insurance

Contrary to what one might associate with such a traditional and apparently inflexible sector, this phenomenon has already arrived in the insurance industry.

Some companies use digital platforms to conclude insurance contracts, implementing business models that challenge the traditional structure of the insurance contract.

Currently, we can separate these business models into three different types.

The first is the company that manages the platform and acts as an intermediary, as in the case of German company Friendsurance. This business establishes partnerships with several insurance companies, offering insurance services at the same price customers would pay if they transacted directly with the insurer. From the premiums paid, the platform manager takes a commission and a percentage for its

handling. The remaining amount is transferred to the insurance company. The business managing the platform classifies customers into different groups and creates a fund into which it puts a percentage of the premium that was retained from each of them. During the year, this fund is used to cover claims costs and at the end of the year, what's left in the fund is distributed among members of the group. The insurer is only required to intervene when the amount available in the fund is insufficient to cover all claims. A similar business model is also followed by the English company Guevara and the French Inspeer (both only for car insurance).

The second is when the platform manager is the insurance company itself. The business model is similar to the previous one, the difference is that the platform only offers the insurance services of this company. In addition, the company manages the entire value of the premiums, though, as in the

previous model, only part is placed into funds belonging to different groups of customers. Lemonade is an example of this type of business.

The third is the self-management business model. This is where the company limits itself to provide a platform through which people can communicate, enter into and fulfil contracts. Groups are formed and each comprehensively defines the applicable rules (what is covered by the insurance, what documentation needs to be sent to the group, admission of new members, payment terms, etc). Usually no premiums are paid, instead members must have a certain amount available in their virtual wallet which is associated with their profile. When a claim is reported, members vote to decide whether it should be covered. An example of this is Teambrella where payments on this platform are made using Blockchain technology, ensuring members do not escape their payment liabilities.

Being a relatively new concept, it is very difficult to predict how the sharing economy insurance business models will evolve, but I think I can safely say that the insurance market of the future will pass – to a greater or lesser extent – through this. •

### Joana Campos Carvalho



Joana Campos Carvalho is a PhD candidate and visiting professor at the Nova Law School, in Lisbon. Her research focuses on contracts concluded through online platforms, especially those of the so-called sharing economy.

# DIGITAL CAPABILITIES

## A REVOLUTION IN THE MAKING

BY **ARMIN SHAEFER AND CARIN GANTENBEIN**,  
Zurich Commercial Insurance

Technology is changing the insurance industry in fundamental and exciting ways. Customers are forging new expectations based on their experiences with other sectors. New risk ecosystems are emerging, challenging traditional value chains. And our role as risk experts is being expanded by sensors, mobile technology and big data capabilities that are redefining the very notion of insurance.

Retail insurance has reached mainstream adoption in many of these areas. For large commercial and international program business, digital transformation is now starting to happen, with an accelerating pace over the last 12 months. This revolution is powered by new technologies that are changing the business model, increasing efficiency and consistency, improving service quality and making it possible for insurers to better interact with a whole range of stakeholders.

### Optimizing a fragmented IT landscape

In large commercial business, insurers often face a complex, fragmented IT landscape, including IT legacy systems with limited automation capabilities. Many highly repetitive tasks in the end-to-end process are manual and include a significant amount of data re-keying from one system to another. Robotic Process Automation (RPA) is a great enabler to driving efficiencies and improving speed and quality of service delivery. It can optimize this landscape, with its capability to take on many of the repetitive processes, freeing up highly skilled people to work on more complex and bespoke aspects of an international program.

### Dealing with unstructured data

Insurers are faced with large quantities of unstructured data. For instance, submissions come in a variety of formats, to be manually reviewed by underwriters and risk engineers, who structure and manually key these data into the various underwriting, pricing or risk engineering systems.

Cognitive computing (CC), more specifically natural language processing (NLP) capabilities, bring unstructured data sources together, distil the intended semantic and properly structure the information to support risk and claims experts with their risk assessment and decision making. NLP capabilities can also be applied to automated research of internal or external data, to provide insurers with relevant supplementary information and create a holistic customer risk profile. This can include financial reports, news feeds, expert reports, audit reports, or internal analytics sources.



## Armin Schaefer



Armin Schaefer is Head of Digital & New Technology for Zurich Commercial Insurance / International Programs. He is responsible for driving the digital agenda for the international program business and related B2B channels. He holds a Master in Computer Science from the University of Karlsruhe (Germany) and has 15 years IT management experience across the non-life insurance segments.

## Carin Gantenbein



Carin Gantenbein is Head of Business Development and Transformation, International Programs for Zurich Commercial Insurance. In her role, she is responsible for driving the strategic agenda for the international program business. She holds a PhD in finance from University of St. Gallen and a Master's degree in business administration, psychology and art history from Ludwig Maximilian University in Munich.

### Improving consistency between customer intent and coverage

International programmes are highly complex processes and for risk managers it is crucial to have certainty that their original intent is reflected in all the various insurance policies, ensuring there are no coverage gaps. Even in this highly complex area CC can enable an automatic review of the key elements of an insurance program (coverage, exclusions, deductibles or limits) across all local policies. Various jurisdictions, regulations and languages can be taken into account when comparing the local policies with the master policy, as well as with the original customer intent.

### Turning data into insights

Insurers, brokers and customers are starving for meaningful insights and industry benchmarking capabilities. Big data and analytics can shape the huge amounts of data available in the industry into meaningful insights. They give customers a clear overview of their portfolio, help them to anticipate risk trends and developments within their company, industry or geographies and enable them to put in place appropriate risk mitigation actions. Insights also support underwriters, risk engineers and claims handlers in their risk assessment, pricing or decision-making.

### Industrializing the current business model and creating a new ecosystem

New technologies enable a high level of processing and decision-making automation even for the highly complex business segment of international programs. Taking these technologies to the next level not only builds the foundation for self-servicing capabilities and straight-through quoting and claims handling processing – but can also turn machines supporting decision-making into machines making independent decisions.

Industrialisation, already common in the retail segment, is now being applied to the international program space. Examples include self-servicing channels leveraging smart chatbots, cognitive algorithms and analytical capabilities providing the potential for a fully automated risk selection and insurance purchasing process. New technologies can also reduce the distance between customers, brokers and insurers. Thanks to Application Programming Interface (API) and Distributed Ledger/Blockchain technology, all collaborating parties can become much more interlinked. Whilst today's information and transactional exchange is largely defined by email and attachment traffic, it is now moving towards a system-to-system connectivity and ultimately towards a 'platform-type' thinking. This creates a completely new ecosystem, where all players are interconnected in real-time, all sharing the relevant source of truth, revolutionizing the insurance industry.

### Challenges and Opportunities

The exciting digital transformation journey in international programs has begun and is picking up pace. There are challenges along the way. Data standards, governance, regulation, ownership, data and cyber security all need to be addressed in this process. One thing is clear though: digital capabilities bring opportunities that insurers cannot ignore; they enable compelling new set-ups and business models and create efficiencies in the value chain.

They will play a role, they are relevant, and they are here to stay. •

Note: Excerpt from the article "Digital capabilities transforming global programmes" previously published in Commercial Risk Online.

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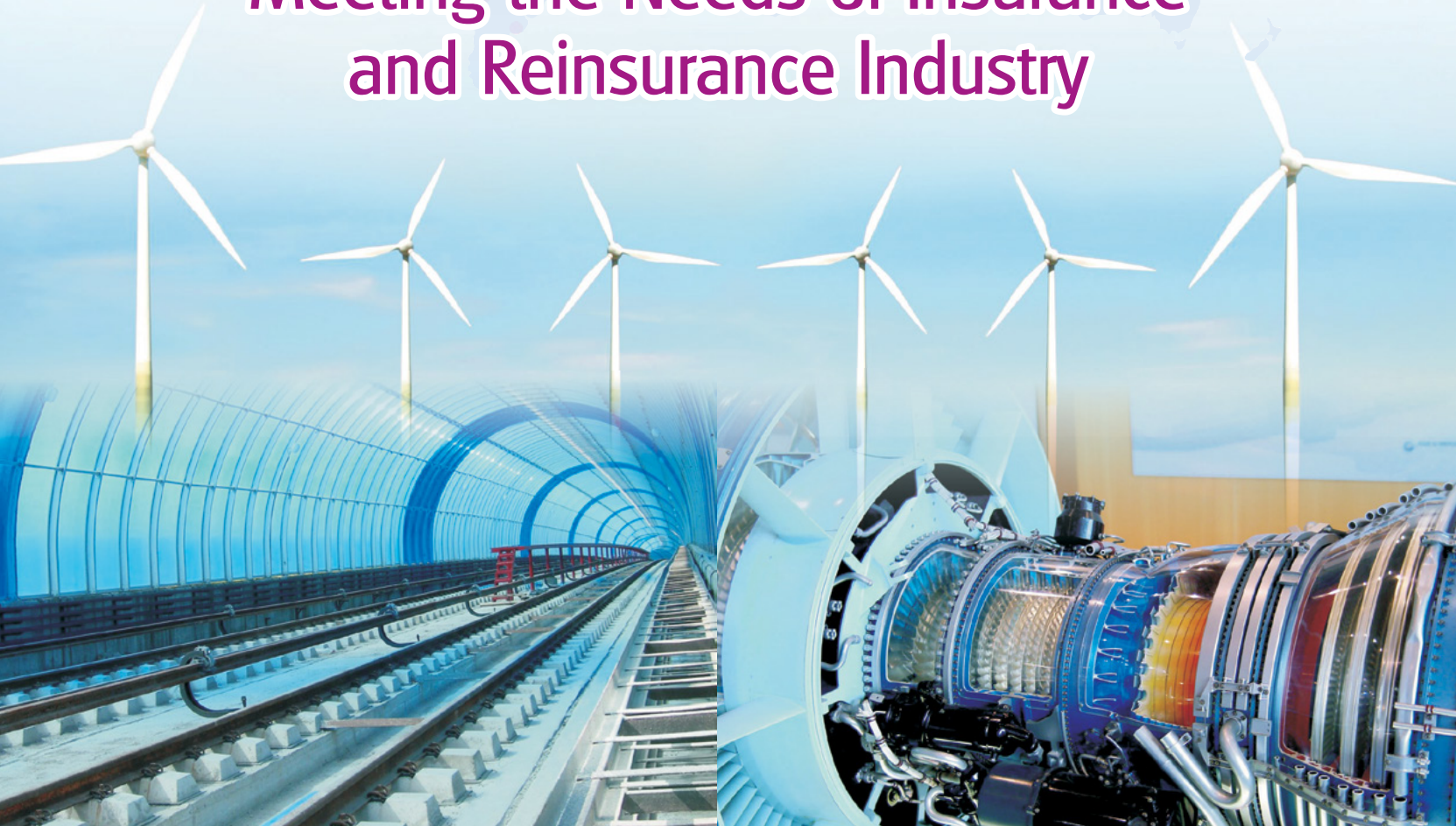
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STRUCTURAL CHANGES

FROM BELGIUM TO THE WORLD

FULLCOVER MEETS STEVEN BRAEKEVELDT,  
AGEAS PORTUGAL GROUP CEO

# STRUCTURAL CHANGES IN THE PORTUGUESE MARKET

Over its past three issues, FULLCOVER has profiled the top 3 groups at the top of the Portuguese insurance market. We started with Fosun (FULLCOVER #9), which holds Fidelidade, looked at Tranquilidade and Apollo Global Management (FULLCOVER #10) and wrapped it up with the profile of Ageas Group (FULLCOVER #11).

## **Insurer partnerships move away from banks**

There have been many changes in the Portuguese insurance sector. In 2010 – the year Portugal faced a major financial crisis that took four years to reverse – life business in the insurance market was worth 16,340 billion Euros. Seven years later, it had dwindled to 11,55 billion. This dramatic downturn reflects the appeal of different financial products in the market. For non-life, the 2017 market was worth 4,49 billion Euros.

The top 10 insurers in 2009 represented 78.5% of the market. With the exception of Allianz and AXA, most Portuguese insurers were owned by banking groups and along with Santander Totta Seguros, were supported by foreign capital. In 2017, only BPI Vida e Pensões (life and pensions) and Bankinter Life Insurance (a joint venture between Bankinter and Mapfre) were owned by a banking group and no insurer had Portuguese-majority capital investment. The top 10 insurers account for 79.86% of the market.

The financial collapse in 2008 and sovereign debt crisis of 2011, which led to intervention by *troika* in Portugal (a team comprising IMF, Central European Bank and European Commission members), had major repercussions for the banking

sector which reverberated throughout the insurance industry. National financial groups faced serious shake-ups; one dramatic example was on 3 August 2014 when Banco Espírito Santo was incorporated into Novo Banco (Espírito Santo owned Tranquilidade, T-Vida and BES Vida, rebranded as GNB Vida). On 15 December 2015, the bank Banif was sold to Santander and its insurer Açoreana was put under the control of Apollo Global Management.

## **Insurance and banking separate**

Between 2014 and 2017, some two billion Euros changed hands in Portuguese insurer acquisition deals. Bank-led financial conglomerates felt the need to release capital to comply with Basel ratios and banking union standards. “It’s all about regulations. Banks must have ratios conforming to Basel solvency rules and the stakes they have in insurance companies do not count towards the capital ratio. Therefore, when they exchange shareholdings for money, they end up with capital that is not recognised by regulatory ratio requirements,” says Carlos Maia, partner at PwC and insurance industry specialist. The capital



Changes to solvency rules and difficulties in meeting premium growth targets will lead to mergers. Companies will grow in size leading to theoretically, consolidation and stronger businesses in the long run. Scale may help, but scale alone is not the key to success. Efficient organisations, regardless of their size, have a competitive advantage and that's the driver of growth.

requirements demanded by Solvency II have motivated banks to sell off insurers, opening up the market to new players.

These businesses resort to the bancassurance blueprint; insurers exclusively agree to distribute products through bank networks, securing access to significant distribution channels, while strengthening their capital control of these operations.

Such changes pose new regulatory challenges. Lawmakers must not only assess how well new shareholders know the sector and its regulation, but ensure their medium to long-term business strategies are robust. Gabriel Bernardino, chairman of EIOPA, which regulates insurance in the EU, informed *Jornal de Negócios*: “These elements are key to insuring sound, prudent and sustainable business management; they identify potentially disruptive factors and conflicts of interest and guarantee risk-taking doesn't jeopardize policyholder protection.”

### Leaders and innovators

Changes to solvency rules and difficulties in meeting premium growth targets will lead to mergers. Companies will grow in size leading to theoretically, consolidation and stronger businesses in the long run. Scale may help, but scale alone is not the key to success. Efficient organisations, regardless of their size, have a competitive advantage and that's the driver of growth. You can expect — and this has happened before — that niche companies will emerge, assessing risk in highly-sophisticated areas or with highly-automated business models supported by innovative technologies. You can also expect new kinds of collaborative projects such as competing insurers sharing back-office services and differentiating themselves through their relationships with distributors and customers.

### Extending the global reach

These businesses have attracted new international players to the sector such as the Dutch insurer Aegon which, having acquired a 51% stake in Santander Totta, returns to the Portuguese market. These

companies will now be branded Aegon Santander Portugal Vida and Aegon Santander Portugal. Another market newcomer is the Chinese group Fosun; it owns Fidelidade, an insurer that secured 31.59% of the market in 2016 — 3.8% more than 2009. Apollo Global Management also made an entrance by acquiring Tranquilidade, Açoreana, T-Vida and Advancecare. It established the holding company Seguradoras Unidas and in 2016 secured 6.7% of the market. Ageas took over BCP-connected insurers and, more recently, Axa Seguros, which provides it with a 19.07% market share.

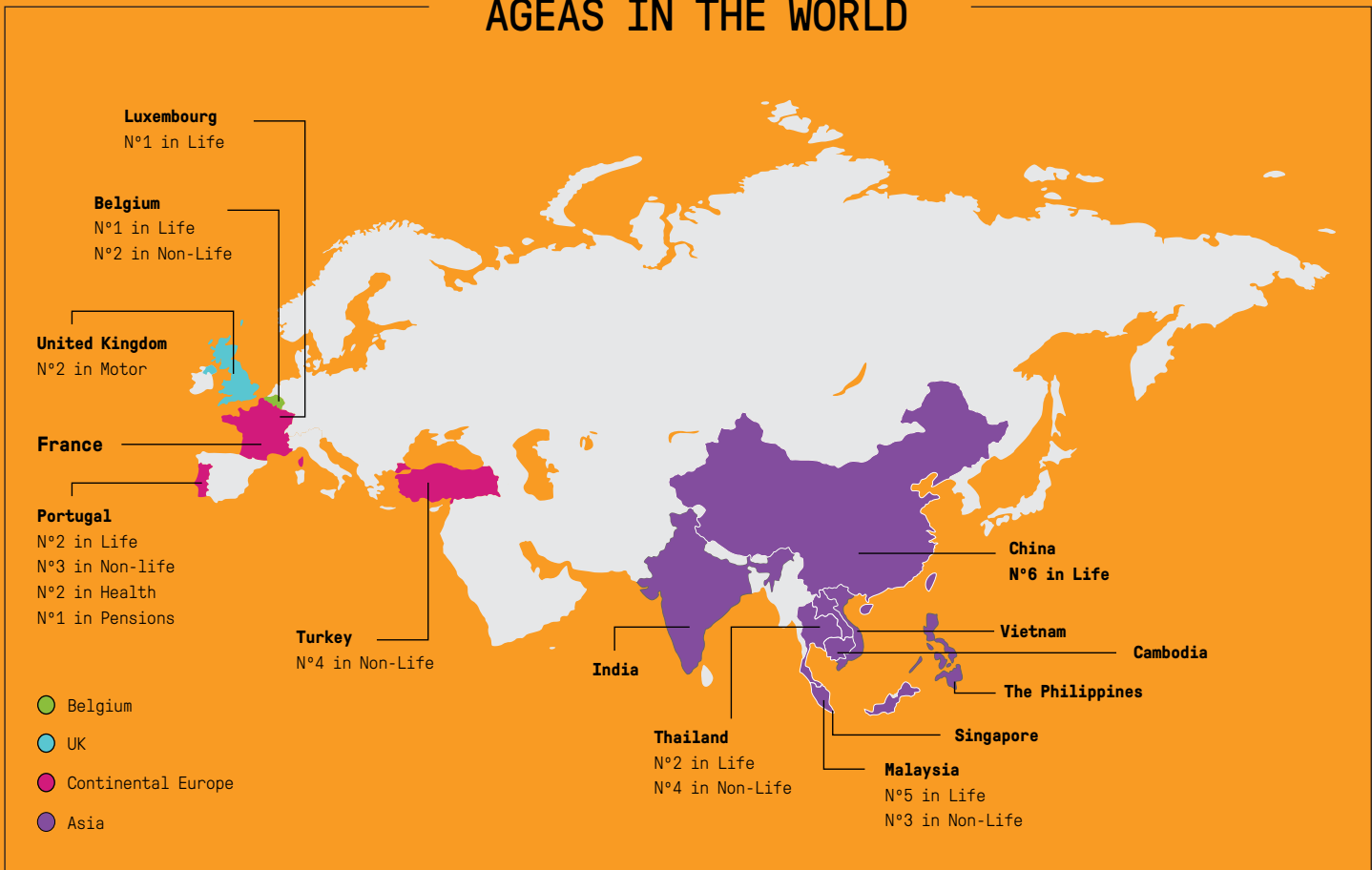
The largest insurers in Portugal now belong to foreign shareholders. Those currently with Portuguese shareholders are CA Seguros, CA Vida, Caravela, Lusitania, Lusitania Vida, and Real Vida.

Low profitability on equity due to slim technical and financial margins has made national insurers vulnerable. This equally applies to some multinational insurers, who with little market penetration in Portugal has chosen to pull out and invest in markets with greater strategic value.

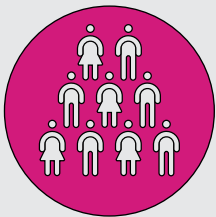
More recently, Global Seguros was acquired by Açoreana, Real Seguros and N Seguros by Lusitania and Real Vida by Patris. The German group Ergo sold Victoria in 2011 to French group SMABTP.

Sagres rebranded itself Caravela Companhia de Seguros, Groupama sold its Portuguese operation to the Chinese company China Tianying, and the Lone Star fund (US), having acquired Novo Banco through Nani Holding, will now control the insurers GNB Vida and GNB Seguros. In September 2017, the Mutual Benefit Organization Montepio Geral, which owns the Montepio bank and insurer Montepio Seguros e Futuro, Sociedade Gestora de Fundos de Pensões (pension fund management), entered into partnership with the Chinese group, CEFC China Energy. In November, a capital increase of 150 million Euros gave CEFC China Energy a 60% control of the insurance group which includes Lusitania Seguros (non-life), Lusitania Vida (life) and N Seguros (Auto via remote channels). •

# AGEAS IN THE WORLD



## KEY FACTS



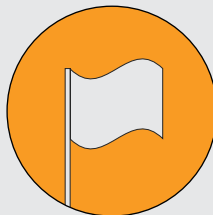
**40,000**  
employees



**38 million**  
customers



**Top 20**  
insurer  
in Europe.



Founded in  
**1824**



2017 business  
volume approx.  
**€34BN**  
(+7%)



# AGEAS GROUP

## FROM BELGIUM TO THE WORLD

Our success is the result of great teamwork by many skilled and experienced people from diverse backgrounds.

### Bart De Smet

CEO Ageas

Ageas describes itself as an international insurer with a local identity. For a business whose heritage spans some 194 years, it has a clear strategic vision and a simple premise and goal; to provide customers, at every stage of their life, with peace of mind when they need it most. As a result, Ageas is able to say that it ranks among the market leaders in all the countries in which it operates.

The business today is one of Europe's larger insurance companies offering life and non-life insurance products to a range of personal and business customers in 15 countries around the globe from its home domicile of Belgium, across Continental Europe and Asia. It operates successful businesses through a combination of wholly-owned subsidiaries and long-term partnerships with strong financial institutions and key distributors in Belgium, the UK, Luxembourg, France, Portugal, Turkey, China, Malaysia, India, Thailand, Vietnam, Laos, Cambodia, Singapore, and the Philippines.

Ageas is a major international insurance group and one of the top 20 insurers in Europe. In 2016, Ageas posted over 32 billion Euros in business volume.

### Strategy for success

Looking ahead, the business has a clear strategic growth plan. Called Ambition 2018, it represents a roadmap with key strategic targets aimed at achieving success and delivering to stakeholders.

- The strategy focuses on seven key areas:
- Long-term partnerships, collaborating with best in class local partners.
  - The right balance between mature markets and growth markets across Europe and Asia.
  - Offering a wide variety of insurance products and services for retail and business customers.
  - Meeting the demands of our customers, for simple, convenient and personalised insurance products and services.
  - A disciplined approach to sharing knowledge and implementing innovative ideas across the Ageas Group.
  - Tailored distribution to the local demands of our customers. Customers decide what, where, when and how they want to interact with the business.
  - Offering products that appeal most to customers and where the company believes they can make a difference.

### Sustaining growth

The figures speak for themselves. In the last quarter of 2017, the business reported a far higher than expected net profit which rose 23 percent to €241m – beating the predictions of a number of analyst firms. This figure represented strong

growth in Asia, a solid performance in continental Europe, thanks to increased healthcare, motor and household policies sales in Portugal and a solid performance in motor and home insurance in Belgium.

### Portugal's strategic potential

Having been in Portugal since 2005, supporting brands such as Ocidental and Médis and through its partnership with Millennium BCP, the Ageas Group has always recognized the Portuguese market's strong strategic potential.

Demonstrating its ongoing commitment to partnership development, in 2015 Ageas acquired AXA Portugal; a business with remarkable synergies.

Continued investment has earned Ageas Portugal client and market respect, delivering numerous accolades. Today, Ageas is second in the Portuguese insurance market, an innovator for pensions and controller of leading health insurance brand, Médis.

Ageas in Portugal is one of the main contributors to the Group's strong global performance and is recognised for its outstanding performance in several areas: the management of profitable companies and wide-ranging service providers, its innovation, omni-channel brand management strategy and the active role it plays in addressing social issues. •



Steven Brækeveldt, Ageas Portugal Group CEO



# AGEAS PORTUGAL

## INTERVIEW WITH STEVEN BRAEKEVELDT

FULLCOVER talks to **Steven Braekeveldt**, Ageas Portugal Group CEO, about the company's investment strategy in Portugal, market trends and the growing role of innovation.

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**As a Belgian financial services professional with extensive experience in banking and insurance in Europe and Asia, how do you feel the Portuguese market has evolved since you first came into contact with it in 2007?**

As we all know, Portugal went through one of its deepest crises and is today recovering strongly. During this time, Ageas needed to adopt a strategy which focused less on growth and concentrated more on understanding customers' financial problems and finding a solution to benefit all parties. While the Portuguese insurance market is clearly back to growth, the overall penetration rate in comparison with other OECD countries remains unacceptably low. This raises a delicate issue that needs to be addressed by all – namely the absence of financial literacy. Overall, people in Portugal do not save, they have one of the lowest saving rates in Europe – creating one of the country's biggest challenges – a pension-scheme that will not last. In addition, while the State educates and invests in people for many years, it does not teach them how to manage their salary, protect their assets or buy the appropriate insurances. I recently spoke with a lawyer who was happy he'd bought the cheapest car insurance in the market but was unable to say if his wife or children were insured in the event of an accident or if they needed surgery. Clearly we are talking about an educated person here, but this reflects most of the cases I have witnessed in the

market; people do not seem interested in the detail of what they're buying or what they really want it for, even though fundamentally we're talking about protecting our loved ones. On the one hand I see a society that is extremely family-oriented but on the other, there's complete indifference when it comes to protecting the same family (where the cheapest price seems the best outcome for most). As an outsider, I find it difficult to understand.

**You came to Portugal in the early days of the 2005 alliance between Fortis (now Ageas) and Millenniumbcp. What did the organisation look like back then and how have things changed over the past decade?**

Little has changed with our partners – one of the biggest developments over the past 10 years is the fact that Ageas Seguros has become part of our family in Portugal. Although there were certain shareholder changes, the fundamental success of our business is based upon respect and transparency for all. We've experienced a technological revolution that has changed our business landscape; customers are far more demanding when it comes to service and rightly so, and the internet makes everything much more accessible. This doesn't however impact our values of discussing problems and topics openly with respect and dignity and how we work together – these are the key pillars of success which everyone can adhere to.

**In recent years there has been great consolidation in the insurance sector and leading insurers now have international, rather than national shareholders. In 2016, five major groups were responsible for around 76% of total life insurance premiums and 66% of non-life business, including Fidelidade of the Chinese Fosun Group, Ageas and Seguradoras Unidas, part of the North American Apollo organisation. What impact do they have on the Portuguese market?**

2016 witnessed a change in the structure of the Portuguese insurance sector when market concentration contributed to fewer companies operating in Portugal. During this consolidation, the important thing to ensure was that there were no negative impacts on customers. I believe the sector behaved in an exemplary manner as was acknowledged by the latest European Customer Satisfaction Index (ECSI – Portugal 2017), which measured client satisfaction for the quality of goods and services available in the national market.

**Ageas is the second biggest player in the life sector and the third in non-life. What prompted the company to invest in Portugal and how do you view its growth potential against, for example, your markets in Belgium?**

The Ageas Group has operated in Portugal for a number of years (through brands like Occidental, Médis and our partnership with Millennium BCP) and sees it as a potentially high-growth market. Because we already have a good understanding of the market, our latest acquisition fits well with our global strategy. A strong network of professional, specialist agents complements our existing distribution channels enabling us to offer customized services through varied contact and interactive platforms, while focusing on customer relationships and quality. I believe there's a long way to go in Portugal to increase awareness of the need for protection and it is our responsibility, as part of our core business, to invest and stay in this market for the long term, continuing to grow sustainably and play an active part in society.

**In the life sector, 2016 premium volume was half of 2010. Unit-linked products have helped their recovery, improving 2016 and 2017 performances, but they do present a greater risk for policyholders and beneficiaries. How are you going to attract more risk-averse customers and is a savings and pension fund (PPR) a better alternative?**

The changes in the Portuguese social security system, as well as the need to maintain a standard of living after retirement age, have fuelled the importance and growth of private retirement savings products. Unlike other financial products, Retirement Savings Plans (PPRs) have, since their inception, been a privileged vehicle for private medium to long-term savers, contributing to their retirement income. For example, with Occidental, we provide a Retirement Savings Plan – known as a Structured Savings Collection Facility (ICAE) – which is an insurance contract linked to investment funds. Each financial product consists of four investment funds: the Aggressive Strategy with a maximum of 55% in shares, the Moderate Strategy with 30% and a Protection Strategy and Preservation Fund Strategy with a maximum of 10% in shares. Each investment strategy – linked to an autonomous fund based on deposits, bonds or equities – is determined by the saver's investment policy. Such Retirement Savings Plans are for people with medium to long-term risk tolerances.

Occidental's Increased Savings Insurance (Seguro Poupança Crescente) is a medium to long-term capitalisation insurance product which invests the total guaranteed capital. Part of the applicable subscription fee is invested in an autonomous fund at the end of each financial year and the Fund's rate of return is determined after the financial management fee is deducted. Is all of this enough to encourage a savings culture within the majority of the Portuguese population? Probably not, but it certainly goes some way in trying to achieve this reality. As an organisation, we are committed to improving savings and our aim is to continue to develop new and innovative retirement and savings plans. The key is to make more people aware of each and every plan – and this depends on how good a job we do.

**You recently said Ageas was open to new acquisitions but that there were no non-life insurers for sale. Do you think this will prompt more international companies to leave the sector and provide Ageas with more opportunities? What do you mean by 'a very strict discipline for acquisitions'?**

As I've mentioned before, we're open to profitable investment opportunities, as long as they align with our Group's strategy and policy.

**Although non-life business continues to grow, profitability remains a challenge, particularly in auto and workers compensation. Having acquired AXA, over 50% of your premiums are for auto insurance. How will you make this business profitable and sustainable?**

Naturally, the national and international economic situation has impacted the insurance sector. Non-life, traditionally more reliant on economic and labour market progress, has seen positive growth in direct insurance at +5.0%. The non-life technical account results however have not kept up with this growth; results for the global non-life segment dropped from 107 million Euros in 2015 to -9 million Euros in 2016.

When we acquired Ageas Seguros, we were aware of the need to recover profitability, but we had to start with the basics: successfully launch a new brand to the market and share it with our customers and partners while ensuring our data systems were fully autonomous (to do this we constructed a new Ageas data centre in Portugal, courtesy of our Carve Out programme). This first, giant leap allows us to plan for the future, update platforms, increase IT management efficiency and optimize IT architecture. Both challenges have been overcome through exemplary leadership.

Alongside this, we immediately started a business transformation programme, following certain parameters, to turnaround less profitable lines, reduce costs and take the first steps toward profitable growth. Today, the Ageas Group in Portugal has a new organisational structure; our business units have a clear focus on sale and distribution channels





Paula Rios, MDS Group and Steven Braekeveldt

and are working together to adopt and replicate best practice activities across all areas (life, non-life, health, B2C and partnerships). In addition to this, different business units (including non-life) can obtain leverage from a number of added-value propositions, such as:

- A strong partnership policy. For example, we've established various strategic partnerships with professional associations: doctors, dentists, veterinarians, pharmacists, nurses, biologists, economists, judges, psychologists, architects and solicitors.
- The 'Ageas Seguros' card gives customers direct access to a network of 40 reputable national partners with discounts in the areas of health, auto, beauty and wellness.
- Professional and accredited agent and broker network, bringing the company and the Ageas brand closer to local partners across the country. This is strategically important to the growth of our brand and we are therefore committed to a long-term relationship. We want to be an agent's first choice.

- Digital platforms. We have a private client website, apps, digital documents, a strong social media presence, including customer service, and GPS car tracking options.
- Prevention. The PAR – prevention and risk analysis service for corporate clients. We want our customers to see us as business partners, particularly in the reduction of workplace risks and accidents.

Our strategy is clear, supported by strong foundations and a solid international Group. This I believe can deliver sustainable growth and value to our customers.

**Alongside life insurance, fraud is a key issue within the auto and workers compensation markets, how can technology help fight against this?**

The crucial challenge is for the insurance industry to understand what type of fraud is its biggest threat and how to use technology to cope with it. The increasing use of analytics (Big Data) presents a world of almost limitless potential for the insurance industry. We are seeing advances in digitalisation within the

labour, housing and transport sectors, for example, indicating automated detection and the use of predictive and analytics models is the way forward to prevent and fight fraud (assuming IT has a bigger role within fraud units). Data efficiency is the most important challenge.

When it comes to protection and privacy (the European insurance industry is heavily regulated), access to external data sources and the quality of internal data, requires special attention. The development and construction of new data models are based on increasingly robust, fast and intelligent technologies. In spite of the technological advances, fraud detection cannot be reliant on pure analytics. Human factors will continue to play an important fraud detection and risk assessment role. While data can accelerate the detection of fraudulent activities and patterns, people will always be vital in translating reports into actionable intelligence. In a world where consumers are using new technologies to communicate, the challenge can be difficult. Effectively fighting fraud is an ongoing process of adaptation and optimization.

**Within the next five years Ageas Portugal has a goal to be a major player in the pensions, health and home insurance markets, how do you plan to do this?**

The Ageas Group in Portugal is already number one for pensions and we have a leading health brand, Médis, offering various customer-centric multi-risk insurance products. We will continue to innovate, provide outstanding client and partner service and keep abreast of technological developments that impact, albeit differently, upon our numerous business lines. Our strategy moves us forward and sets us apart.

**In a 2015 interview, you mentioned ‘Occidental has a very good strategy’ and was profitable even during the financial crisis. How will you help Ageas achieve this growth and move away from what some may describe as a ‘problematic Axa legacy’?**

As I said before, we have a clear strategy to focus on recovering profitability and sustainably growing Ageas Seguros. Now, it’s integrated into our organization (and Occidental is a good example of solidity and profitability), we can optimize and introduce historic examples of ‘best practice’ initiatives among companies within our Group. In addition, the Ageas Seguros agents & brokers distribution channel is central to customer protection.

**In September 2015, Ageas launched its ‘Ambition 2018’ strategy which focuses on seven strategic choices. These include investing in core insurance skills, strengthening relationships, expanding in mature and growth markets and establishing centres of excellence to facilitate knowledge sharing and innovation. How is Ageas in Portugal contributing to this?**

Ageas in Portugal is one of the main contributors to the Group’s strong global performance. And we have been leading on several fronts: in the management of profitable companies, innovation (partnerships, services, products), the management of diversified offerings and omni channel brand management, plus taking an active role in society, such as with the Fundação Ageas and our global strategy for Corporate Social

Responsibility. Further announcements to follow. This has led to recognition from third parties in Portugal, which is good for the Group, and in line with our global strategy, we’ve consistently pursued innovative business partnerships. These are but a few ways Portugal can support the Group and the country is now one of the main contributors to global business volume.

**Ageas also pledged to invest €75m per year in innovation for three years. Within Portugal your ambition is to lead in this area and stimulate innovation and entrepreneurship within your business. How is this progressing and how are you attracting talent?**

Within the scope of our strategic goals, innovation is a top priority – alongside our desire to differentiate ourselves in the market and be recognised as enterprising professionals.

To encourage an entire organisation to engage and participate in helping us meet these goals, we are channelling their energies towards innovation. Part of our innovation programme focuses on internal incentives, via an online platform, which ensures everybody can contribute ideas, comment, vote and be recognised. Outside the company we partner with firms that will help raise our profile, such as Healthcare City (which Médis co-founded), ColorADD – advocates for more inclusive communication with people who are colour-blind, ANF – a business partnership representing unknown market innovators and Universidade Nova – specialists in training, development and recruitment.

**Does the onset of digitalisation mean Ageas will have to rethink its business models, the technical support it gives to the ‘client journey’ and its relationship with consumers? Is there likely to be an Uber in the insurance world?**

At Ageas we have digital and digitalisation – two different things – at the core of our strategic priorities. *Digitalisation* is the road to developing processes and improving efficiency, *Digital* is a driver to grow business by improving the customers and distributors’ experience

and being easily accessible to both, plus being relevant as a service provider. Both digitalisation and digital are on the top of my agenda as CEO, and I am constantly challenging the organization to embrace innovation and digitalisation/digital. We are presently developing health and life projects which will transform the insurance experience into an emotional one, so yes, we are already writing the future of our business models, and I am sure Ageas will make a difference and be recognised as the main player in this area. If Uber in the insurance world is going to appear somewhere, strictly speaking this would be great. Uber connects those who need to move from one place to another with those who have a car and can fulfil that need, offering a seamless digital experience, with the customer at the very centre. Uber is, in that sense, a broker. Brokers have existed in insurance since its beginning so Uber is an inspiration of what a future broker might be. This would be a giant step towards customer centricity, but not a disruption. Generally speaking, Uber may well be viewed as a disruptor by an industry with legacy mentalities, but it will happen. Where, when and how, nobody knows, but we are looking forward to it. Our feet are in the present, but our eyes are always on the future.

**How have you managed to meet the requirements of the three pillars of the Solvency II Directive? Are there any elements you would like to change and what has been most relevant?**

Ageas Portugal Group started to develop a Solvency II Programme in 2009. Six work streams inputted to the three pillar areas and they ensured a reliable, safe and timely transition to the new solvency regime. The goal of the project, developed in line with the Ageas Group, was to meet the Directive requirements and to proactively integrate risk management into all company processes. The transition from Solvency I to II covered capital management, product design and profitability, investment strategy and regulatory requirements. Internal resources with strong management and technical skills, actuarial and risk management experience, and the support from Ageas Group, were key to accomplishing this successful implementation.



Ageas Portugal has strong capital ratios and a wealth of knowledge and experience – competitive strengths not easy to find, particularly in the Portuguese insurance market. It is one of the best prepared insurers, ready to face the challenges of this new competitive environment.

**What business processing challenges are posed by the distribution directive and regulations surrounding European data protection?**

Before anything, we need to understand that the distribution directive should be applied nationally. The main goal of this directive is to harmonise the playing field for everyone selling insurance. Furthermore, we should consider the concept of distribution; pre-contractual information and other related points of potential conflict of interest. General data protection regulation applies directly – because it's a regulation and not a directive, standardising data protection in all European Union countries. Both will affect the market – our main business processing challenge will be balancing them!

**Financial services providers tend to favour a single brand. Why does Ageas use several brands in Portugal and would you consider using one? Can you tell us about the choice of colours for the Ageas logo and what they mean?**

Ageas is a believer in market autonomy and partnerships – in management and brands. The rationale is simple: if there are strong local brands, why change? This is the case with Médis, a reputable, established brand, and Ocidental, who enjoys a very positive reputation. On launching the new Ageas Seguros brand our thought process was equally simple: we needed to break with former stockholder (AXA), retain the corporation's identity for its wide-ranging services, products and distribution channels (essentially agents, consultants and brokers) and seize this opportunity to introduce the Ageas brand more forcefully to the market (taking into account the Group has been in Portugal for more than 10 years and intends to keep growing here). We thought it would be right to adopt the main brand, Ageas and introduce a sector identifier

Seguros (insurance). So Ageas Seguros was born. We were also motivated by the fact that this brand conveys the essence of our business: lines connecting and representing our dynamic and wider network of partners, their energy and diversity. Lastly, we wanted to bring some colour to the Portuguese insurance world. Even with its logo, the brand stands out with a spectrum of colour forming part of its identity.

**How do you see the insurance industry – insurers and brokers – evolving?**

Today the market is positive, boosted by price increases caused by a lack of profitability in mandatory lines of business. However, in the near future the technological evolution and more demanding customers will lead to consolidation among insurance companies and brokers. The survivors will be those who are already preparing to respond to customers in a fast, clear and effective way using more than one distribution channel.

Even more important will be the capacity for innovation; people will search for new products motivated by new necessities, so insurers must be able to market effectively, and distributors, whether agents or brokers, must offer consultancy services that increase consumer loyalty. In the near future, motor and house insurance will be commodities and the role of the insurance industry must reach new levels – retirement products, home assistance, servicing, prevention and risk analysis and the ability to deal with natural events, will be the main competitive differentiators, together with how we manage the challenges of our ever-evolving climate and population.

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**Ageas Portugal has strong capital ratios and a wealth of knowledge and experience – competitive strengths not easy to find, particularly in the Portuguese insurance market. It is one of the best prepared insurers, ready to face the challenges of this new competitive environment.**



Ageas Seguros building in Lisbon

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**I believe there are still too many insurance companies active in the Portuguese market and they will find it difficult to comply with the multitude of new incoming national and international legislation.**

**What have you learned from Portuguese insurance companies?**

I believe there are still too many insurance companies active in the Portuguese market and they will find it difficult to comply with the multitude of new incoming national and international legislation. The insurance industry set a great example when supporting victims of the terrible fires last year, but to prevent future catastrophes, we should lobby the authorities for infrastructure changes. Improving national insurance literacy will be beneficial for everyone and it's important our industry publishes the high number of claims directly paid to customers, dispelling the myth that insurance companies do not pay claims. People always complain when a claim is rejected, usually because they did not want to pay for the cover at the beginning, yet few publicise claims that were immediately paid by the insurer. Those who do not get paid always take centre stage.

**Ageas and MDS formed a partnership many years ago. How has this relationship developed? What do you value most in MDS and why is it different to other players?**

Our two companies have a committed and long-standing relationship, both in retail and projects, yet over the years, we've evolved.

Ageas has become the second insurance provider in Portugal and is looking for new opportunities; MDS has become an international broker and is the country leader. Today MDS has a complete supply chain, enabling them to respond to all customer needs, no matter what sector. Clearly we have the same kind of DNA and we hope to develop our partnership further. We are in the market for the long-term and believe such partnerships add value to both parties. We are in the same sector and are in no doubt that MDS is a central player who will work effectively and continue to grow with Ageas.

Only brokers and insurers with this capacity will be able to cope with the new and intensive challenges coming our way. There is no escape, so we must be aware and prepared to handle them. •



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# FERMA ARCHITECTS OF THE FUTURE

**Johan Willaert** talks to Jorge Luzzi about his role, the emerging insurance and risk management issues and how FERMA – Federation of European Risk Management Associations can guide Europe through this period of change.

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FERMA works together with its member associations to raise the profile of the profession through education and by sharing knowledge and examples of best practice and innovation.

**What is FERMA's focus today and for the future? How do you work with your members?**

Our focus is to have a world where risk management is embedded in the business model and culture of organisations. Last year, FERMA began a new journey with a fresh strategic vision and goals to increase leadership in risk management and enhance risk managers' strategic influence.

Today, these goals are particularly relevant in what is an ever-changing landscape. Our world is in transition, bringing opportunities for risk managers, and the profession must adapt and respond positively to the increasing demands put upon it. We are seeing a move away from a time when risk managers were mainly insurance buyers; they now manage companies' risks and, to comply with their risk management strategies, transfer elements of these risks to insurers.

While this strengthens their position, it poses a challenge for the profession; there's a need to not only ensure risk management is among the business

objectives, thus demonstrating how it can add value to the company, processes and strategy, but also to contribute to and promote a risk culture and embed risk awareness across the whole organisation.

FERMA works together with its member associations to raise the profile of the profession through education and by sharing knowledge and examples of best practice and innovation.

**What in general, do your members and European risk managers currently view as the main risk and insurance issues? Why and what can be done about them?**

According to FERMA's European Risk and Insurance Report 2016/7: economic conditions, limited growth opportunities (low interest rates and a slowing of the emerging economies), business continuity disruption and political/national instability (Brexit, Trump's second year in the White House, rising tensions around North Korea) are considered the biggest risks to organisations.





It is extremely difficult today to predict how to address them. Companies clearly need to be more resilient to external threats (industrial damage and catastrophic events such as the recent hurricanes Irma and Maria) and have greater awareness of their vulnerabilities following global cyber attacks, WannaCry and PetrWrap.

In order to do this, companies must;

- Align risk management to their business objectives and understand/ have a good knowledge of the objectives so the function can support the decision-making.
- Have a holistic view of the strategic impact of risks – i.e. those that can affect their ability to achieve objectives.
- Embed risk awareness across the whole organization and ensure risk managers develop scenarios/stress tests and rehearse them regularly with stakeholders.
- Understand the risks they are exposed to – this will ensure they can source tailor-made insurance cover that’s right for the business. Insurers tend to underwrite in silos but insurance buyers need a more global/holistic insurance product. You can’t put risks into silos.

#### **Can you give examples of your work with national associations?**

Strengthening FERMA’s lobbying activities is a priority. FERMA acts as the interface between national associations and European and international policy-makers and to support this, we rely on the national associations’ input and their member feedback.

Cyber risk and captives are two examples of what can be achieved by working together.

Because cyber risk management is a corporate issue, we proposed a new European model of cyber risk governance with the European Confederation of Internal Auditing Institutes in June. To raise awareness of the importance of having a suitable governance framework for cyber risk management we presented our model to EU stakeholders at a European Parliament conference.

Our paper on captives is the industry’s first report on captive re-insurance arrangements, representing the strength of opinion within the European risk

management community on how captives support the operations of their parent organisations. We are very pleased to be shortlisted for this year’s European Captive Awards – a recognition that by bringing together the expertise and experience of our network, we can drive things forward and make a difference.

#### **Are you working with any other regional or global associations, such as PARIMA/RIMS/ALARYS or IFRIMA?**

Since April 2017 I’ve been president of the International Federation of Risk and Insurance Management Associations (IFRIMA). My objective is to strengthen and reinforce dialogue and cooperation among risk management associations worldwide, ensuring consistency in our actions and global development. To do this, I will build on my experience as president of FERMA since 2015.

Other relevant topics are:

- Captives – with many jurisdictions around the world adopting the BEPS recommendations, FERMA presented its report at an IFRIMA meeting.
- International Insurance Programmes – under the leadership of the German insurance association (GVNW), IFRIMA received a mandate to develop a proposal for joint action between brokers and insurers to modernise international insurance programmes. A steering group is being set up to do this.
- Education – in addition to FERMA, global risk management bodies RIMS (Risk Management Society), PARIMA (Pan-Asian Risk and Insurance Management Association) and ALARYS (Latin American Insurance and Risk Management Association), have developed professional risk management certification. Establishing links to connect these certifications is certainly the way forward.

#### **Are you working with insurers and brokers to better support your members? How does the FERMA conference help and what is their future role?**

Nurturing a true European risk management community with our risk partners is important and something FERMA supports and encourages. We have a close relationship with our risk partners in the insurance industry and

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**Our world is in transition, bringing opportunities for risk managers, and the profession must adapt and respond positively to the increasing demands put upon it.**

**Johan Willaert**  
President of FERMA



Johan Willaert has been president of the Federation of European Risk Management Associations (FERMA), since 2015, and president of the International Federation of Risk and Insurance Management Associations (IFRIMA), since 2017. He is also a board member of the Belgian Risk Management Association (BELRIM). As Agfa-Gevaert corporate risk manager, Jo is responsible for developing global risk management and insurance programmes for the Imaging Solutions Group. He joined Agfa-Gevaert in 2001. A law graduate, Jo spent the early stages of his career in broking with companies which are now part of Marsh and Aon.

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Considering the situation from a European business, risk management and insurance perspective, FERMA's role is to lead the way in this journey utilizing expertise, experience, communication and education.

beyond and appreciate the support they give us in our projects.

We are aware of the enormous expertise that exists within these companies from which we can benefit – and they too can benefit from our experience. This is why FERMA and Commercial Risk Europe launched the European Risk Management Awards. Introduced last year it was a great success and the increased number of applications already received this year shows how important this initiative is for the European risk management community. By rewarding organisations that innovate and deliver excellent service, we encourage others – in the spirit of healthy competition – to emulate them. I believe in a risk management community.

In the future, the insurance world will be as important as it is now but it will be different. We have two levels of insurance products:

- standardised products for private individuals and smaller companies
- tailor-made products for large companies and specific markets

In the future, insurance managers will become increasingly important as they will risk manage their companies' exposures. In the past, insurers offered products that insurance managers tried to adapt to, now insurers must work more closely with clients to provide global solutions.

Insurers are preparing for the future; they are hard working and more focused on selling a service. Cyber policy is a good example with insurers offering a crisis management service. The rationale behind Kidnap & Ransom is to bring people back safely, the challenge is to sell this value-added service.

The same applies to brokers. They are now working as advisors because they are close to their clients. Brokers can help risk managers define their exposures and source market solutions asking 'What products do you have for these exposures?'

#### **Why are conferences like the FERMA Forum important for risk managers?**

The FERMA Forum is the sole pan-European risk management event – the next one will be in Berlin in 2019. The FERMA Forum is networking 'par excellence': a big attraction is the opportunity for risk managers to meet colleagues and senior business partners from around Europe and we design the

event with this in mind. For example an industry-sector breakfast for risk managers only is a great way to discuss shared interests.

Because it is a European event, our speakers represent different industries, sectors and sizes from across Europe. This ensures the Forum provides broad points of view for each topic.

#### **Are you confident the insurance market will be able to deliver for members post Brexit? Are you lobbying government for continued 'passporting rights'?**

According to FERMA's European Risk and Insurance Report 2016, political and country instability is the third largest risk facing risk managers across Europe. Brexit is one of the biggest political risks the EU has ever encountered and it will have insurance and risk management implications for years to come.

The impact of Brexit is still a massive unknown, but the real danger is that companies stand still whilst waiting for clarity. FERMA will continue to monitor the latest Brexit developments and what it means for insurance programmes and risk management.

#### **Do you believe FERMA can guide Europe through this period of change?**

I remember the experience, especially in the days before satellite navigation, of arriving at a crossroads where it was hard to tell which direction to take. Perhaps the signs were unclear or roadworks blocked the route I once knew. Now of course, you have GPS and while the computer will take you through the shortest route, it can still take you down an unmade road at some risk to your suspension.

Today, in many ways, we are at such a crossroads. Our ultimate destination is a prosperous and sustainable future for Europe, our enterprises and communities. In order for this journey to be successful, we will have to positively manage our risk taking and make decisions about the route. I believe that the risk management community is in a strong position to support those making the decisions.

Considering the situation from a European business, risk management and insurance perspective, FERMA's role is to lead the way in this journey utilizing





expertise, experience, communication and education. At the end of our time together, I believe you will have confidence in the value of our chosen profession(s) and view us among the guides for future travels. Let me quote Matthieu Ricard, a Nepalese French scientist and Buddhist monk: “At each point in our lives, we are at a crossroads. We are the fruit of our past and we are the architects of our future...”

### **Taking into account how fast technology is progressing and what’s happening now, what are Europe’s challenges for the future?**

‘Europe at a crossroads’ was the title of our keynote session during our last Forum in Monte Carlo and given the scope and pioneering nature of the European Union, it’s not surprising to find it’s encountered difficulties since inception. But the EU has always emerged strengthened. Brexit and the risk of fragmentation within the Union has awakened other EU Member States to the need to be positive about the future of Europe.

Many of the great challenges of our time however, are not regional but global: security, migration, climate change, digital technology and economic and financial volatility. The world is going through a period of profound transformation and nationalism, populism and protectionism are responses to such uncertainty. They increase levels of unpredictability and create potential sources of conflict.

At the same time, rapid technological development is aggravating economic and social differences. Africa has technology innovators with great potential that are contributing to economic growth in many African countries, but it is uneven, and many people on the continent still face existential risks such as food and water insecurity, widespread disease, corruption and armed conflicts. Parts of the Middle East are still held back by conflict, and many people who should be knowledge sharing and boosting the economies of those countries have died or fled.

In Europe, we have other pressures. Our cohesion is being stretched by revived nationalism and the number of people wanting to come here. Businesses face disruptive technologies, cyber risks, data security issues and threats to business continuity and reputation.

European leaders seem to agree that the EU is the best way to protect, build resilience and seize the opportunities created by these challenges and the digital world. The new leaders are well-educated, (the Erasmus generation) and speak English (the language of business). They are young, have grown up as Europeans along with their own nationality and, even though we know it will not be easy, can influence the Union’s direction.

Their positive economic outlook and confidence in a better future blows a wind of optimism over Europe. As European Commission president Jean-Claude Juncker said in his annual State of the European Union speech: “The wind is back in Europe’s sails. But we will go nowhere unless we take hold of that wind.”

For our members and friends outside the EU: Russia, Turkey, Norway, Switzerland and soon, I regret to say, the United Kingdom, a stable and prosperous European Union makes for a good neighbour and trading partner.

### **For business development going forward, where should we focus risk management?**

As I mentioned, technological development. We are on the threshold of a Fourth Industrial Revolution with great scientific and technological changes that are taking us in unpredictable directions. We’re already seeing digital currencies and blockchain technology coming into use and slightly further ahead of us on the road are the internet of things, applications of artificial intelligence and further exploitation of Big Data. For this, we do not have ready-made maps. We know they offer exceptional opportunities, but alongside the cyber risk exposures are many unintended consequences, both positive and negative.

However, risk taking is essential to business sustainability, and not in spite of its environment, because of it. As Andrew Harmstone, managing director, Morgan Stanley, said recently when discussing cyber security, ethics and sustainability: “The risks and costs to companies of not keeping up with change are great, be it from fines and reputational damage or lower productivity due to cyber attacks – each can erode companies’ profitability.”

The contributors to business value today are increasingly fluid; there’s a

## About FERMA

FERMA – Federation of European Risk Management Associations represents the risk management profession at European level.

It brings together 22 risk management associations in 21 European countries, representing nearly 4800 risk managers active in a wide range of business sectors from major industrial and commercial companies to financial institutions and local government bodies. It provides the means of coordinating risk management and optimising the impact of these associations at a European level.

Among its goals FERMA seeks to share knowledge, risk management methodologies and their benefits to business and the community, by participating in meetings and discussion groups. FERMA holds its Risk Management Forum every two years.

wide division between capital-intensive industries and the growing number which generate returns from intangible assets, human capital, brands and reputation. Some of the latter, in business terms, don't even own much physical property. They hire what they need and like to use independent contractors, rather than employees.

We cannot manage or insure – and I'll come back to insurance later – the risks of these enterprises in the same way we do factories, warehouses and multi-million Euro machinery. The value of their proposition can suffer damage almost overnight from a reputational attack. At the same time, the millions of small and medium sized enterprises that still generate a great proportion of Europe's GDP and employment need insurance in a coherent cost-effective package.

**What is the ultimate goal FERMA has for members when it comes to market challenges? Does FERMA have official certification for its European risk managers?**

Professional risk management is also at a crossroads – and we have to ask “where is it heading in this changing world?” We have acquired considerable experience in the application of risk management and we now have an opportunity to demonstrate how, when faced with unpredictability, the fundamental principles we apply can be used to develop a successful future strategy.

There are opportunities and consequences of exploiting these opportunities, some potentially negative and severe, so identifying and mitigating these risks is crucial to company success. The board of directors and senior management need to have knowledge and experience to apply these principles to the company's performance and they should be aware that this is equally the risk manager's role. Do we emphasize this enough? Do we speak their language? We need to understand the company's strategy and objectives so that we can demonstrate how risk management aligns with these objectives.

As you know, my focus as president of FERMA is on leadership, communication and education. In risk management, leadership in 'management' is as

important as 'risk'. The risk manager should also be able to communicate how risk management adds value to the company, its processes and strategy, how it helps executive management achieve its objectives and highlight the key risks of success so they can be controlled. This level of leadership requires what I call a 'risk control' approach to supporting decision-making.

Having started with the EU, I would like to refer to it again in parallel with our role. Ultimately, in order to succeed, the EU must demonstrate it contributes to the growth and prosperity of its companies and citizens, and that it is not just a regulatory body that members consider restrictive. Likewise, as risk managers we play a valuable role; it is our duty to inform about risks and compliance, but we must also have the confidence to develop this part of our work and demonstrate how the management of risk-taking is positive and essential to company sustainability.

Our ultimate goal is to incorporate risk awareness throughout the entire organisation. To do so, the risk manager must be in contact with the sales division, which take the risks, and develop scenarios and stress tests beyond this to ensure the strategy continues to meet company objectives. We must also work with other functions related to risk management, for example, internal audit, human resources and IT – this is an aspect FERMA is developing throughout Europe. Effective communication with all company stakeholders is of vital importance; by doing so risk management can become the company's risk intelligence centre.

**Within the insurance market and particularly insurers, brokers, etc, what should be their current and future focus?**

Our closest partners on this journey are in the insurance industry – insurers, brokers and experts – they are our co-pilots, navigators and even mechanics. No one questions the contribution insurance has made to the evolution of enterprises – even going as far back as sailing ships. Yet risk managers express frustration that insurance is not moving at the same speed as the industries they support. The insurance model of traditional

underwriting based on claims data and business lines limits how we can develop opportunities in the Fourth Industrial Revolution. How can insurers underwrite risks associated with artificial intelligence applications if they have no experience to rely on and want them all to fit into property, casualty and transport silos?

We understand that in these circumstances, insurers do not believe it is right to expose so much of their capital to such uncertainty and offer meaningful capacity to corporate clients, but for companies with large balance sheets, borrowing a small amount of capital from an insurer is not the most effective way to manage material risks.

Insurance is at a crossroads, but not at a dead end! We encourage the industry to follow a different route, one that expands the range of solutions on offer and provides services such as data sharing and technical expertise, in partnership with their corporate clients. •

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In risk management, leadership in 'management' is as important as 'risk'. The risk manager should also be able to communicate how risk management adds value to the company, its processes and strategy, how it helps executive management achieve its objectives and highlight the key risks of success so they can be controlled.

# FIDELIDADE

SEGUROS DESDE 1808

# MULTICARE

FIDELIDADE

## A SUA ESCOLHA É O NOSSO MAIOR PRÉMIO

A SEGURADORA MAIS PREMIADA EM PORTUGAL

Obrigado. Graças a si, a Fidelidade e a Multicare foram eleitas Escolha do Consumidor 2018. Além disso, a Fidelidade venceu os Prémios Exame 2017 para Melhor Grande Seguradora nos Ramos Vida e Não Vida. Este é o resultado do empenho de toda a equipa Fidelidade, que trabalha diariamente para a proteção das pessoas, das famílias e das empresas em Portugal.



BANCA & SEGUROS  
2017

**Exame**  
MELHOR GRANDE  
SEGURADORA  
RAMO VIDA  
2017



BANCA & SEGUROS  
2017

**Exame**  
MELHOR GRANDE  
SEGURADORA  
RAMO NÃO VIDA  
2017



ESCOLHA DO  
CONSUMIDOR  
SISTEMAS DE SAÚDE  
2018



ESCOLHA DO  
CONSUMIDOR  
SEGURADORAS  
2018



fidelidade.pt   

# A PASSION FOR COMPASSION

# RALPH MUCERINO

IN CONVERSATION WITH **ERNEST LEGRAND**

Company leaders often combine successful business careers with very rich personal experiences. We at MDS have been privileged enough to have had many such leaders share their experiences, their vision of the markets they have worked in and the challenges they have faced.

With the launch of our new collection of interviews, called Faces of Insurance, we have moved a step forward. In this first conversation, Ralph Mucerino, AIG President, Distribution Partners and Major Accounts tells Ernest Legrand about the lessons he has learned and the wisdom he has gained over the years and the importance of the ‘human factor’ in making business decisions. His true life lessons will be published in the book, “A passion for compassion – Ralph Mucerino with Ernest Legrand” by MDS Publications. Here we share an excerpt from the book.

When thinking of insurance, the layman may imagine a confusing world of numbers, charts, and figures that makes their head spin. The reality of insurance is that it’s the perfect place for intellectual thrill-seekers to feed their need for innovation, creativity, and change, but also leave a positive mark on society. And that’s where Ralph W. Mucerino, AIG President, Distribution Partners and Major Accounts comes in. With a fascinating 38-year career in insurance, he has seen it all, done it all, and helped develop the landscape of insurance we know today.

Speaking with this respected leader leaves one with a deeper understanding of human nature, compassion, ambition, and adaptability, and how they all combine to create a successful business person with an eye on improving lives and providing stability through analytics, careful planning, and expert execution. He shared with me how he achieved such success and how you can, too.

## A thoughtful approach to success

Ralph is passionate, attentive, and understanding, and he brings his unique view of the world to every aspect of his life. Early on, he didn’t just react to the world around him; he watched, learned, and took action to help transform his own life and career. While it may seem to an outsider that he simply made great



decisions with an uncanny natural ability, the truth is that each choice he made was born from the critical need to provide for himself and his growing family.

Careful planning was both a blessing and a curse, but for him, security was key to survival and success, and he put forth great effort to ensure he and his family had that security. Earning his colleagues' respect was another integral part of his success, but he did so in a genuine way, thanks to his upbringing and early life. People were drawn to him and his honesty, and still are to this day.

But how did he manage to make his personal outlook such a big part of his

career? Many executives try to separate their personal lives from their work, but most of the traits that make a great human being also translate perfectly to the business world. His success was largely due to his personal rules:

- Trust people, and allow them to trust in you
- Move through life with honesty and integrity
- Always listen with compassion tempered with accountability
- Plan, plan, plan
- Adapt and be ready to change the plan when necessary

To illustrate these points, we have only to look at his life for examples. He speaks fondly of his childhood and as a husband and father, citing his family as a stabilizing factor that helped him focus on his long nights studying at St. John's University, working his way up in the insurance business, and developing true connections with nearly everyone he's worked with.

Simply put: Ralph learned about people and their unique needs by immersing himself in a world populated by all kinds of people from different walks of life. He understands that society is a living, breathing ecosystem that is constantly changing and growing, and he was eager to go along for the ride and help bring a sense of security and stability with him.

He didn't cling to old ideas simply because they were familiar; he embraced the natural changes in life and used them to launch his career straight to the top.

### Using society's evolution to advance

Looking back on his past, he said, "Insurance wasn't the industry that it has become today. It has gained in respect. It has gained in importance. More people understand what insurance adds to our daily life."

And he was a part of making that happen through his process of watching, learning, planning, and executing his plans all without losing the human factor. After all, insurance is about protecting people.

"I don't believe there's an aspect of society that we don't touch," he said. "When you go back to 9/11, for example, [it] was obviously a horrific event. Many people lost friends, relatives, my nephew was killed at Cantor Fitzgerald at the time. The world came to a stop in many respects. The planes stopped flying and the airlines were uninsurable. Then Hank Greenberg, CEO of AIG, Martin Sullivan, CEO of AIU, and Tom Tizzio, Chairman of Domestic Brokerage Group, stepped in and worked with the reinsurance market to put capacity together and get the airlines and the industry operating again.

"It's a very unique view of how important insurance is to the functioning of society. I think it's an attractive industry for young people to come in and influence."



Ralph Mucerino is one of the true professionals of the insurance industry. He is unique in his capability of blending corporate and personal relationships together so that everyone who deals with Ralph receives equality and 100% of his time and effort.

### James W. Crystal

Crystal & Company

Chairman & Chief Executive Officer

Ralph has a lot of hope for people entering the insurance industry these days. He speaks of Millennials' unique views on the world, current events, and their desire to do more and change the things that just don't work any longer. He believes they are, perhaps, more socially aware than previous generations and can look at insurance for what it provides for society.

It's that new social awareness, that openness that Millennials possess that will help change the face of insurance for the better. And in turn, that shift in respect for insurance has helped the industry grow and change to reach more people, bringing even more stability to previously underserved segments.

"I think Millennials can look at insurance for what it provides in support of society and, as such, become excited about a career in insurance. At the same time, this same group has a different view of how they want to buy a product, how they want to buy a service, what kind of

service they need. We, as an industry, must understand that, and start to adapt our products to this burgeoning group of customers out there."

By watching the trends in society, companies can better serve their customers and their employees. "We must understand what's important to this segment of population and how to present our products and services that meets their wants and needs. At the same time, they're coming into the workforce, and when you look at what has traditionally been important to people within a company, there's a change there too."

Once again, I was able to see how his strong family ties and drive to do right by others affected his view of work life. He went on to talk about some of the specific changes in how companies treat their employees and how that's affected not only their productivity and satisfaction at work, but also improved their home lives.

More time off, flexible hours, and an understanding that personal life



Robert Benmosche; José Manuel Fonseca; Jamie Crystal and Ralph Mucerino @Brokerslink Conference, Madrid, 2012



shouldn't suffer to get ahead at work, are all acknowledgments of the change in society's expectations and the importance of a healthy work-life balance. Beyond simply coexisting, work and personal lives should complement one another. He told me of a recent trip to Seattle that helped drive this fact home for him, pointing out the impact of even a small change in society's expectations having lasting, positive effects on employees and consumers.

"I visited Amazon in Seattle last year. I walked up to the reception counter to check myself in and there was a bowl of something where you normally see mints in many companies, instead there were little dog treats. They allow their employees to bring their dogs to work. There's a population of people where that's an important element. I think, from a standpoint of creativity, they bring a different perspective. They're much more inquisitive, they're challenging."

Innovation, creativity, and fresh ideas are a big deal to Ralph, and he looks for those qualities in the people he works with. Being able to think outside the box, as they say, is what helps the insurance industry stay essential to a stable modern life.

### The human factor is good for business

One of Ralph's greatest values is his faith in humanity and his understanding of people. He is genuinely a "good person" in the sense that he keeps a positive outlook and tries to understand people, no matter the situation. Business, of course, is important, but he values the human beings who make the business work and the consumers that the business protects. It's all a balance and learning to keep it that way is one of the keys to success.

He also has advice for those seeking to grow a career in insurance, but he believes his wisdom can be used in any field: Advocate for yourself, seek help when you need it, and be ready to fill in the gaps.

"If you see a vacuum, fill it. It doesn't mean as if I'm looking for another job within the company, but how can I help fill a vacuum that's beneficial to the company? I know that may sound very sophomoric, but that's one of my life's learnings. If you become known

as a person who can fill the gap, who's not afraid to step up to an additional assignment, somebody who is willing to work. . . That gets recognized."

Along with working hard, finding ways to fill in the gaps, and advocating for yourself, Ralph said, "Check your ego at the door. If you let your ego manage how you behave, if you think of yourself as the most important person in the room, or you're indispensable, you're likely to make some bad decisions and you're not going to be very pleasant to work with."

Respect and courtesy are common themes in Ralph's life, in both personal and work environments. Being able to collaborate with the team and showing respect to leaders in the company, go a long way in making a person easier to work with and more likable.

He uses the same thinking when it comes to family life and experiences outside of the office. That human factor — being compassionate, understanding, and supportive while expecting accountability and self-advocacy — is what Ralph attributes to business success. •

As a mutual friend once said, Ralph is a true titan of the insurance market. Ralph matches vast knowledge with experience and an abundance of humanity. Truthful, straightforward and fair, Ralph is devoted to knowledge, not only technical but also human and social, which he generously shares with colleagues and friends of all ages. A role model to us all.

**José Manuel Fonseca**  
MDS Group CEO & Brokerslink  
Founder and Board Member

### Ralph Mucerino



Ralph Mucerino is President of Distribution Partners and Major Accounts at AIG. He joined the company in 1979 and has held various senior management positions in the United States and abroad, including in Europe as manager of European operations and in Asia as President of the Far East Region.

Ralph also served as Chief Distribution Officer for AIG Property Casualty Commercial Insurance, Chief Operating Officer at Chartis International (ex- AIG) and Chairman of Global Marine and Energy.

### Ernest Legrand



Ernest Legrand believes that business experience will light the way toward a more inclusive and interdependent world. He is a French-American CEO and writer, born in Saigon, raised in Paris, and currently lives in New York. Through candid, one-on-one discussions with top executives, he hopes to share with a broad audience, the personal thoughts of leaders responsible for transforming the business infrastructure of modern society.

# LONDON, THE EU, AND THE WORLD

BY STEVE HEARN, ED BROKING

Not knowing is the hardest part. The London insurance market will survive Brexit: it is resilient, and will find opportunities no matter what the outcome. Provided it holds its focus on customers, it will remain an important centre in an increasingly global market. In the interim, however, the enormous uncertainty over Britain's future European trading position is both difficult and damaging for the brokers, risk carriers, and others who comprise London's still-thriving international re/insurance market.

For now we cannot know what the World will look like when we reach the end of the process of Britain's exit from the European Union. As a nation, we haven't united behind a vision. Considerable debate remains, even in corridors of influence, over our most desirable post-Brexit relationship with the EU. Within government, preferences for 'hard' or 'soft' are as polarised as those for cheddar or brie. Some still believe – with perhaps hopeless optimism – that Brexit can be averted. Others think a 'no-deal' outcome is in some way acceptable.

Even when some agreement is reached, the 'deal' seems likely to be put, at the very least, to a parliamentary vote, which will sustain the uncertainty for even

longer. For a London insurance business planning for the future, the environment is tricky indeed. I honestly believe it will be all right on the night, but collateral damage is being inflicted while we argue amongst ourselves.

Our challenge as broking leaders is to guide businesses – our own and those of our customers – through the transition period. The job is made frustratingly difficult by the current uncertainty. It is impossible to know what steps we should take to prepare, but our customers expect us to offer something more than a very wide range of possibilities. Large clients plan their risk management programmes years in advance, but at present we can give them no guarantees about the London Market's future ability to trade in Europe without friction. Some are – proactively and understandably – considering moving their business elsewhere.

I spoke this week to a longstanding customer in the Netherlands, one that for decades has placed a significant proportion of its business in London. The company's finance director challenged me to articulate London's relevance to them in the future, given the UK's inevitable exit from the single market. My soap-box responses about London's strengths and Fortress Britain,

and my characterisation of London as a glass brimming half full, were rebuffed as insufficient. Already capacity and risk have shifted from London to Europe, the client retorted, and the continental drift is on the rise.

The finance officer insisted on knowing how London will remain relevant, but in this period of voluntary uncertainty over Britain's future trading relationship with Europe, I found it impossible to say more. I have little doubt that this conversation is being repeated between large European companies' risk managers and their London brokers every day. Unfortunately we have no credible answers, even to our own questions. People in places with a more concrete future will continue to take London's business for themselves. My greatest Brexit-related plea is to have the answers sooner, not later.

All that said, as a market we have done well in the business of Brexit. Most companies have a plan in place. Those organisations that have lobbied the UK government on our behalf have managed to ensure that insurance-related issues will be placed relatively highly in the negotiators' priorities: the vulnerabilities as well as the strengths of the London Market have been recognised. That in itself is a major achievement, but as I





write, detailed negotiations have not begun, so the uncertainty remains unaddressed.

London Market players can take some solace in the reality that continental Europe has no equivalent to London for insurance and reinsurance, as their array of choices for new European domiciles has underlined. Other financial services sectors may logically and relatively easily migrate to specific centres such as Frankfurt, but London's insurance market cannot suddenly be recreated elsewhere. That is a weak strength at best.

Another side to the Brexit saga is more positive. Businesses that use the London Market tend to be global companies seeking multinational risk solutions. The biggest buyers in London have assets and risks in continental Europe that need to be covered, as well as in Asia, the Americas, and elsewhere. The solution is not to introduce another stage to the process, one which will inevitably bring complexities and opportunities for things to go wrong. The solution is to redefine the process itself.

It is here where the opportunity lies for brokers and insurers in London and elsewhere in the world. Ed is a global wholesaler. We offer our customers access to the global marketplace. London will continue to be an important part of that proposition, and Ed will access London's talent and capacity when it is most suitable, regardless of the outcome of the divorce. But even before Brexit threw a rather large spanner into the London Market's works, its competitive position relative to the regional markets of the world was undergoing a dramatic shift.

Insurance 'hubs' elsewhere in the world are maturing to become fully-fledged global centres of risk-transfer excellence. They are following Bermuda's lead. We have placed German marine business straight into Hong Kong and Singapore, without a stop in London. Such placements are happening increasingly often. London has for years – perhaps decades – had a tendency to offer customers only what London wants to give them, rather than what they actually want or need. London's attempts to move physically closer to customers have met with muted success, and the market has lost its monopoly over large, difficult, international risks. Customers make

the choices, and ultimately will be the winners. As agents of our clients, that should be our overriding interest.

In this new international insurance market, asking how Brexit will affect London is to pose the wrong question. I shall not toll the bell for London, which will continue to thrive if it is able to put its customers' interests first. A gargantuan effort is underway to ensure that it does, and when it does, it will continue to compete, sometimes successfully, with other insurance markets around the world. Clients will choose London when London's offer is best. I sincerely hope we will know the context in which those better offers can be made much sooner, not later. In the meantime, we must smile in the face of uncertainty, answering clients' earnest and legitimate questions as best we can, and knowing that whatever the outcome of the Brexit negotiations for our industry, London will remain an important centre for risk within the global market. •

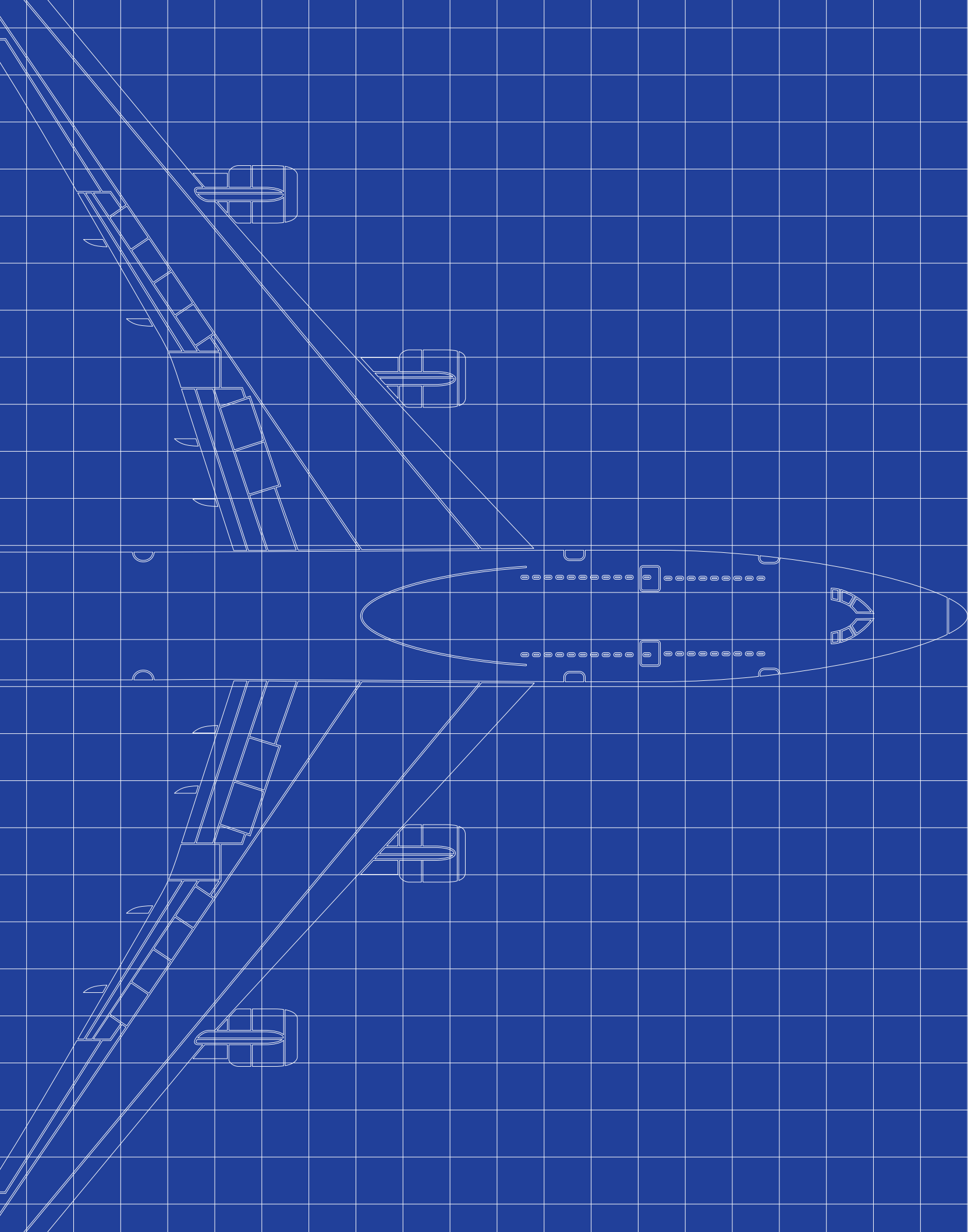
Our challenge as broking leaders is to guide businesses – our own and those of our customers – through the transition period. (...) It is impossible to know what steps we should take to prepare, but our customers expect us to offer something more than a very wide range of possibilities.

## Steve Hearn

Group CEO of Ed Broking



Steve is Group CEO of Ed. Prior to joining Ed in November 2015, Steve served as Deputy CEO of Willis Group Holdings. He joined Willis in 2008 as a result of its acquisition of Hilb Rogal & Hobbs (HRH) and held a number of senior roles including Chairman and CEO of Willis Global, CEO of Willis Re and CEO of Willis Limited, the Group's principal UK regulated entity. Prior to its acquisition by HRH, Steve was Chairman and CEO of privately owned London wholesale insurance broker, Glencairn Limited. Earlier in his career, Steve was President and CEO of Marsh Affinity Europe, having previously held a number of positions at Marsh and Sedgwick Limited. He has served as Chairman of both the London Market Group (LMG) and the London & International Insurance Brokers' Association (LIIBA) and as a Vice President of the Insurance Institute of London. Steve is executive director of global broking group Brokerslink.



DOSSIER

# AVIATION RISKS

SAFETY AS A TOP PRIORITY

**MÁRIO LOBATO DE FARIA**

ARE YOU STRAPPED IN?

**MARK SPERRING**

FROM SPACE TO THE GROUNDS

**NICK REDGROVE**

AVIATION CLAIMS – LOCATION, LOCATION, LOCATION

**STEVEN EAGLE**

ENVIRONMENTAL AVIATION RISK – A SERIOUS BUSINESS

**STEPHEN ANDREWS**

THE ERA OF DRONES

**JEAN FOURNIER**

WHAT'S NEXT?

**Anna Bordon**

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# SAFETY AS A TOP PRIORITY

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In aviation, the goal is to run operations with minimal risks. This article discusses how Management, Repair and Overhaul (MRO) activities ensure the safety of planes and ultimately that of passengers, and how risk management is integrated into Safety Management Systems.

by **Mário Lobato de Faria** · TAP Air Portugal

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**Mário Lobato de Faria** is 55, married with two children and has a degree in mechanical engineering (thermodynamics), from the IST, Lisbon. He started his career in 1988 as an engineer with Profabril, responsible for mechanical equipment, and in January 1989 joined TAP as an engines and fuel systems engineer, where he stayed until 1993. In October 1993 Mário was asked by Portugália to manage its engineering services and in 1995 he became maintenance and engineering director. In July 2006 he was invited by the shareholder Embraer to join OGMA as vice president of industrial operations and following a company restructuring, Mário became vice president of the MRO unit. An approach by TAP's CEO saw Mário return to the company in March 2014 as executive vice president of maintenance and engineering. He is now Executive Vice President of TAP Engineering and Maintenance.

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2017 was the safest year in world aviation since 1946 and ever since we started keeping records on aviation accidents and incidents, considering both the number of events and the victim total.

SOURCE: AVIATION SAFETY NETWORK



*“We need some blindness when we take risks”*  
Bill Gates.

As managers, we never tire of hearing testimonies about the link between success and a desire to take risks.

In reality, risk is inherent in everyday life and all human activities. However, in aviation and particularly when undertaking Maintenance, Repair & Overhaul (MRO), the goal is to run operations without risks or with acceptable risks.

In light of the potential for disastrous consequences, the operational culture must be one of risk aversion. This means a thorough and consistent approach to risk management; from identifying the risks and measures to remove and mitigate them to creating indicators that allow us to monitor the success of the actions implemented.

Because safety is the top priority for all aviation activities, this risk management process is integrated into a Safety Management System (SMS).

### **AIRCRAFT MAINTENANCE PROGRAMME (AMP)**

The maintenance of aircraft, engines and components is necessary, not only to ensure the safety of people and cargo, but also for economic reasons, as in the long-term they are not disposable goods.

The AMP is the key reference point for MRO activities; it is a document approved by the aeronautical authorities and produced by operators following aircraft manufacturers' guidelines. Known as MSG3 it defines which tasks must be fulfilled and how.

In reality, this wasn't always the case. Until the advent of jet aviation, it was the mechanics themselves who empirically developed aircraft maintenance programmes. Later on, during the development of the B747 project, Boeing felt the need to produce something more robust.

Today, maintenance activities analyse all of the plane's systems, taking into account the safety, operational and economic risks and their consequences, whether visible to the crew or not. This means all maintenance activities connected with aircraft, engines and

components are nothing more than the careful risk management of the planes' systems, operating or at rest. Maintenance intervals are measured in hours of flight time, cycles (one taking-off and one landing constitutes one cycle) and calendar days. Experience and probability models determine these parameters.

## SAFETY MANAGEMENT SYSTEM (SMS)

Safety management is the systematic management of risks associated with MRO activities to ensure the highest levels of protection. SMS in any airline or MRO organization is one of the responsibilities of senior management who must publish a safety policy and manage it as an integral part of the business.

It is important the SMS follows quality management protocols and is considered by differing management levels as an essential strategic tool, as for example, an accident or near accident may have serious financial consequences.

If a culture of safety exists at all levels within an organisation, it will strongly influence its working practices.

The SMS should be both proactive and reactive, providing via processes and procedures, mechanisms to predict, prevent and mitigate the effect of safety hazards. Implementation success is closely linked to three pillars: corporate safety compliance, a safety-focused organisational structure and effective monitoring systems.

The requirements of corporate safety compliance are:

- a. The publication of the differing management safety responsibilities and main stakeholders
- b. A definition of the requirements of the safety person in charge
- c. An ability to demonstrate the management team promotes a positive safety culture throughout the organization
- d. Evidence that safety is top priority in all business policies, principles and practices
- e. A commitment to a process of independent safety monitoring, not dependent upon managerial strategies
- f. Regular analysis to improve safety plans
- g. Formal processes for safety analysis

A safety-focused organisational structure has the following features:

- a. Specific procedures for the recruitment, integration, training and development of employees
- b. Management and employee safety awareness training
- c. Early monitoring procedures and corrective actions for equipment, system or service safety failures
- d. Means to monitor and record safety standards
- e. Effective management of resources to correctly identify safety threats and to analyse and control risks
- f. Change management strategies
- g. Processes that enable employees to voluntarily report safety-related issues to line managers for solving and monitoring actions taken
- h. Regular exercises to test the effectiveness of emergency response plans
- i. Safety impact assessments on trade policies

Effective monitoring systems should:

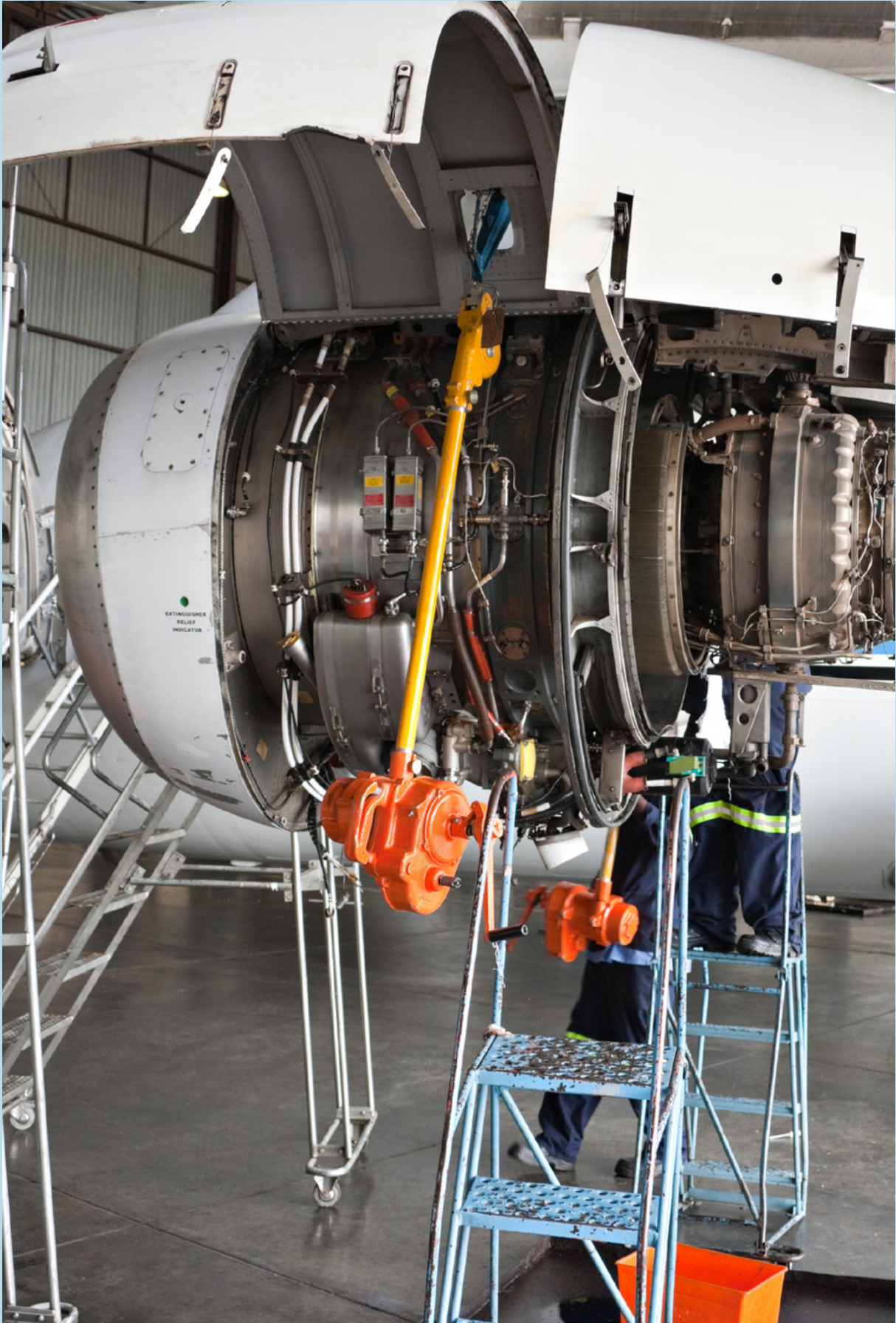
- a. Analyse and monitor flight records in order to assess performance and detect any unreported safety issues
- b. Collate and document all safety reports
- c. Focus on safety audits results and problems as they arise
- d. Publish the results of internal safety investigation processes and any respective corrective actions
- e. Share safety data when evaluating organisational performance and include structural changes within the risk management process

Finally, a robust SMS must have in place processes to consistently promote safety and evaluate the results achieved, adopt the best industrial practices and use an independent body to periodically review their effectiveness.

For the aerospace industry and its MRO activities, risk management is an essential safety tool and key contributor to business success. Such is the level of attention it requires and in recognition of the importance of the processes and technology involved, and its economic impact, SMS was given ISO 9110 accreditation in 2016. -

In 1922, the first southern Atlantic journey took place. Portuguese aviators Gago Coutinho and Sacadura Cabral flew a plane from Lisbon, Portugal, to Rio de Janeiro, Brazil.

SOURCE: MARINHA PORTUGUESA



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# ARE YOU STRAPPED IN?

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Risk management, compliance and safety intelligence are intrinsically linked with aviation insurance. Find out how these crucial elements work together to keep **AIG** ahead of the underwriting market.

by **Mark Sperring** · AIG

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**Mark Sperring** started his Aviation Insurance career at Ace Global Markets in 2001 before quickly moving on to the Aviation Underwriting team in Lloyd's. From there he saw a wide range of business from airlines, GA, aerospace and war. In 2006 Mark was part of the team that formed QBE's Aviation Syndicate where he specialised in Airports and Products and drove a market leading facility which showed QBE's leadership skills. Mark joined AIG Europe as UK Head of Airports and Products with a particular emphasis in improving the Aerospace portfolio, which particular emphasis on growing the product offering and service proposition.

The aviation insurance industry demonstrated profitability over the years spanning the early part of this decade, driven from the 09/11 rating environment. Behind this was the airline industry's sterling safety record, which had been driven by a combination of technological and managerial improvements across the globe. The high cost of oil had boosted the introduction of a new generation of fuel-efficient aircraft, while a proactive and systematic analysis of safety trends had dramatically improved risk mitigation within airlines – 2012 was so far, according to IATA, the best year in the history of aviation safety with one accident every five million flights. However, 2013 was the year that marked a turning point, as market conditions started to deteriorate. This was not because of an exceptional increase in major loss events, but following years of continuous reductions, premiums had just become too low in the face of any loss against attritional claims and with the backdrop of marketplace commoditisation. With market mutualisation a distant memory and an increase in insurer capacity, prices continued to drop. Looking forward, exposures will inevitably continue to rise with increased hull values, especially with the introduction of difficult and expensive to repair composite materials. Recent industry analysis suggests that although we are seeing fewer major events due to the overall improving technology in the industry, the per-hull cost of repair for a composite airliner versus similar structural damage to an alloy

aircraft is four to six times greater. This data is based on a relatively short time span (three years), given the relative infancy of composite fleets, but the potential impact to an insurer is clear. Other factors that are likely to change the claims picture are the emergence of a more litigious judicial system, characterised by a rise in class actions and an increase in the size of liability settlements, as well as a sharp increase in the number of flights and passenger movements. The Boeing 2017 Market Outlook predicts passenger numbers to increase by 4.7% per year over the next 20 years (based on revenue passenger kilometres (RPK)). This growth will be supported by an additional 40,000 new aircraft deliveries through to 2036. At the same time, consolidation amongst airlines will tend to reduce premiums further. In the absence of evasive action, the market is heading for a crash.

## AVOIDING A COLLISION

Albert Einstein is sometimes quoted saying: *The definition of insanity is doing the same thing over and over again and expecting a different result.* Put bluntly, that is what the aviation insurance industry has been doing. But there are signs that this insanity is about to come to an end. There is no magic recipe for turnaround, but risk selection and adherence to underwriting discipline will most probably be key factors of success in both the insurance and reinsurance markets. Insurers will have to learn to say "no" again, and look to protect their bottom line with underwriting



discipline. In addition, cost control will inevitably increase as margins reduce. This needs to be done while paying close attention to service, as insurers need to recognise that clients now have a wider choice of options when deciding on the signing of their policies as insurance is effectively a service industry. To avoid the further commoditisation of their product, insurers will have to move the discussion with clients away from one which is focused solely on price to emphasise the other benefits they can offer, such as superior claims handling, client risk solutions, industry expertise and underwriting excellence. Innovation will also represent a key to success. The aviation industry has seen spectacular technical and commercial progress over the years. Insurance must embrace that trend.

## MOVING THE NEEDLE

A number of insurers have already made significant investments in order to differentiate their offering to the market and provide more holistic solutions, as they position themselves to aviation insurance buyers as strategic partners in managing their operational risks. Some insurers, such as AIG, now offer safety consulting and data services in partnership with specialist risk management consultants who provide a full range of innovative, state-of-the-art loss control tools. With the regulatory environment constantly changing, compliance is a key issue. In addition, robust risk management programmes need to be adopted by all clients whatever their size of business. Buyers should expect a comprehensive onsite audit to verify that their operation complies with the International Standard for Business Aviation (IS-BAO) protocols toward their certification. This would include a gap analysis of their systems, policies, processes and procedures, either onsite or remotely. Other important tools include safety intelligence reports and pilot and aircraft safety surveys. Insurers can offer access to the largest, most up-to-date database of charter operators, pilots and aircraft, allowing airlines to create due-diligence reports for every flight against their company's safety

standard, with gap analyses used for actuarial study. Underwriters themselves need to stay on top of market developments, a responsibility made easier by various market publications and social media channels covering the aviation industry in more detail than ever. The onus is also on clients to ensure their employees are aware of these market developments. Insurers can also provide customised safety and risk management training courses for employees at every level of the organisation on a variety of leading-edge safety topics. Simply put, it is probable that those insurers who are not prepared to adapt

and who simply wait for a hypothetical market turn are likely to face turbulent times. The focus has to be on sustainability and thus profitability rather than top line growth. In the same way that the aviation industry has made constant and successful efforts to improve safety to an unprecedented level, so insurers must pay them the compliment of showing the same dedication, underwriting discipline and imagination. •



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# FROM SPACE TO THE GROUNDS

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Compared with other main markets the Aviation Insurance market is relatively small but as soon as there is an aircraft accident it very often becomes big headline news. There are not many classes of insurance where this happens in quite the same way.

by **Nick Redgrove** · Ed Broking

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**Nick Redgrove** is the Managing Director of the Ed Aerospace team. He joined Lloyd's of London in 1981 and started his broking career with Bristow Syndicate. He moved to a small Reinsurance Broker called Harrington Austin in 1983 and was appointed Aviation Director in 1987. In 1990 Nick joined Fenchurch which then merged with Lowndes Lambert to become Lambert Fenchurch and then merged with Heaths to become Heath Lambert.

In 2002 Nick was asked to start up an Aerospace department at Cooper Gay (now Ed Broking) to where he remains. Nick is responsible for the broking and client servicing of many of our major clients which include Airports, Airlines, Aircraft Manufacturers and Aircraft Leasing Companies

Although airline companies and aircraft manufacturers purchase sizable third party liability limits in-case an accident occurs, safety and regulation is paramount within the industry. Whilst it is not entirely natural for human beings to be sitting in a missile shaped object moving at 500mph up at 40,000 feet it is an extremely safe way to travel, especially when you consider you are 7.5 miles above *terra firma*. In fact, in Aviation terms 2017 was one of the safest years on record with no jet airline passenger fatalities.

As with many product lines, aviation keeps evolving, aircraft are safer, larger, can fly further, while being quieter and more fuel efficient than their predecessors. For passenger airlines the experience on board is also more refined for passenger comfort.

## ANYTHING THAT FLIES

The perception of aviation insurance is "anything that flies" but there are many coverages that fall within aviation liability insurance including products, premises and hangarkeepers liability, maintenance, repair and overhaul, airport liability, air traffic control liability, service providers airside including refuellers, refiners, fuel storage, baggage & cargo handlers, aircraft cleaners, construction companies working at airports, down

to logistics companies delivering goods airside at an airport.

Banking and finance companies that are involved in aircraft leasing is another exposure that you may not realise comes under aviation coverage. Although the aircraft are generally insured by the operator/lessee for hull, liability and war risk per the lease agreement, it is in the best interest of the lessor to seek contingent hull and liability coverage for their asset, this policy would also cover possessed aircraft for hull, war risk and third party liability that have been returned from lease.

A policyholder may not own or operate an aircraft but they may have aviation exposure elsewhere and that their general liability policy could exclude the coverage. A prime example is an insured that manufactures a component (sheet metal or fasteners for example) that is used in the automobile industry but somewhere in the supply chain may end up also being used within the aircraft industry. A full breakdown of parts sold to customers and the end product is vital to understand the risks of your insured.

## KEEPING PACE WITH THE RATE OF CHANGE

Of course with every new aviation product that enters the public domain we also need to ensure that the insurance industry is ready for the exposure of the new product.

The more information we can provide to the underwriter the better understanding they will have to determine the exposure.

One area which is seeing a great deal of research and development is Unmanned Aerial Vehicles (UAV); the various civil aviation authorities have a busy time regulating UAV use.

Are there many people that would fly on an aircraft that does not have a pilot? Well, commercial aircraft do fly automated but personally if I'm on a plane I have more peace of mind if a pilot is sat in the cockpit as backup! However, I can see cargo being flown

autonomously in the near future. Fuel efficiency and protecting the environment from emissions and also noise pollution are also a major research and development directive for manufacturers as well as being an important topic for aircraft operators /owners.

## RECOGNISING WHERE A RISK EXISTS

Sometimes it isn't obvious that a client has an aviation exposure. As I have illustrated above there doesn't actually have to be an aeroplane involved. It's important to understand what the policyholder's end product or service will do or where it will end up. And of course, it is always a good idea to speak to a broker with aviation or aerospace expertise to help work through the risk exposure. -

## A BREAKDOWN OF AVIATION/AEROSPACE COVERAGES

### Airlines

- . Aircraft 'all risks' hull
- . Comprehensive airline liability
- . Aircraft hull war risks
- . Excess war (AVN52) liability
- . Deductible buy back insurance
- . Loss of use
- . Personal accident / loss of license
- . Mechanical breakdown

### Products Liability

- . Prime airframe manufacturers
- . Major engine manufacturers
- . Sub-airframe manufacturers
- . Component part manufacturers
- . Electronics / avionics
- . Maintenance, repair and overhaul (MRO)

### Coverages

- . Product liability
- . Grounding liability
- . Airport premises liability
- . Hangarkeepers liability
- . Working parties liability
- . Excess war (AVN52) liability
- . Products recall
- . Manufacturers hull risks

### Space

- . Pre-launch
- . Launch and in orbit
- . Space third party liability

### General Aviation & Executive Jets

- . Aircraft 'all risks' hull
- . Aviation liability
- . Aircraft hull war risks
- . Excess war (AVN52) liability
- . Deductible buy back insurance
- . Personal accident / loss of license
- . Mechanical breakdown

### Helicopters

- . Aircraft 'all risks' hull
- . Aircraft liability
- . Aircraft hull war risks
- . Excess war (AVN52) liability
- . Deductible buy back insurance
- . Personal accident / loss of license

### Airports & Ground Service Operations

- . Airports
- . Air traffic control
- . Refuellers / refiners
- . Service providers
- . Products liability
- . Airport premises liability
- . Hangarkeepers liability
- . Excess war (AVN52) liability
- . Airport contractors

### Banks, Finance Houses, Aircraft Leasing Companies

- . Contingent aircraft hull
- . Contingent aircraft liability
- . Repossessed aircraft hull and liability
- . Aircraft hull war risks
- . Political risks
- . Residual value insurance
- . Excess war (AVN52) liability

### Remotely Piloted Aircraft Systems / Unmanned Aerial Systems

- . Aircraft 'all risks' hull
- . Third party liability
- . Manufacturers hull risks

# AVIATION CLAIMS

## LOCATION, LOCATION, LOCATION

Using a case study, this article demonstrates the importance of a specialized broking team when handling an aviation claim.

by **Steven Eagle** · Ed Broking



**Steven Eagle** heads up Ed's Aerospace Claims team in London and he has been with the company since 2008. Steven has over 40 years experience of handling claims in a variety of Senior Management roles with major Lloyd's brokers. He also represents Ed Broking on the Aviation Claims Sub-Committee of LIIBA (London and International Insurance Brokers Association).

The Concorde, the one aircraft that could fly faster than the Earth rotates, operated without incident for 24 years. The only fatal accident it was involved in occurred in the year 2000, at the Charles de Gaulle airport in Paris, because another airplane leaked oil onto the tarmac.

SOURCE: FEDERAL AVIATION ADMINISTRATION

When you mention aircraft, many people have a mental picture of bright, shiny, passenger jets, landing at modern, well equipped, airports in prime locations, like New York, Dubai, or London.

This is a great image and would reflect some of the larger aviation risks, but aviation insurance is an incredibly diverse sector and many insureds operate a vast variety of aircraft types to numerous destinations with complex jurisdictions that can complicate matters, when claims occur.

Here are brief details of a claim and the real issues that arose:

A few years ago, in a North African country, an aircraft was chartered to carry a group of prominent politicians on a tour of villages in a remote region. Unfortunately, whilst carrying out the tour, the aircraft took off in poor weather and crashed into a mountain top, totally destroying the aircraft and killing everybody on board.

As the London brokers, we arranged hull, liability and crew personal accident coverage, on a full reinsurance basis, for the local insurance company. The reinsurance was subject to a claims control clause, that gave reinsurers full control over the instruction of experts and subsequent claims agreements and settlements.

A prompt advice was given to the reinsurers and they instructed the London office of a major international adjuster.





As the country where the incident occurred was the subject of sanctions, there were immediate problems for the adjuster, in obtaining the necessary visas and arranging travel to the region. In the end, this took around three weeks and the visas were only obtained with the assistance of the local insurance company, who had excellent connections in the government of the country.

Unfortunately, by the time the adjuster arrived, the official investigation had been completed and the remote site had been abandoned. The adjuster was advised that this was because of local insurgent activity, so sensibly decided to remain in the capital and meet with the insured and members of the local Civil Aviation Authority investigation team, instead.

From the discussions, it was possible to confirm that the aircraft had crashed due to probable pilot error and this allowed the adjuster to report and recommend a hull total loss settlement.

The London underwriter quickly agreed the claim and a release was obtained to allow the claim to be collected.

Whilst every collection is subject to sanction checks, this particular claim was being paid to a sensitive area, so particular care had to be taken by all involved, the underwriter, adjuster and us as brokers, to confirm the status of the insured and the loss payees. When the checks were finalised to everyone's satisfaction, the collection was completed and a payment sent to the appropriate parties.

Moving on from the hull claim, the adjuster then focussed on the passenger liability and the crew personal accident, which would be handled by their specialist liability team. With fixed benefits, any crew death claims under personal accident coverages are normally simple to collect, just requiring death certificates, the identification of beneficiaries and then the collection. Unfortunately, in this instance, the deceased crew were

not from the country, so there was extensive liaison with their embassy and it was a protracted process, before settlements could be arranged. In the meantime, claims were being presented from the families of the deceased passengers and the adjuster's investigation was in progress, with the first priority being to seek legal advice on any legislation that was applicable to air travel, in this location.

As this was an internal flight, the adjuster found that there was local legislation, that provided a fixed level of compensation, equivalent to around EUR 26,000.00, at the current exchange rates. Accordingly, when the adjuster responded to representatives of the passengers, they offered this figure.

Surprisingly, the offer was rejected and the lawyer who was acting for the claimants, started legal proceedings.

In response and with underwriter's agreement, the adjuster contacted a local lawyer, who was instructed to



respond to the complaint. It was hoped that the process would be simple, but this did not prove to be the case, as the plaintiff lawyer contended that the limitation act had not been legally issued. The defence lawyer argued back, that if this was the case, then earlier legislation existed, which provided even lower limits (around 20% of the amount mentioned above).

At this point, the plaintiff lawyer, somehow, discovered that the crew benefits had been settled at EUR 60,000.00 and demanded a similar payment for each of the deceased passengers. Matters took a turn for the worse and court accepted the plaintiff arguments and agreed that this should be the settlement figure.

Somewhat bemused by the decision, the defence lawyer filed an immediate appeal and further hearings were arranged, to review the matter. It was believed that the defence was still strong, so the appeal was viewed with a degree of optimism.

Again, there was a surprise, as the first appeal was rejected and the lower court decision was ratified, so a further appeal was filed and the matter was taken up to the next level.

It still seemed that there was no basis of law for this award and it was hoped that more senior judges would recognise this fact, but this was to no avail.

The defence team's frustration increased, as the claimant's lawyer moved to enforce the awards and sought to freeze the assets of the Insured and the Ceding Company, to compel settlement.

Unfortunately, it became clear that the decision of the court would not be changed, so urgent meetings were held to try and find an appropriate resolution to avert the financial orders against the Insured and the Ceding Company.


Luckily, the lead underwriter was highly experienced in handling claims from this region and agreed that it was time to increase the offer and negotiate a resolution, rather than keep launching appeals. Conference calls took place, involving the local insurer, reinsurers,

the adjuster and us, which resulted in reinsurers granting an authority to try and settle the matter. The figure was below the court award, but was made on the basis that underwriters could continue to appeal and it would take several years to go through the higher courts.

After much discussion, between the local lawyers, the negotiated figure was finally accepted and the collection process began. In this instance, around three hundred individuals were named as beneficiaries, so protracted sanction checks were required, before the claim was finally collected and distributed to the appropriate people.

In comparison to many western jurisdictions, the final settlements were relatively low, but this case was an interesting example of how the interpretation of local law is sometimes not as clear cut as you would hope. The insured, ceding company, adjuster and defence lawyers, did a great job defending the claims and they might, reasonably, have hoped for a better outcome. Fortunately, we had reinsurers that understood the region and were prepared to support the insured and the local insurer, by paying "above the odds", to conclude the matter.

As brokers, we are aware that local courts can be unpredictable, so even with the best defence lawyers, results might not go as planned. In that situation, it is good to have supportive reinsurers, with a realistic view of the jurisdiction. -



Alberto Santos Dumont, Brazilian inventor and airman, designed, built and flew the first gasoline-engine airships having won the Deutsch de la Meurthe prize in 1901 for a flight that rounded the Eiffel Tower.

SOURCE: SMITHSONIAN OFFICE OF EDUCATION

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# ENVIRONMENTAL AVIATION RISK

## A SERIOUS BUSINESS

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On a cold and windy day 115 years ago this December, Orville and Wilbur Wright made the first successful flight of a self-propelled, heavier-than-air aircraft. That momentous day in Kitty Hawk, North Carolina, spawned an industry that is now worth hundreds of billions of dollars a year. It has changed the way we not only travel but also how think about the world.

by **Stephen Andrews** · Aspen Insurance

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**Stephen Andrews** is Head of International Environmental at Aspen Insurance. He has responsibility for Aspen Insurance's portfolio of environmental accounts across Europe and the London Market. Stephen has over 25 years of global environmental experience including insurance, as well as within industry as an environmental specialist, regulatory consultant and chemical engineer. Prior to joining Aspen, Stephen worked

in New York, London and Paris and focused on the development of international environmental liabilities, international specialty products, growth strategies and underwriting. He sat on the Insurance Europe environmental task force regarding the Environmental Liability Directive. Stephen holds a Bachelor of Engineering degree, Chemical Engineering, from Stevens Institute of Technology, in Hoboken, USA.

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Cyber attacks on the aviation industry have become a serious concern. As increasingly complex and integrated information systems are adopted by the aviation sector, the threat of vulnerability to cyberattack increases. It has been estimated that the aviation sector faces over one thousand attempted cyber attacks each month.

SOURCE: CLYDE & CO NEWSLETTER, JULY 2017



From that first landing on sand after a 12-second flight, aviation has become one of the world's biggest and most important industries, with associated sectors from safety, refuelling, inflight entertainment and refreshments, to air traffic control and baggage handling. The link between aviation and pollution liability was late being made, with environmental impairment liability insurance not being introduced until the late 1970s. But there are many factors that those involved in aviation-associated sectors must bear in mind today.

Environmental risk exposures for companies (and their risk managers) continue to increase due to changes in legislation and an increase in social awareness and public pressure. In addition, there is anecdotal evidence of an increase in consistency in enforcement in many markets of new environmental regulation. Overall, we see two main pillars that drive the discussion of environmental risk and increase the value of specialized environmental insurance programs.

1. Increase in frequency of claims – as new regulations emerge and take hold, coupled with public awareness and consistency in enforcement, we see a future of increased claims activity. Although one could question the pace of this increase, it would be hard to argue that there would be an actual global decrease in claims activities for companies that fail to manage their environmental exposures properly.
2. Increase in claims complexity/cost – our experience illustrates that as time goes forward, claim complexity increases. This is primarily as a result of the implementation of new regulations, globally, and the increased number of stakeholders involved when a pollution incident or environmental damage event takes place.

So overall with a trend in increasing claims frequency coupled with an increase in claims complexity, we can see that the demand for education around environmental exposures and available environmental insurance coverage will continue on its growth path.

## **POLLUTION FROM AVIATION SECTOR AND POLLUTION FROM 'FIXED BASE OPERATIONS'**

When looking at the aviation sector, we need to question what are the prevailing environmental exposures? Are airport owners and operators exposed to environmental risks? Is there insurance protection in general liability policies? Pollution can be introduced into the environment from many sources in the aviation sector. For instance, those introduced over a widespread area such as aircraft emissions and vehicle traffic in and around an airport. There are also those resulting from more specific activities at an airport (a 'Fixed-Based Operator'), for example:

- . Fueling operations
- . Fuel storage and hydrant systems
- . Operation of aircraft
- . Aircraft and ground service equipment maintenance
- . Firefighting training areas
- . De-icing activities
- . Terminal operations including waste management

These can all be exacerbated by construction and expansion activities including the acquisition of additional land. Costs arising out of pollution events can include:

- . Third-party bodily injury claims
- . Third-party property damage
- . Investigation, clean-up and remediation costs
- . Oversight and monitoring costs
- . Legal defense costs
- . Loss of use and business interruption expense costs
- . Natural resources and environmental damage claims

## **REAL EXAMPLES TELL THE STORY OF RISK**

### **Construction work**

In the case of a contractor working at an airfield, 36,000 gallons of fuel leaked into the ground rather than being delivered to aircraft. An investigation found part of a drilling machine stuck into the fuel pipe. Even after mitigation measures, the pipe still continued to leak. The incident raised questions around underground hazards, and the role of site owners and contractors.

### **Fuel Distribution**

A London based company which supplied and distributed fuel at an airport severely polluted groundwater with at least 139,000 litres of fuel, at a rate of seven litres a second. The leak was inadvertently discovered during an investigation into an unrelated incident. The fuel is likely to be recovered at 80 litres a week, or slower, at a cost of around £1m.

### **De-icing**

An airport executive was fined for polluting a river by irregular release of de-icing compounds from activities on a runway. Contamination of 85 times the acceptable level were found after a control process to avoid spills broke down. The airport was warned after a previous event approximately a year earlier and the incident was noticed due to monitoring controls.

### **Fire fighting**

A Port Authority recently detected contaminated soil and groundwater at one of their Airports, which has been traced back over 50 years. They entered into a voluntary clean-up agreement primarily focused on chemical compounds PFOS (perfluorooctane sulfonate) and PFOA (perfluorooctanoic acid). An investigation into the extent of the contamination is ongoing. PFOS and PFOA have been classified as a potential threat to health, wildlife and the environment. There is concern that these could contaminate drinking water. The chemicals do not readily breakdown, so airports should be prudent about their existence, even if their use has been phased out many years ago. It is likely the contamination stems from fire training as far back as the 1960s, when foams that contain PFOS and PFOA had been used to extinguish fires.

### **Ground transportation**

Late last year, a ground transportation company at a major UK airport was fined when staff poured waste material directly into a river, rather than taking it to a regulated disposal site. While it may seem quite difficult to trace the cause of pollution, environmental regulators have the technology and skills to identify the sources of contamination.

## GENERAL LIABILITY AND AVIATION INSURANCE MARKETS

Environmental coverage in “traditional” property and casualty policies is certainly inconsistent across global markets. Additionally, the coverage is typically not comprehensive with regards to relevant environmental exposures.

In some cases, there is no pollution coverage except if caused by hostile fire, and often then just limited only to third-party bodily injury and third-party property damage – not including any first party clean-up coverage.

Some extensions provide coverage for named perils such as fire, windstorm, lightning, explosion, or collision, but are still limited only to third-party bodily injury and third-party property damage. Broader forms can grant some type of sudden and accidental (“S&A”) coverage with strict requirements for discovery and reporting periods, but again often limited only to third-party bodily injury and third-party property damage.

More specifically in the aviation insurance market, one can often see the application of a restrictive AVN 46B (Noise and Pollution and Other Perils Exclusion Clause) wording. This states that the policy does not apply to claims directly or indirectly occasioned by, happening through or in consequence of pollution and contamination of any kind whatsoever unless caused by or resulting in a crash fire explosion or collision or a recorded in-flight emergency causing abnormal aircraft operation.

Regardless of coverage in a “traditional” property and casualty policy, there are still significant exclusions and exceptions such as gradual releases, first party coverage, regulatory liability, waste disposal or natural resource and biodiversity damage.

In some cases there may be coverage “buy backs” for some elements of statutory environmental liability and even natural resource and environmental damage claims, but usually with low sub-limits and irrespective of the operation’s true exposure.

## SPECIALIST ENVIRONMENTAL MARKETS

The specialist environmental market’s products on the other hand are designed around a broad range of environmental liabilities and impairment risk. Specialist environmental underwriters, often with environmental consulting and engineering backgrounds, have the expertise to understand and provide coverages for some of the more complex elements. Coverage can include:

- . Gradual and S&A pollution
- . Clean-up costs
- . Natural resources/biodiversity damage
- . Business interruption expense
- . Third-party bodily injury and property damage
- . Legal costs
- . Transportation
- . Non-owned waste disposal site liability
- . Underground storage tank liability
- . Pre-existing conditions


Policies can be tailored to the owner and/ or the fixed based operator’s liability but also to contractors’ coverage for liability arising due to claims resulting from exacerbation of existing pollution or other release caused by construction, development or remediation activities.

There are a number of actions that can be taken including ensuring that pollution and environmental risk are evaluated properly, including historical contamination at the site.

It is also important to review if the risk management practices used to manage environmental risk are adequate.

Risk transfer and indemnification language in vendor FBO (Federal Business Opportunity) contracts should also be reviewed for adequacy and consideration should be given to mandating insurance requirements for vendors and contractors. It is also recommended that there is a review on the reliance on airport sovereign and governmental immunity.

It is always good practice to review current insurance coverage for gaps and consider the availability of specialist environmental insurance. •



The greatest aircraft ever built was the Graf Zeppelin II (LZ-130) airship, which boasted an impressive 245-meter length and a 41.2m radius.

SOURCE: GUINNESS WORLD OF RECORDS



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# THE ERA OF DRONES

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Three years ago, drone operators considered that the lack of availability of appropriate insurance was a major problem hampering the development of their business. Today, this concern is gone but major changes are ahead of us. A scan from the past to the future helps understanding how this evolution happens.

by **Jean Fournier** · Global Aerospace

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**Jean Fournier** is Managing Director of the French branch of Global Aerospace.

Prior to joining Global in 2009, Jean was a Managing Director at Marsh where he spent 19 years, including 10 years as Head of the French Aviation and Space team and 3 years in charge of Innovation. Earlier in his career, he worked at Airbus on military and space programmes.

Jean is a graduate engineer from Arts et Metiers, and holds a Master degree from Stanford University and a DESS in Finance from Sorbonne University.

Jean is a member of the board of UVS International.



## FLYING DRONES ARE AIRCRAFT

A debate took place in the early days to figure out if the flying component of Unmanned Aircraft Systems (UAS) – i.e. the drone – was indeed an aircraft. Light devices designed for leisure were presented as toys or flying robots to avoid the application of aviation regulations.

The clarification took place when administrations stated that whatever the weight and the use, a flying device is an aircraft subject to the related regulations.

Simultaneously, it was recognized that the pace at which the sector grows, requires a considerable change to the way these regulations account for new devices. Where the sky accommodates hundreds of thousand aircraft of all kind worldwide with well-established traffic regulation procedures, the challenge is to accept millions of drones without impacting flight safety.

2017, the safest year ever for airline passengers, recorded no fatality on jet aircraft for more than 4 billion passengers transported, and 2 fatal accidents of small turbo-prop aircraft resulting in 13 lives lost.

How to manage the growth of a promising activity in an economic sector where professionals have contributed to reach such a high level of safety, is the challenge that the Civil Aviation Authorities (CAA) currently face.

## SEGMENTING THE MARKET

The CAAs recognize the need to limit the application of prescriptive regulations currently used for manned aviation to drones that are designed to be integrated into the existing traffic. More flexible rules should apply to light drones that are flown in a segregated environment, namely below the minimum altitude below which manned aviation should not fly except for take-off and landings.

A distinction should also be made between drones operations. Professional use over cities should be subject to greater constraints than occasional use for leisure within Visual Line Of Sight (VLOS) in non-populated areas.

Hence the concept of Specific Operation Risk Assessment (SORA) that the Joint Aviation Authorities on Unmanned

Systems (JARUS) published in summer 2017<sup>1</sup>. This document recommends a risk assessment methodology to establish a sufficient level of confidence that a specific operation can be conducted safely.

These evolutions are major changes for the aviation community. The transition period needs to be managed as time is needed to accept the new environment.

## THE ADAPTATION OF THE INSURANCE SECTOR

Insurance companies support these efforts with a balanced approach aiming at facilitating the experiment of new applications, while disseminating the safety culture of manned aviation to new comers to this field.

The first step in the European Union was to make clear that Regulation (EC) 785/2004 applies to drones that are recognised as aircraft.

For aircraft with a Maximum Take Off Mass (MTOM) below 500 kg, the insurance in respect of liability for damages caused to third parties shall be no less than 750 000 SDRs<sup>2</sup> corresponding to approximately 900 000 EUR. This limit of insurance can be provided by any liability insurer. Amongst the short list of exemptions, the one concerning model aircraft with an MTOM of less than 20 kg was controversial. The debate is hopefully now closed on three grounds: Flying without third party liability insurance is inconsistent with the safety culture that the authorities want to implement; this culture is based on responsible behaviour.

A restrictive application of this exemption limited it to aircraft flown in model aircraft associations or clubs, which promote flight safety and provide insurance when you become a member. A wider reading of the exemption extended it to aircraft used for recreational purposes; insurers providing private liability insurance can insure such flights of light drones (MTOM below 2 kg – 95% of the existing fleet) as long as they remain within VLOS. This is done through private liability insurance, which penetration should be increased in many European countries.

Most professional uses of light drones can also be covered by general liability insurers. With the support of reinsurers,

they consider that the risk is not higher than the ones they already cover in a factory or a construction site. To the contrary, their use usually decreases the exposure of workers to hazardous situations.

Aviation insurers, with specialised professionals and limited resources, focus on more specific operations, such as long range mapping or flights over cities. These operations should be carried out by entities that are flight safety savvy, a point that aviation insurers check before underwriting the risk. This comprehensive and adapted insurance approach is disseminated by the European Commission through the DroneRules.eu<sup>3</sup> project.

## WHAT IS NEXT?

The change in mindset is happening. Now that drones designed to transport passengers have flown in China or in Dubai, voices are heard from individuals saying that they are willing to use them. The aviation community (airlines, air forces, airports) recognizes the potential of these aircraft and want to cooperate to speed up their deployment.

In such positive environment, capability to detect and avoid other aircraft remains critical. This concern – common to autonomous car manufacturers – should foster the efforts of tech firms in this area.

Aviation insurers will stay tuned to facilitate these changes while continuously promoting flight safety. This is our commitment at Global Aerospace worldwide. -

<sup>1</sup> [https://rpas-regulations.com/wp-content/uploads/2017/07/170626\\_JARUS\\_Specific-Operations-Risk-Assessment\\_SORA\\_v1.0.pdf](https://rpas-regulations.com/wp-content/uploads/2017/07/170626_JARUS_Specific-Operations-Risk-Assessment_SORA_v1.0.pdf)

<sup>2</sup> Special Drawing Rights: [http://www.imf.org/external/np/fin/data/rms\\_sdrv.aspx](http://www.imf.org/external/np/fin/data/rms_sdrv.aspx)

<sup>3</sup> <http://dronerules.eu/en/>

# WHAT'S NEXT?

## TRENDS, EMERGING RISK AND OPPORTUNITIES FOR AVIATION AND SPACE INSURANCE

by **Anna Bordon** · Lloyd's



**Anna Bordon** is an Executive in the Innovation team at Lloyd's where she supports horizon scanning and the delivery of the thought leadership reports. Subjects covered recently include: stranded assets (the transition to low carbon economy), the exploration of aggregation modelling methods for liability risks and the application of counterfactual risk analysis in the insurance industry. Prior to joining Lloyd's Anna was a Policy and Research Officer for the Principle for Responsible Investment Initiative where she worked on the integration of environmental, social and governance (ESG) factors in financial decisions. Previously she held roles at the Chatham House and the Financial Times. Anna holds a BA in Languages, Economics and Legal Institutions in Eastern Asia from Università Ca' Foscari and Beijing Language University. In 2012 she obtained an MSc in International Management for China from the School of Oriental and African Studies (SOAS) followed by an MSc in Energy Management from ESCP Europe Business School.

Lloyd's has always had a reputation for innovation and is a pioneer when it comes to insuring aviation and space activities.

The first-ever aviation insurance policy was written by Lloyd's in 1911 and although it stopped writing policies a year later after bad weather caused a series of crashes, in 1919, far-sighted underwriter Cuthbert Heath started the British Aviation Insurance Association.

In 1965 the first space satellite insurance was placed, covering physical damage to the Intelsat 1 on pre-launch, and from 1974-1982 the market underwrote other satellites for up to US\$100 million each. In 1984, Lloyd's launched a successful salvage mission to reclaim two rogue satellites, sending a shuttle and five astronauts into orbit.

With expertise earned over centuries, Lloyd's is the foundation of the insurance industry and the future of it. Led by expert underwriters and brokers who cover more than 200 territories and countries, the Lloyd's market develops the essential, complex and critical insurance needed to underwrite human progress. Lloyd's can develop tailor-made policies for every customer in every sector and it covers more than 60 lines of insurance and reinsurance including space and aviation.

London underwrites 60% of the global aviation market. In 2016 aviation accounted for more than US\$1.2 billion in gross written premium for the Lloyd's market, with space contributing US\$200 million gross written premium to the total. Multiple syndicates at Lloyd's underwrite space and aviation,

demonstrating strong underwriting discipline and sophisticated pricing modelling techniques. Currently Lloyd's maintains one aviation and four space realistic disaster scenarios to stress test both individual syndicates and the market as a whole.

The first-ever aviation insurance policy was written by Lloyd's in 1911.

SOURCE: LLOYD'S WEBSITE





## AVIATION AND SPACE

The world's airlines carry more than three billion passengers a year and 50 million tonnes of freight. These services generate 9.9 million direct jobs within the air transport industry and support 2.7 trillion (3.5%) of the world's gross domestic product (GDP). Globally, the UK has the third largest aviation network after the US and China.

In 2015 the space sector accounted for US\$330 billion globally, with the US space sector worth US\$43 billion and the UK space sector worth US\$18 billion. The UK Government's stated goal is to grow the space business to US\$53 billion by 2030.

### Trends

#### **Aviation**

Low-cost carriers and ultra-low-cost carriers are still gaining market share from the dominant full-service carriers. In the US, a wave of consolidation has resulted in 80% of US domestic travel being controlled by four major carriers. They are, in order of passenger traffic, American Airlines, Southwest Airlines, Delta Air Lines and United Airlines. Emerging markets are also driving aviation growth. This year, passenger traffic in China's domestic aviation market grew by 15.1% year-on-year, beating India's 14.6% growth, according to data from the International Air Transport Association (IATA).

As China's air passenger market is set to triple over the next 20 years, China will continue to invest in airports, airlines and aircraft in order to develop a modern and sustainable aviation industry. Development is happening so quickly that Li Xiaxiang, head of the Civil Aviation Administration of China, recently said: "We are still unable to catch up with demand for airport construction."

Boeing and Airbus have forecasted China will replace the US as the most valuable market in the world for passenger jet deliveries by about 2030. Recently, Airbus struck a deal to increase the number of planes it makes in China. China is also slowly developing a national commercial aircraft



manufacturing sector. The Commercial Aircraft Corporation of China estimates that Chinese airlines will need 8,575 new planes worth US\$1.21 trillion over the next 20 years as strong travel growth continues.

As aviation is one of the most energy and carbon-intensive forms of transport, whether measured per passenger km or per hour travelling the ongoing growth in travel and freight has put the spotlight on its environmental impacts. Direct emissions from aviation account for about 6% of total UK emissions in 2014, 3% of the EU's total greenhouse gas emissions and more than 2% of global emissions. The aim is to reduce aviation's CO2 emissions and then stabilise them at 2020 levels (carbon-neutral growth) using aircraft and operational efficiency, alternative fuels as well as emission trading and offsetting schemes (e.g. the EU Emissions Trading System and ICAO's CORSIA scheme).

Overall a megatrend for the entire aviation industry is connectivity. In-

-flight connectivity is changing from being a luxury to a necessity as Wi-Fi becomes more in demand than in-flight meals and in-flight entertainment. Connected airports, encompassing smart landing (which alerts pilots if aircrafts are approaching the runway too high, too fast or are improperly configured for landing), lighting control (which enables control and monitoring within one series circuit), advanced visual docking guidance system to optimise gate operations, mobile devices to navigate the airports and face recognition systems will transform how airports respond to passengers and aircrafts needs.

**Space**

In the space sector, new areas of business include emerging space programmes in Africa and South America, and emerging private space companies and start-ups active in a variety of services such as human spaceflight, mining lunar and asteroids resources, suborbital and orbital launch services of small payload and

nanosatellite launches. For example, in December 2017 China launched Algeria's first communication satellite, Nigeria has successfully launched five satellites from foreign territories in less than a decade and in May 2017 engineers in Ghana converted an old telecommunications dish into the continent's first functioning radio telescope outside South Africa.

Rapid technological developments in satellite construction and launch infrastructure have enabled the increasing use of nano/micro satellites (1 to 100kg). According to SpaceWorks's forecast: "2017 will be a record year for nano/microsatellite launches, with 182 satellites expected to launch, representing an 80% increase from 2016. The full market potential for the industry remains high, but this year predicts only 10% growth year over year in the future." Launch delays are the major contributing factor to reduced market growth. In 2016, the US dominated the management of nano/micro satellite launches (63%), with China second



(13%). Between 2009 and 2016, the commercial sector accounted for 40% of nano/microsatellites, forecasted to rise to 70% by 2019. That leaves governments with 10% and academic with the rest.

This next generation of satellites is supporting another area of business: monitoring. The UK Space Agency has awarded a \$19 million contract for a new satellite monitoring programme, which aims to protect 300 million hectares of tropical rainforests across the globe. Advanced use of earth observation data from satellites, aerial surveys, ground sensors and other sources will support decisions and actions for disaster response and security. For example, the NASA Disaster Applications programme was able to create a Damage Proxy Map depicting areas of southwestern Florida, including Key West and Naples, that were damaged by Hurricane Irma (Category 4 at landfall in Florida). The London Market Association's claims committee and Lloyd's have agreed to support and fund the satellite imagery service provided by McKenzie Intelligence Services. The service attracted the broad support of the Lloyd's market, with 44 out of a possible 59 managing agents having signed up by the time the hurricanes struck.

Looking ahead, the race to Mars is also fuelling the development of methane-burning rocket engines and competition between SpaceX and BlueOrigin. The Google Lunar XPRIZE, sponsored by Google, has ignited global participation of privately funded spaceflight teams with five teams left in the competition. Overall, the idea of low cost access to space and NASA's support for private spaceflight has paved the way for private sector investments, In 2016, 40 initiatives received US\$1.5 billion in funding, down from 46 and US\$2.3billion in 2015. In December 2017, NASA announced its investment in concept developments for the next decade: a return mission to sample a comet and a drone-like helicopter that would explore potential landing sites on Saturn's largest moon, Titan.

### **Brexit**

Under the 7<sup>th</sup> Framework Programme for Research and the Horizon 2020 Framework Programme for Research and Innovation (2014-2020), EU funding to UK entities amounts to US\$270 million

for aeronautics and US\$161 million for space (January 2017 data and exchange rate). A further US\$66 million in loans has been allocated to the UK aerospace industry under the Europe's programme for small and medium-sized enterprises (COSME).

Brexit might have significant impacts for both aviation and space, but at the moment its exact effects are uncertain.

In terms of space, the UK wants to stay involved in the EU Copernicus, Galileo and EGNOS programmes, but questions remain as to what extent UK space companies will retain access to the EU single market.

According to IATA, the regulatory impacts will depend on the nature of the future Brexit agreement and access to the European Single Aviation Market. IATA has modelled three different scenarios and even in the case of a "hard" Brexit the UK passenger market is expected to be 45.5% larger in 2035 than it was in 2015 (a "soft" Brexit would result in 55.2% change).

Nevertheless the UK and the EU would benefit from ongoing collaboration.

## **THE CHANGING RISK LANDSCAPE**

What future risks and opportunities the trends discussed above will bring for space and aviation?

The following is an overview of these, looking at three main categories: natural environment, technology, and society and security.

### **Natural environment**

#### **Climate change and solar weather**

As discussed earlier, increasing CO2 levels are a concern from a sustainability perspective, but climate change could also affect aviation by increasing clean-air turbulence, cause injuries, delays, higher fuel consumption and increased emissions on transatlantic routes by the middle of this century.

Like weather on the earth, space weather comes in different forms and

The first space satellite insurance is placed, covering physical damage to the Intelsat 1 on pre-launch, and from 1974-1982 the market will underwrite others for up to \$100m each. In 1984, Lloyd's launches a successful salvage mission to reclaim two rogue satellites, sending a shuttle and five astronauts into orbit.

SOURCE: LLOYD'S WEBSITE



different strengths. Solar flares, coronal mass ejections and geomagnetic storms could potentially create huge disturbances in the transport, aviation and power sectors by interfering with ground technology, GPS systems for navigation and satellites. The risks posed by space weather are now also magnified through what some commentators have called “creeping dependency”, which means the growth of interconnected systems that business and other activities rely on.

Another issue is asset stranding. The world has a budget of estimated carbon dioxide it can emit while still limiting the rise of temperatures over 2C above pre-industrial levels. To stay within the budget countries will have to pursue further emission reductions. This means that some fossil fuels will be phased out of the economy and assets such as airplanes that still require them, will gradually lose value or become obsolete – becoming “stranded”. This is why alternative, low-carbon jet fuels will play a key role in meeting the aviation industry’s target of carbon neutral growth starting in 2020. Electric planes will also play a role, for example EasyJet has recently partnered with Wright Electric to develop battery-powered planes for its short-haul flights such as London to Amsterdam or Paris.

### **Space mining**

Asteroid mining is another opportunity in the space sector. Asteroid resources include materials such as sulphur, platinum, cobalt, ferrous metals and organic carbon. For example, according to Asterank, a scientific and economic database that provides information for more than 600,000 asteroids, Asteroid 162173 Ryugu would be the most cost effective to mine with an estimated value of US\$82 billion and an estimated profit of US\$30 billion.

Deep Space Industries and Planetary Resources are first movers and have already identified attractive asteroids.

Despite large potential profits, in 2012 a Keck Institute for Space Studies (KISS) study calculated that the cost for a future mission to identify and return a 500-tonne asteroid to low earth orbit would be US\$2.6 billion.

Similar to traditional mining, materials, technical mining skills, a licence to operate and financing will play a crucial role in making commercial exploitation of asteroidal resources a reality in the coming years.

In regards to regulations, the US and Luxembourg are at the forefront of developing the regulations for asteroid exploration and exploitation.

In 2015 the Commercial Space Launch Competitiveness Act was approved in the US with the aim to “facilitate a pro-growth environment for the developing commercial space industry by encouraging private sector investment and creating more stable and predictable regulatory conditions, and for other purposes.” It granted US citizens rights to own, use, transfer and sell mined space resources without granting exclusive ownership over the celestial bodies in compliance with international treaties such as the Outer Space Treaty.

Since July 2017, Luxembourg has provided space law expertise and it is the first European country to adopt legislation regulating the ownership of resources acquired in space by commercial companies.

### **Technology**

#### **Cyber threats and business interruption**

In July 2015 the Prudential Regulation Authority (PRA) at the Bank of England published a policy statement, which mentioned that casualty (direct and facultative), marine, aviation and transport lines are potentially significantly exposed to “silent” cyber losses (i.e. cyber exposures in insurance policies that may not implicitly include or exclude cyber risks). With aviation companies relying on IT systems that are crucial for ground and flight operations, cyber risks pose a major threat as they can cause breaches and disruption, and can directly impact services, reputation and financial performance.

For example, a technology failure at British Airways (BA) led to delays, airport congestion and flight cancellations for thousands of customers at London

airports in May 2017. BA cited “a major IT system failure that caused severe disruption to flight operations worldwide” originated by a power supply issue that led to an estimated US\$102 million loss.

The year before, following a power control malfunction, critical systems and network equipment failed to switch over to Delta’s backup systems. This incident issue highlighted the airline’s reliance on ageing technology and the interconnected nature of its systems, and led to almost 1,000 flights being cancelled and delays of almost 3,000 others worldwide. The airline was quick to deny a cyber-attack was the cause. In the same year Southwest Airlines grounded more than 2,000 flights due to what it described as a technical glitch with a router.

Cyber-attacks and cyber security are rapidly developing issues and in 2014, the Aviation Information Sharing and Analysis Center was created in the US to act as the focal point for security information sharing across the aviation sector. Two years later the European Centre for Cyber Security in Aviation was created by the European Aviation Safety Agency.

#### **The Internet of Things**

When looking at the Internet of Things (IoT) there are projects to improve every aspect of aviation: passenger experience, baggage handling, equipment monitoring, and improving fuel efficiency.

Virgin Atlantic’s Boeing 787 uses IoT sensors to gain real-time data for a number of things from performance to maintenance (for example, detecting if the performance of a jet engine mid-air is not up to standards and sending a message to airport engineers to be ready when the plane lands). The kind of data collected by this sort of system would help to boost engine efficiency, reduce travel times and cut fuel costs. Companies such as Rolls Royce and General Electric use IoT technology to monitor the performance of jet engines.

In 2015, Lufthansa Airlines launched the RIMOWA electronic tag, which enables travelers to check in their luggage from the comfort of their home from their



smartphone via Bluetooth and hand in their luggage at a check-in station upon arrival at the airport. Helsinki Airport uses sensors in its terminal to track passengers through their smartphones in order to help prevent queues and tailbacks and also be able to send notifications to passengers using their locations.

As aircraft, ground facilities and other critical infrastructures are vulnerable to cyber-attacks, the risk could increase with connectivity. However, as systems become more interconnected, more up-to-date data becomes available and loss prevention services are developed. This is an opportunity to better understand risks and trends as well as planning mitigation and information sharing frameworks.

**Drones**

Drones are now used for a range of activities including military, agriculture, public services, wildlife protection and research. The sector is expanding rapidly with global expenditure set to double to US\$91 billion over the next decade. In the future drones could be used to deliver parcels, move freight and carry people singly or in swarms.

They could be solar-powered to pollinate crops as the number of honey bees declines.

In 2015 a Lloyd’s report identified three key areas that must be developed for the effective provision of insurance for drone operations:

- . Regulation, through the implementation of a robust, internationally-harmonious framework
- . Safety, through the continued development of training and licensing schemes, and further enhancements in ‘sense and avoid’ technology
- . Security, through the application of sufficient cyber security measures

As it’s a relatively new risk, claims history for drone insurance is sparse. In the case of drones, which have come close to causing civil aviation disasters, a downward counterfactual work would be insightful.

A downward counterfactual analysis, as explored in Lloyd’s report Reimagining history published in 2017, is a different way of exploring past losses or near-misses by treating the past as one possible version of many that could

have occurred if various influencing factors had been different. In the case of a drone flying within 20 meters of a plane on the approach to Heathrow, a post event analysis could take into consideration the proximity to the plane as a severity measure and statistics of near misses as an estimation of likelihood of a collision. This would help to understand potential total economic loss and insurable losses from a catastrophic event on a scale of the one that almost took place.

Drones UK regulation is also changing. In July 2017 the UK Government announced measures to place new responsibilities on drones weighing more than 250g - such as mandatory registration of the individual owner and safety awareness tests. Finally, as mentioned in Lloyd’s 2017 report “The rise of the drone insurance market”, insurers might consider whether they can incorporate drones into their own business model to collect quickly large amounts of data to price risks and process claims. This means that insurers might invest in drones with a view to generate cost savings, reduce risk and provide a better service to clients.



**Flying cars**

Flying cars have been a popular theme in science fiction and every day, millions of hours are wasted on the road worldwide. In 2014 America’s drivers wasted 6.9 billion hours stuck in traffic. Projects such as Uber Elevate that look into vertical takeoff and landing aircraft are currently being developed. At the moment there are several market feasibility barriers including battery, air traffic control, safety, cost, noise, emissions and pilot training.

**Space manufacturing**

Material from asteroids could be processed directly and terrestrial manufacturing techniques could be shifted into orbit. Moving factories into space could reduce the need to open new ones on earth but transport costs might offset any emissions reductions unless powered by sustainable energy. In 2014, a 3-D printer was installed on the International Space Station (ISS) and it validated the process for printing in orbit, critical to making longer journeys to Mars for example.

**Society and security**

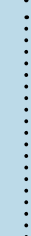
**Terrorism**

Recent attacks and threats to flights and airports - the three coordinated suicide attacks targeting Brussels’ Airport and Zaventem and Maalbeek metro stations in 2016, and the arrest of Jaber al-Bakr, 22, from Syria, who was allegedly planning to blow himself up at a German airport, for example - demonstrate how aviation and potentially space might continue to be targets of future attacks with consequent psychological and economic effects.

Another trend is the use of new technologies such as drones and terrorists’ tactical and technological knowledge and experience accumulated in conflict zones. In November 2017 the US National Terrorism Advisory System stated that “some terrorist groups overseas are using battlefield experiences to pursue new technologies and tactics, such as unmanned aerial systems and chemical agents that could be used outside the conflict zones. Additionally, terrorists continue

Currently, the world’s longest flight is Qatar Airways route between Doha and Auckland, New Zealand. The 9,032 mile trip takes nearly 17 hours and is flown by four rotating pilots.

SOURCE: FLYING TIME AVIATION



to target commercial aviation and air cargo, including with concealed explosives”.

### Space tourism

Space tourism has been developing since the 1990s, but significant uptake is yet to be seen. In 2001 Dennis Tito became the first to visit the International Space Station (ISS) through Space Adventures where he stayed for seven days, becoming the first “fee-paying” space tourist for US\$20 million. Virgin Galactic, founded by Richard Branson (Virgin Group), Blue Origin founded by Jeff Bezos (Amazon) and Space X founded by Elon Musk (Tesla and SolarCity) are all developing reusable suborbital launch systems specifically to enable space tourism.

SpaceX has recently been approached to fly two private citizens on a trip around the Moon in 2018, while for US\$250,000 Virgin Galactic offers a two and a half hour flight after three days’ training.

Moreover, the idea of developing a commercial lunar depot to provide anchorage for significant lunar business development (hotels, for example) was confirmed by Bigelow Aerospace and United Launch Alliance in 2017.

## CONCLUSIONS

From creating an aviation space consortium to insuring against airlines defaulting on loans for new aircraft to paying claims for tens of millions of dollars for a spaceship test flight programme accident, the London market and Lloyd’s are already deeply involved in insuring aviation and space developments. London in particular is the epicenter for space and aviation activities given the presence of infrastructure and expertise to support these sectors.

However, as this article shows, these sectors are entering a new age as risks mature and evolve. This represents a substantial opportunity for insurers in a number of business lines.

For example, business interruption products to insure airlines against large events (such as volcanic ash clouds, severe winter storms) that lead to

losses due to cancellation and re-routing costs are being developed. The increasing use of nano/micro satellites could generate more pre-launch and launch insurance opportunities. Drone deliveries, self-driving flying taxis, and Mars travel are also in the pipeline, and insurance will be a crucial component in their viability and success.

The challenge for insurers if they want to maximise these opportunities is to ensure their products keep pace and remain aligned with their customers’ insurance needs. They will need to make sure they have enough capacity to take on these new risks and to do so, ensure their models are up to date and fit for purpose. New approaches to modelling losses that have not yet occurred might be needed for space-related business, such as business interruption and environmental liability for space mining missions, personal accident and third-party liability for space tourism and space-specific travel insurance (including repatriation!).

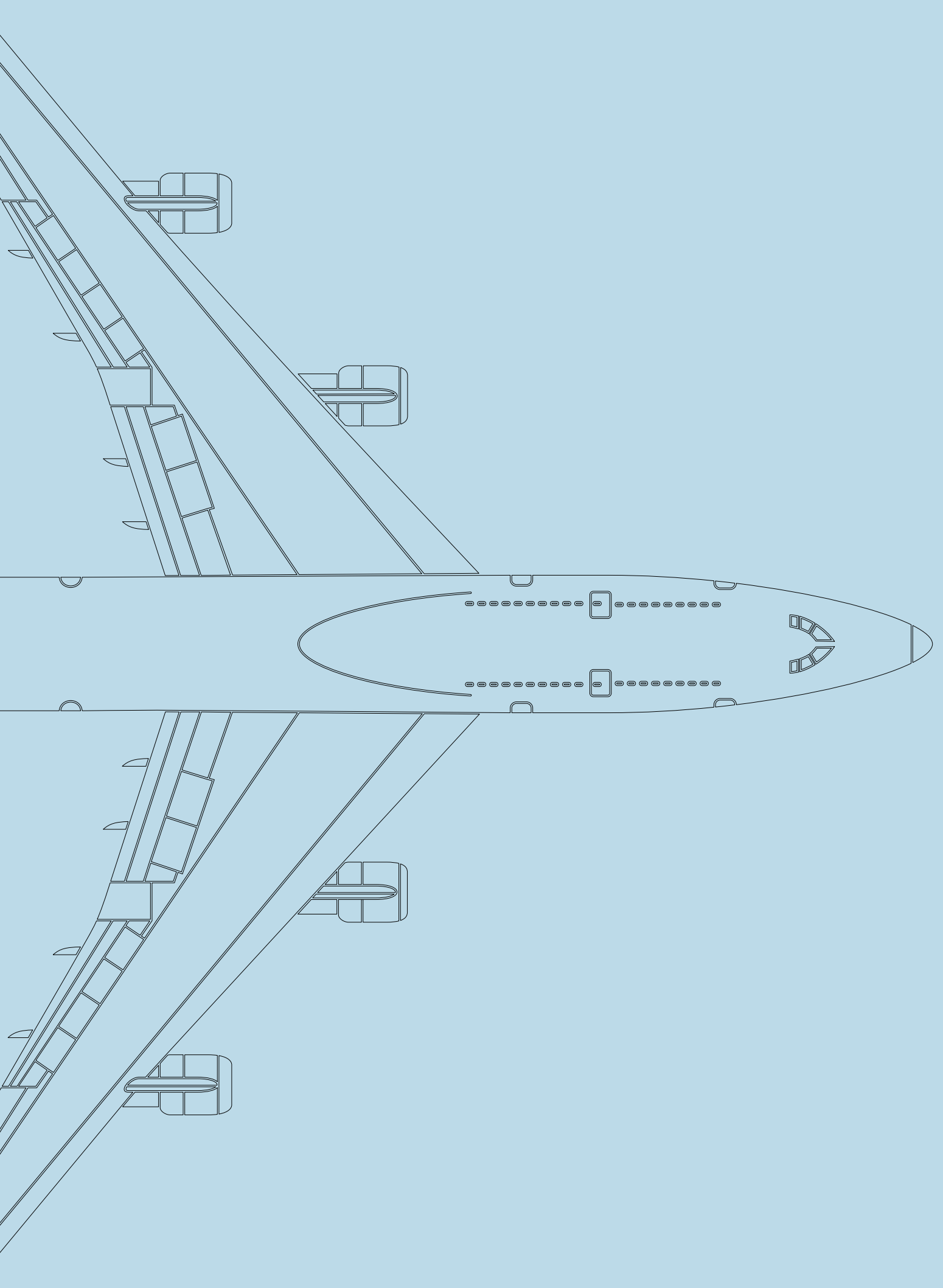
How this all develops in reality is unknown but one thing is for certain, insurance will be a key part of any future that unfolds. Those insurers who start to think today about what is coming over the horizon tomorrow will be those best placed to take advantage of the many new business opportunities that soon will surely be speeding into view. •

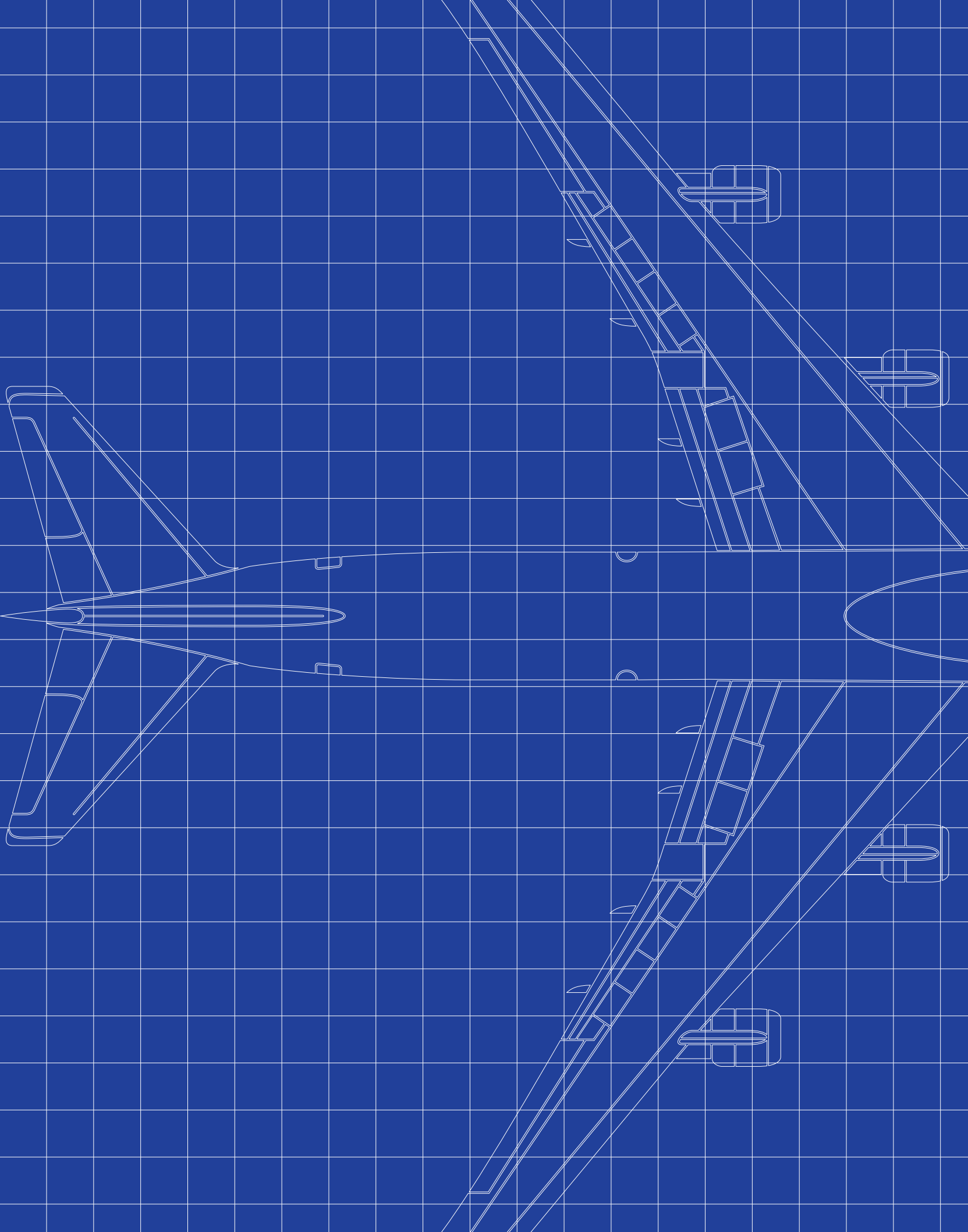
Editor’s Note: Footnotes included in the article are available in our digital edition @mdsinsure.com/en/fullcover/

Only 5% of the world’s population has ever flown on an airplane. However, at the same time a small minority of the world’s population fly very regularly.

SOURCE: BAA TRAINING









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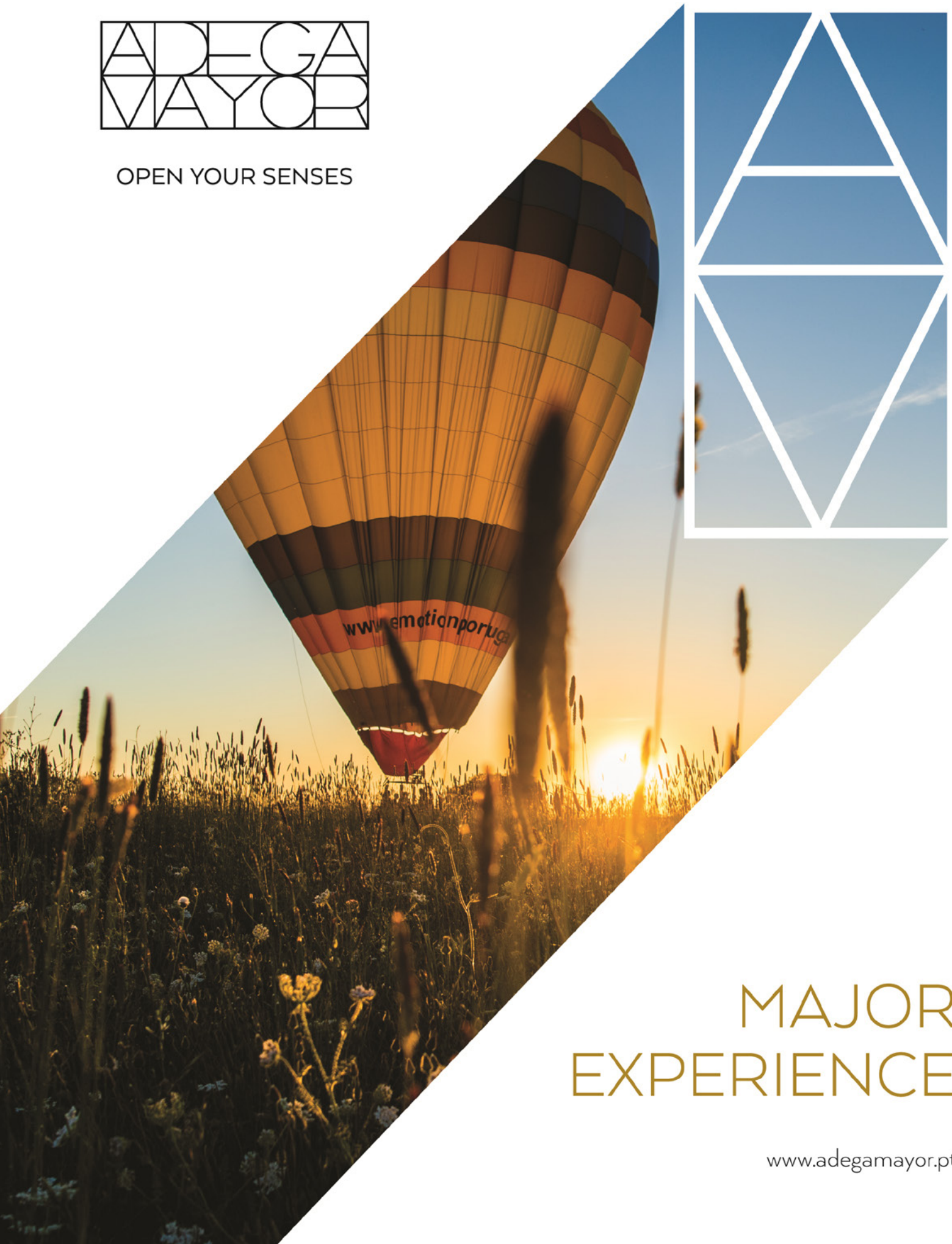
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# EIOPA REGULATING FOR THE FUTURE

INTERVIEW WITH THE CHAIRMAN OF EIOPA, **GABRIEL BERNARDINO**

“

I believe the main challenges faced by the insurance sector are to do with the impact of new technologies and big data.



The European Insurance and Occupational Pensions Authority (EIOPA) is responsible for the roll-out of Solvency II and regulatory reform. FULLCOVER spoke to chairman **Gabriel Bernardino** about his career and role, future challenges, the progress of Solvency II and the new European Personal Pension Product to launch this year.

**When did your career in the insurance sector begin? Tell us more about your journey and becoming president of EIOPA.**

I started my career in 1989, in a pension fund/insurance actuarial role with the supervisory authority, which was then called the *ISP – Instituto de Seguros de Portugal* (Portuguese Insurance Institute). In 1996, I managed supervisory teams and in 2000, was appointed head of development, responsible for all regulation. In 2007, I was appointed director-general for development and institutional relations.

Throughout my career, I kept up-to-date with new international regulatory trends and from 2002 onwards, regularly contributed to European and international working groups. In 2006, it was my honour and privilege to be appointed leader of the Committee of European Insurance

and Occupational Pensions Supervisors (CEIOPS) and in 2009 I was elected chairman of the CEIOPS board. Finally, in 2011, I ran for president and was elected to serve the newly-formed European Insurance and Occupational Pensions Authority (EIOPA). I have been president since then.

**In 2016, you were elected for a second term in office, how would you rate your progress at EIOPA since 2011?**

Modesty aside, I feel that my first mandate was rather positive. It advanced EIOPA as a competent, credible and modern European regulatory authority, a major force within the insurance sector and a respected voice in the financial services industry in Europe and beyond.

**What has EIOPA brought to the insurance sector? What do you see as your main challenges in the future?**

The main contribution was, no doubt, all the work to develop and introduce the new risk-based regulation regime, Solvency II, which is a major step forward in protecting policy holders and the insurance single-market in the European Union.

Currently, I believe the main challenges faced by the insurance sector are to do with the impact of new technologies and big data. Digitisation and the increasing use of new technology is a reality all of society now grapples with, and in the insurance sector, it's bound to impact the entire supply chain.

Innovation can be beneficial to consumers, it makes products and services more widely available, better serving their needs, while for insurers and brokers, it allows them to implement more efficient processes, reducing overheads. At the same time, we must assess and manage new emerging risks such as; meeting ethical standards when using personal data, the possible exclusion of certain consumers based on their traits and the cyber risks associated with large amounts of data stored by insurance companies.

In my opinion, regulation should manage different business models impartially. It's essential to develop a balanced regulatory framework that permits high levels of consumer protection while at the same time, not unnecessarily hindering innovation.

**The Solvency II regime came into force in Europe in 2016. How important is the application of this regime, in your view? How would you assess its progress so far?**

Solvency II has been applied with great success. Despite a rather difficult macroeconomic climate, with historically low interest rates, the new regime rolled out without a hitch, thanks to timely preparation and adequate transition periods.

The new system, by means of its three pillars, substantially modifies sector regulation. In terms of solvency, the European insurance sector has on the whole, adequate ratios. One key implementation point is the need to equip companies with an effective governance

system that incorporates risk and capital-related concerns into strategic decision-making. Corporate culture plays a big role, but there's still a long way to go.

**How do you now see the market in terms of regulation? Do you believe it requires new reform or do recent changes address regulatory needs?**

In my opinion, the European insurance sector benefits from modern, solid regulation in most areas. EIOPA's strategic priority for the coming years is to move forward with unifying the European Union's regulatory framework. To this end, EIOPA recently published a paper on the key characteristics of a common EU framework, covering such issues as; ensuring equitable conditions, avoiding regulatory arbitrage and securing similar levels of protection for all insured and beneficiaries.

**You're currently involved with the development of a European Personal Pension Product (PEPP). What are its benefits and key features? When do you expect to take it to market?**

The PEPP will be a long-term, secure, transparent, cost-effective retirement savings product, giving European savers a new individual savings opportunity and thus addressing the long-term savings deficit in the European Union. The PEPP will be authorized by EIOPA and can be sold throughout the EU, taking advantage of economies of scale to provide better returns for consumers. The European Commission's proposal, based on EIOPA's work, is currently being discussed by Member States and the European Parliament and we expect it to be approved in the second half of 2018.

**How do you view the European insurance sector in comparison with the global market? What do you think are the greatest challenges facing the sector in the future?**

The European insurance industry, on the whole, seems robust and resilient, although I do see significant challenges, namely the long-term persistence of low interest rates. There has been a sustained approach to adapt business models accordingly and the industry has responded positively to new challenges. The development and application

of Solvency II has made a significant contribution to the implementation of a risk-based business culture and an improved risk-management capability. In this context, and when compared to its international competitors, the European insurance sector enjoys a competitive advantage.

**In June this year you won the Person of the Year Award at the Melhores Fundos 2017 (Best Funds 2017).**

**Given your track record in the sector, how do you feel about this award?**

It was a great honour to be given this award. It's very rewarding that my contribution, to provide financial stability and protect consumers with insurance and pension funds, is recognised.

**We know you're a movie buff and enjoy insurance-related movies.**

**What movie has made the strongest impression on you? And why?**

Among insurance-related films, the one that made the strongest impression on me is Billy Wilder's *Double Indemnity*. A great classic, co-written by Wilder and the superb novelist Raymond Chandler. •

“  
The European insurance sector benefits from modern, solid regulation in most areas. EIOPA's strategic priority for the coming years is to move forward with unifying the European Union's regulatory framework.



“

The European Personal Pension Product will be a long-term, secure, transparent, cost-effective retirement savings product, giving European savers a new individual savings opportunity and thus addressing the long-term savings deficit in the European Union.



**Gabriel Bernardino**  
Chairman of EIOPA

Gabriel Bernardino is Chairman of the European Insurance and Occupational Pensions Authority (EIOPA). He is responsible for the strategic direction of EIOPA and represents the Authority at the Council of the European Union, the European Commission and the European Parliament. Mr. Bernardino prepares the work of EIOPA's Board of Supervisors and also chairs the meetings of the Board of Supervisors and the Management Board. Mr. Bernardino is the first Chairperson of EIOPA. He was elected by the Board of Supervisors of EIOPA on 10 January, 2011. His nomination followed a pre-selection of the European Commission and was confirmed by the European Parliament after a public

hearing held on 1 February, 2011.

Mr. Bernardino assumed his responsibilities on 1 March, 2011 for a first five-year term. On 16 December 2015 the European Parliament confirmed the re-appointment of Mr Bernardino for a second five-year term, which started on 1 March 2016. Prior to his current role, Mr. Bernardino was the Director General of the Directorate for Development and Institutional Relations at the Instituto de Seguros de Portugal (ISP). He has served in several positions of increasing responsibility since he joined the ISP in 1989 and represented EIOPA's preceding organisation, CEIOPS, as Chairman between October 2009 and December 2010.

# A BRAZILIAN RISING STAR HAVAN, A COMPANY AHEAD OF ITS TIME



Luciano Hang at the inauguration of the Itaquaquecetuba shop, in São Paulo.

Trailblazing, innovation and commitment are the foundations of Havan's success – a Brazilian department store described as 'a modern company ahead of its time'. Havan's story begins in 1986. At the age of 24, entrepreneur Luciano Hang realized that the town of Brusque, deep in the state of Santa Catarina, was enjoying an economic boom driven by tourists who liked to shop. With his partner, Vanderlei de Limas, he opened a small fabric store. They came up with the brand, Havan, by combining the Ha from Hang and the Van from Vanderlei.

Three years after opening, their 45m<sup>2</sup> store couldn't keep up with the huge customer demand or accommodate its rapidly expanding product range. They moved to a larger building which, to this day, houses the company's head office. In the early 1990s, on a trip to South Korea, Luciano spotted a new market opportunity. Taking advantage of new import regulations on foreign products and to meet Brazil's retail needs, he imported in-bulk, fabrics and low-priced items. Havan, who opened a store in 1986 with a single employee, has now grown into a company with 12,000 employees in branches all over Brazil; demonstrating its continued expansion.

Our story is built on the dedication and commitment of every employee. People who see Havan as a home from home and who go above and beyond the call of duty in order to delight their customers.



Havan footprint in Brazil

## Impressive figures

Annually, Havan welcomes over 100 million customers; they come to browse more than 100,000 national and imported products – from clothing, appliances, toys and baby/childcare products to technology, tools, household goods and decorations. It is Brazil's one-stop shop. Recently, it started a new business line – the Havan Viagens travel agency – offering customers even more products and services. Such freedom of consumer choice is represented by the Statue of Liberty which sits outside its stores and has become a symbol for the Havan brand.

After more than 30 years of trading, Havan has more than 100 stores, giving it a presence in 15 Brazilian states.

“Our story is built on the dedication and commitment of every employee.

People who see Havan as a home from home and who go above and beyond the call of duty in order to delight their customers. It is this set of attributes — our people, spirit of adventure and courage — that enables Havan to be an amazing retailer,” says group chairman, Luciano Hang.

## A successful partnership with MDS

The relationship between MDS Brazil and Havan is a time-honoured one. As the number of stores increased, Hang looked for other ways to optimize business potential. His innovative spirit has been instrumental to the brand's success; always anticipating market demands and introducing new products and services to clients.

Today, Havan stores, in addition to their 100,000 strong extensive product range, offer other services, such as insurance packages for Extended Warranty, Financial Protection and more recently, Multi-Insurance. Havan's close relationship with MDS means all work as a team, promoting, running and managing joint campaigns and in-store workshops in nearly every company outlet and working together to monitor results.

The partnership with MDS has continually improved Havan's results, with a remarkable 191% growth in affinity service sales in the past year.

The service sector now represents a substantial part of the Havan Group's income, making it a significant contributor to the bottom line.

## Social responsibility

Since its inception, Havan has embraced social responsibility, viewing 'giving something back to society' as an important part of its activity. Among Havan's several environmental and community support initiatives (particularly social, cultural and sports-related projects) is *Troco Solidário* (Solidary Penny), where customers are invited to donate the change from their purchases. Launched in 2010, the initiative has raised more than R\$18 million which has been donated to charities wherever Havan operates.

It also supports the training and professional development of younger people through *Programa Menor Aprendiz* (Young Apprentice Project) and *Projeto Pescar* (The Fishing Project).

Menor Aprendiz, a youth apprenticeship programme, is developed through partnership with the National Service

for Professional Apprenticeships (SENAC). Havan trains young people aged 14-24, via internships in a variety of company departments, giving them marketable skills. In seven years, 1863 young people started their careers with Havan as interns and the company currently employs 336 of them.

*Programa Entra 21*, something Havan also supports, follows a similar employment format. It empowers 300-plus young people from poorer backgrounds to engage with the technology sector. Not only does Havan support the project with a monthly financial investment, but it also invites some trainees to join the company. *Programa Entra 21* is funded by Santa Catarina's state government and the City Council of Blumenau and is also supported by local businesses who commit to employing some of the young people trained by this programme.

## Havan's future

Havan's expansion plan includes the opening of 100 more mega-stores by 2022. "Over the next five years, we'll do what it took us 31 years to accomplish. We expect in 2022 to have 25,000 direct employees and 100,000 contractors, and we're going to open in new states and new cities," says Luciano.

He concludes: "We're confident about the future and are motivated to focus our energies on the coming years and commit to investments we've currently overlooked. We've witnessed changes in consumer expenditure, there's more growth, and this increasing consumer confidence reflects the country's economic trends."

Luciano Hang's vision for the future goes beyond giving customers what they need – it's to offer services and solutions that innovate and amaze. •



Havan store in Barra Velha, Santa Catarina state





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# MENTAL ILLNESS IN THE WORKPLACE

## A GROWING RISK

BY DR SARA EVANS-LACKO

Employers, managers and co-workers can play an important role in supporting employees with mental health problems. Working environments that promote social acceptance of employees with mental health problems may mitigate the adverse impact and risk of mental health problems in the workplace.

Mental illness and substance use disorders are the leading cause of disability worldwide. In Europe alone, almost 165 million people have experienced mental illness during the past year. In 2010, this was associated with an estimated cost of €461 billion.<sup>1</sup> In Portugal, the rate of previous year mental disorder is around 22% which is relatively high in Europe and is associated with significant levels of disability in the workplace in addition to personal and family life.<sup>2</sup> Much of the costs associated with mental illness result from productivity losses associated with absenteeism and presenteeism (i.e., workers with mental health problems attending work whilst unwell) in the workplace. Nevertheless, despite the high prevalence and significant economic costs, mental illness is an issue which is often underestimated in the workplace.

Some data suggest that absenteeism and early retirement as a result of mental illness, appear to be increasing across Europe.<sup>3</sup> In Germany, for example, the contribution of mental illness to the cost of permanent disability pensions has tripled in the past 20 years. Manager responses which focus on offering help to an employee with a mental illness can help to increase positive attitudes about people with mental illness in the workplace<sup>4</sup> and also, openness and disclosure of employees with mental health problems. By doing so, employees

will feel more comfortable in discussing any potential mental health issues early on and will have better chances at getting the help and support that they need to recover. Responses, such as flexible working hours, may be helpful but are not necessarily sufficient to support the employee with the mental health problem. It is critical that managers and co-workers also provide support and an open environment in addition to flexible working hours.

In a study of seven European countries<sup>5</sup> which focused specifically on depression, we investigated the social and economic impact of depression in the workplace and access to support and/or treatment in order to mitigate the risk and impact of depression in the workplace. We found that about 20% of employed respondents reported having a previous diagnosis of depression. Among employees with a diagnosis of depression, between 20 and 55% reported taking time off of work due to depression.

Employers, managers and co-workers can play an important role in supporting employees with mental health problems. Working environments that promote social acceptance of employees with mental health problems may mitigate the adverse impact and risk of mental health problems in the workplace. Both manager reactions and organisational factors may influence how people with mental health problems are perceived and treated



## A positive spirit



At MDS our ethos is to break barriers, in insurance and other areas we consider relevant to society. That's why in late 2016, we adopted mental health as our corporate responsibility focus, supporting ENCONTRAR+SE, an association dedicated to helping people with mental illnesses and their families. Being MDS, we wanted to go further than simply supporting an organization; we wanted to know more and involve ourselves and our teams. Together with ENCONTRAR+SE we are raising company awareness of mental health and through our project Positive Minds, promoting

solutions to help our people develop a more positive attitude. We're also actively promoting debates and sharing information about mental health. After all, as Filipa Palha, president of ENCONTRAR+SE, says: "A mental illness is like any other illness and it must be treated as such." At MDS, we wholeheartedly agree, and together with ENCONTRAR+SE will continue to inform and discuss what we believe is one of the most serious health problems affecting our society.

in the workplace and hence openness and disclosure among employees with mental health problems. These factors are important facilitators of social inclusion, which is what a person with mental health problems needs. A better option to tackle mental illness in the workplace is for managers to offer direct help to depressed employees. Managers who avoid discussing an employee's depression are only adding to the general ignorance of mental illness and not helping either the company or the staff member.

Other research has emphasised the importance of positive attitudes in relation to social acceptance of people with mental illness as a key factor driving stigma and discrimination and has shown a direct link between attitudes and the experiences of people with mental illness. Anti-stigma interventions which challenge myths and misperceptions and promote social contact between people with and without mental health problems have made important steps in addressing stigmatising attitudes, yet stigma is still a major barrier in the area of employment and many employers are not dealing with it adequately.

In the context of what we know, recommendations can be made for employers and policymakers about how to best translate evidence about workplace mental health into practice and to improve the workplace context for people with mental illness and businesses.

In particular, three areas of focus could lead to improvements: (1) support and training for employees, managers and other relevant staff; (2) complete support from the top of the organization through enactment of supportive policies and practices for both prevention and treatment of mental illness and (3) a focus on earlier support and intervention to reduce the gap between recognition and treatment. In view of increasing absenteeism attributable to depression and the economic consequences associated with this, the need for better workplace policies is evident. •

- 1 Wittchen H-U, Jacobi F, Rehm J, et al. The size and burden of mental disorders and other disorders of the brain in Europe 2010. *Eur Neuropsychopharmacol* 2011; 21: 655-79.
- 2 Graça Cardoso, Miguel Xavier, Gemma Vilagut, Maria Petukhova, Jordi Alonso, Ronald C. Kessler, José Miguel Caldas-de-Almeida. Days out of role due to common physical and mental conditions in Portugal: results from the WHO World Mental Health Survey. *British Journal of Psychiatry Open* Feb 2017, 3 (1) 15-21
- 3 McDavid D, Curran C, Knapp M (2005) Promoting mental well-being in the workplace: a European policy perspective. *Int Rev Psychiatry* 17: 365-373. [Url http://sites.google.com/site/fpcerhto/McDavid2005.pdf](http://sites.google.com/site/fpcerhto/McDavid2005.pdf)
- 4/5 Evans-Lacko S, Knapp M (2014) Importance of Social and Cultural Factors for Attitudes, Disclosure and Time off Work for Depression: Findings from a Seven Country European Study on Depression in the Workplace. *PLoS ONE* 9(3): e91053. doi:10.1371/journal.pone.0091053

## Dr Sara Evans-Lacko



Dr Sara Evans-Lacko is an Associated Professorial Research Fellow in the Personal Social Services Research Unit at the London School of Economics and Political Science, with a particular interest in the role of health services and social support in the prevention and treatment of mental illness.

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# MOZAMBIQUE

A LAND OF MULTIPLE OPPORTUNITIES

THE CHALLENGES OF THE MOZAMBICAN  
INSURANCE SECTOR

EMOSE  
STATE-OWNED INSURER LEADS THE WAY

ENERGY WILL MODERNISE MOZAMBIQUE





# MOZAMBIQUE

## A LAND OF MULTIPLE OPPORTUNITIES

BY AICEP – AGENCY FOR INVESTMENT AND FOREIGN TRADE OF PORTUGAL

Given Mozambique's current level of development and its natural resources – including huge off-shore natural gas fields – the country has become a focus for international investors. The International Monetary Fund (IMF, Outlook April 2017) predicts 14.9% economic growth by 2022.

Its location, strategically placed to build relations with Southern Africa, the Middle East and Asia, is considered ideal for entry into the Southern African Development Community (SADC), which collectively has more than 305 million consumers<sup>1</sup>. Its resources however are not only limited to gas fields; Mozambique is a leading coal producer, aluminium transformer and ruby supplier (reaching substantial prices at international auctions). The country is equally recognised for its energy production capacity, various river basins, extensive coastline and the development of its ocean-based economy. There is also growth potential via agriculture and tourism.

While maintaining its traditional links with Portugal and South Africa, Mozambique has sought to develop strong relationships with multiple leading partners such as the World Bank, the African Development Bank, the European Union, the USA and Japan. To complement this, Mozambique's foreign policy focuses its efforts on finding new business partners and investors in Brazil, China, India, South Korea, Thailand and Turkey.

Since 26 August 1995, Mozambique has been a member of the Banco Africano de Desenvolvimento (African Development Bank – AfDB), the Banco Islâmico de Desenvolvimento (Islamic Development Bank – IDB), the Organização das Nações Unidas (United Nations – UN) and its specialized agencies (Funds, Programs, Specialized Agencies and other UN Entities) and the Organização Mundial de Comércio (World Trade Organization – WTO). In November 1995, it was admitted as a full member of the British Commonwealth and since 2006 has held observer status at the Organização Internacional da Francofonia (International Organisation of La Francophonie). On a regional level, Mozambique is part of the Comunidade para o Desenvolvimento da África Austral (Southern African Development Community – SADC), the União Africana (African Union – AU) and the Comunidades dos Países de Língua Portuguesa (Community of Portuguese Speaking Countries – CPLP).

Economically, Mozambique and its population of some 28 million people and an estimated nominal GDP of 11.5 billion USD<sup>2</sup>, is still a small-sized market. Productivity is supported mainly by agriculture and service industries, but the exploitation of natural resources and its younger generations bring huge potential for future growth.

Despite the Mozambican economy registering an average annual growth rate of 7% between 2010-2015, it is currently experiencing a slowdown. In 2016, the growth rate was 3.8% – caused by a price drop in raw materials which impacted exports (primarily commodities). A consequence was the postponement of investment decisions relating to large projects exploiting mineral resources, substantially reducing the inflow of Foreign Direct Investment (FDI).

Adverse weather conditions and public financing limitations, such as the suspension of international donor support, have also contributed to an economic slowdown. But, there is the belief that Mozambique can return to its vibrant growth of recent years.

2017 expectations are moderately positive due to a first-quarter GDP growth of 2.9%, more than double the previous quarter's increase. The metical, which steadily lost value against the dollar during the first 10 months of 2016, is now more stable after strengthening 28% against the dollar in recent months. This monetary growth was fundamental to change, helping to slow inflation in mid-2017 prompting predictions of an average inflation rate of 5.9% by 2021. International reserves are also recovering (as long as exports increase), supported by a price increase in commodities and a rallying coal industry. Imports however, remain more dependent and limited.

Despite these improvements, the Mozambican economy is still exposed to some risks; 2017 first quarter growth remains below levels seen in recent years and a fluctuation in international commodity prices contributes to economic uncertainty. Inflation at 18% remains high, impacting Mozambican families, and this restrictive monetary policy, while supporting foreign trading,

endeavours to ensure a stable pricing environment. Mozambique's credit reference rating is now among the highest in sub-Saharan Africa yet the average rates of loans from regional commercial banks are unsuitable for the private sector. A stronger exchange rate, a rise in inflation and lower levels of credit could contribute to an economic downturn, so to prevent this, coordinated and decisive fiscal policy actions are necessary.

In terms of GDP per sector, 2016 estimates show the Service sector contributed 54.9%, despite employing only 13% of the workforce. It is followed by Agriculture at 25.3%, employing 81% and Industry at 19.8%, employing 6%. In light of the country's vast available mineral resources (particularly coal and natural gas which potentially ranks Mozambique as one of the largest suppliers in the world and the portfolio of investment projects already underway), the GDP from Industry is expected to continue to increase (in 2015, it recorded a 9.1% growth).

Despite these improvements, the Mozambican economy is still exposed to some risks; 2017 first quarter growth remains below levels seen in recent years and a fluctuation in international commodity prices contributes to economic uncertainty.

**Economically, company investment and business opportunities can be found in a variety of business sectors, namely:**

- Infrastructure (accessibility, including highways, railway, ports, water and sanitation)
- Energy (both in terms of production, transportation and distribution and a specific focus on renewables)
- Machines and equipment for industry – construction and mining (the development of coal exploration and major public works projects will increase demand in the coming years)
- Housing (growth trends are not only in the major urban centres of Maputo and Matola, but also in the new growth hubs of Tete, Pemba/Palma and Nampula/Nacala)
- Agriculture (although limited, continued growth is a priority for the Mozambican authorities)
- Tourism (growth potential due to an increase in the supply of accommodation in major cities and greater awareness of the country's natural landscape)
- Logistics and other commercial services (will support the increased economic activity and transportation of goods expected in the next few years)
- Consumer products (to cope with the demand of a growing middle class)





While maintaining its traditional links with Portugal and South Africa, Mozambique has sought to develop strong relationships with multiple leading partners such as the World Bank, the African Development Bank, the European Union, the USA and Japan. To complement this, Mozambique's foreign policy focuses its efforts on finding new business partners and investors in Brazil, China, India, South Korea, Thailand and Turkey.

With energy, the gas industry will play a major role in its medium-term growth; there are plans for ExxonMobil (USA) and Anadarko (USA) to develop major operating export/facilities of liquefied natural gas (LNG) and for Eni (Italy) to construct offshore and in the future, onshore installations. Due to project complexities, LNG production will not start in the short to medium-term, but development work will support growth from 2018 onwards. The Eni-led consortium, which includes Galp Energia, the Chinese National Petroleum Corporation (CNPC), the South Korean Korea Gas (Kogas) and the Mozambican National Hydrocarbons Company (ENH), will invest 8 billion dollars in the Coral Sul project, installing a sea-based floating platform to extract, liquefy, store, unload and export natural gas (by sea) to its final destination. The first shipment of liquefied natural gas is scheduled within five years and over 20 years BP will buy the entire production. In addition the Government and its partners, led by ENI and Anadarko oil companies, have formalized LNG licensing agreements for unloading plants for material and the sea terminal within areas one and four of the Rovuma Basin in Cabo Delgado, boosting the economy.

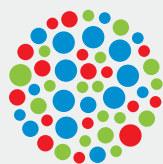
With the monetary policy, the central bank will follow its two main objectives: restoring price stability and supporting domestic demand. For export trade, coal has already increased growth in this area and it will overtake aluminium as Mozambique's leading export product in 2017 (several coal mining companies are increasing production in response to international prices).

Countries within the European Union (EU) and Africa, the Caribbean and Pacific (ACP) have signed new Economic Partnership Agreements – APE (in Portuguese) – removing immediate and/or progressive trade barriers and improving cooperation in related areas such as standardization, certification and quality control, competition and consumer protection. A consequence of this – it is hoped – will be greater trade relations between the two economic regions.

Mozambique is a land of multiple opportunities but it is vital companies prepare themselves before entering the market. In order to do this, contact the AICEP delegation in Mozambique. •

1 Source: SADC Statistical Yearbook, 2015.

2 Source: EIU Forecast for 2016.



aicep Portugal Global

Aicep Global Portugal EPE, Agency for Investment and Foreign Trade of Portugal – its main functions are to support the globalisation of Portuguese companies and their export activities, help with structural investments and build Portugal's reputation with value-creating initiatives for the country.

AICEP is the result of the merger in 2007 between API (Portuguese Agency for Investments) and ICEP (Foreign Trade Institute of Portugal).

It is a public business entity, dedicated to the development of a competitive business environment that contributes to an internationally-focused economy. AICEP has a delegation in Mozambique, located in Maputo.

The official business consultant, Ana Maria Rosas can be contacted: [ana.rosas@portugalglobal.pt](mailto:ana.rosas@portugalglobal.pt).



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# THE CHALLENGES OF THE MOZAMBICAN INSURANCE SECTOR

BY PRICEWATERHOUSECOOPERS (PwC)

Following uninterrupted GDP growth since 2010, Mozambique's economy began to show signs of a slowdown in 2015. Foreign investment dwindled – largely because of an unacknowledged public debt totaling 1.4 billion USD – the currency (metical) has depreciated, inflation has risen and the Government, corporations and families have little purchasing power.

This unrecognized public debt has turned Mozambique into Africa's most heavily-indebted country. The IMF describes Mozambique as a country in debt distress and rating agencies place it in the restricted default category.

Mozambique now needs to pay off its public debt. With the economy in recession, restrictive budgetary policies are vital. The Poverty Index in Mozambique is admittedly difficult to improve and it is equally difficult to increase the spending power of a beleaguered middle class.

The Mozambican economy is lightly industrialized and relies mostly on mining and agriculture. Its potential for energy production and tourism has yet to be explored. The entrepreneurial community of Mozambique primarily

comprises micro-businesses that do not produce or trade enough to generate meaningful added value.

Despite the economic environment, data from the ISSM – Instituto de Supervisão de Seguros de Moçambique (Insurance Supervisory Board of Mozambique) shows that, in contrast to the GDP decrease, the insurance market grew 13.3% in 2016, a 3.2% increase on 2015. Non-life insurance is the main contributor to this growth.

In 1991 there was only one insurer in Mozambique, so the insurance sector in the country had far from achieved maturity. However, since then, the number of insurers has grown; the market now boasts 19 insurance companies (11 non-life, four life, four mixed), and a micro-insurance business.

Despite the increasing number of operators in Mozambique, four insurance companies account for 80% of premium income.

The purchase of insurance products, normally measured by per capita premiums, is linked to economic growth and the population's living standards and support they receive, as measured by the Human Development Index.

Although the per capita premium ratio is low, there is a desire for lower-income citizens – the most economically and socially vulnerable – to access insurance products and so mitigate the poverty spiral caused by adverse events.

In order to develop the insurance market in Mozambique, there is a need to extend the consumer base of companies and individuals; those with the financial means and literacy skills to purchase insurance products. There is also much to be done to ensure greater product diversity and universal access to insurance. This explains why the supply and demand of life and non-compulsory property insurance is limited. The penetration rate, measured by the ratio of gross premiums issued to GDP, hovered around 1.5% on 31 December 2016, reflecting the low ratio of per capita premiums.

Non-life and life represented close to 83% and 17%, respectively, of insurance sector productivity on 31 December 2016.

In order to develop the insurance market in Mozambique, there is a need to extend the consumer base of companies and individuals; those with the financial means and literacy skills to purchase insurance products. There is also much to be done to ensure greater product diversity and universal access to insurance. This explains why the supply and demand of life and non-compulsory property insurance is limited. The penetration rate, measured by the ratio of gross premiums issued to GDP, hovered around 1.5% on 31 December 2016, reflecting the low ratio of per capita premiums.

## ISSM Annual Report

The main property lines are auto, fire and natural hazards, injury/casualty and workplace accidents.

On the life side it's mainly temporary, whole-life and income products. Due to the socioeconomic issues mentioned above, investment vehicles have yet to develop.

In addition, brokerage has gained ground in the market, responsible for about 46% of the sector's output. One of the main challenges in Mozambican society is improving financial and insurance literacy. This would help the more vulnerable people in society become better informed about the benefits of property, health and life insurance and how their purchase could prevent them from falling into a poverty spiral. It is in this context that micro-insurance has been discussed in Mozambique and for two years now, the ISSM has advocated for micro-insurance by setting caps for insured capital. This enables citizens with lower incomes and smaller entrepreneurs, particularly those in agriculture and livestock rearing, to engage with the market.

Another challenge is the insurance sector's sustainability and the risk of insolvency for a number of insurers – currently the object of ISSM intervention. A smaller number of market players would help increase profitability and solvency for the remaining operators so in the medium term, we should expect future moves to consolidate this sector further.

Finally, as the banking and digital sectors become increasingly dominant in the future, insurance companies will have to meet the challenge of diversifying their distribution networks. •

## About PwC

PwC is a network comprising independent firms who are present in 157 countries with 223,000 employees; their shared goal is to provide quality audit, consultancy and tax advisory services.

PwC employs cross-disciplinary professionals who can help (re)insurers convert their challenges to opportunities and support the development of key business functions, namely risk management, actuarial, internal audit and compliance.

PwC has extensive experience in; business development strategies and management consultancy, assisting and implementing risk management and internal control systems, ORSA processes, process improvement, stochastic risk modeling, capital management policies, financial audit and advice, IFRS/IAS, IT audit, data analytics, tax advisory and transaction support etc, outsourcing internal audit and compliance functions and consultancy on regulatory matters relating to insurance activities (eg Solvency II, Personal Data Protection Regulations, IDD, PRIIPs, PEPPs etc).

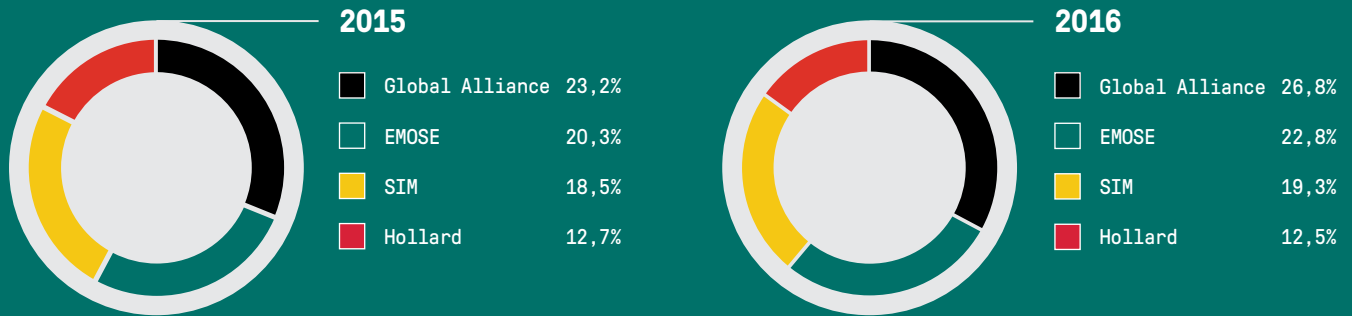
PwC also retains renowned financial reporting specialists, namely on IFRS 17 and IFRS 9. Only a highly knowledgeable organization such as PwC can add value to your operations. It has the best professionals in the sector to help you manage your business.

For more information, go to [www.pwc.pt/seguros](http://www.pwc.pt/seguros)

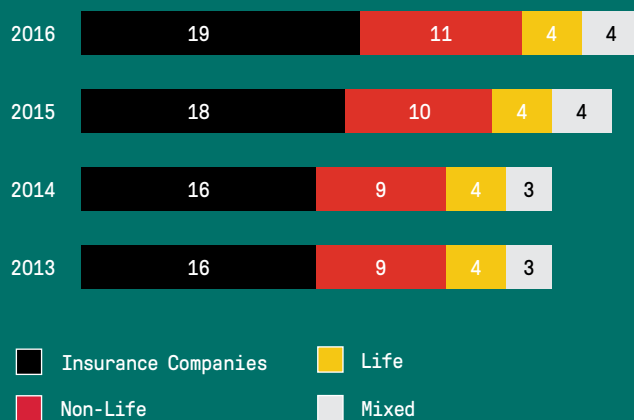


# THE INSURANCE MARKET

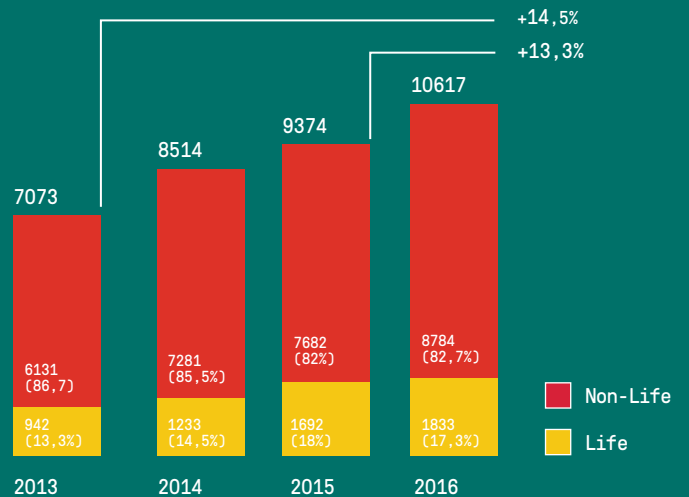
## MARKET SHARE OF THE TOP 4 INSURANCE COMPANIES



## INSURANCE COMPANIES IN MOZAMBIQUE EVOLUTION

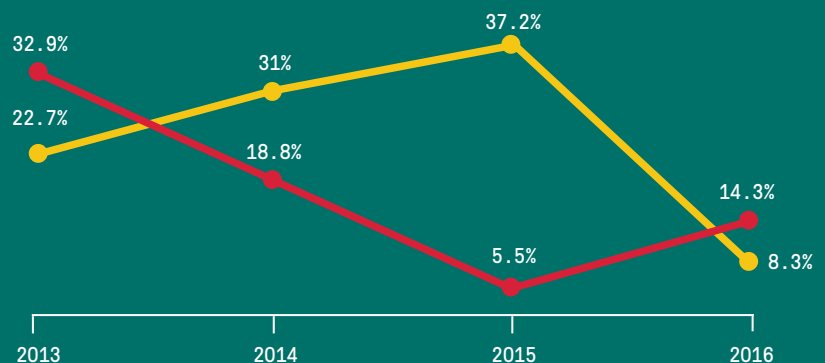


## AMOUNTS IN MZN MILLIONS



## LIFE AND NON-LIFE GROWTH

■ Non-Life ■ Life



Source: ISSM - Instituto de Supervisão de Seguros de Moçambique (Insurance Supervisory Board of Mozambique), Annual Report 2016

# EMOSE

## STATE-OWNED INSURER LEADS THE WAY

FULLCOVER interviewed chief executive Joaquim Maqueto Langa of EMOSE, to find out more about the business and the insurance sector, the challenges ahead, his future strategy and how the industry contributes to the country's economic development.

### **Tell us about your career and how you ended up as chief executive of EMOSE?**

I joined Empresa Moçambicana de Seguros (EMOSE) in the first half of 2017. Prior to this I was a university professor. I spent a short time in the private sector at the beginning of my professional career, in the engineering and business management department of a multinational oil company.

I never thought about entering the insurance industry, but the shareholders of State-owned EMOSE, recognised my management experience and strategic vision to make the company more dynamic – something I realise is a great challenge. But now I have come to love my role and I feel comfortable navigating the biggest ship in Mozambique's insurance sector 'ocean'. What inspires me most is an overwhelming willingness to raise the profile of EMOSE, and perhaps the entire insurance industry in Mozambique, and to reach new heights. To do this, I rely

on a strong team of highly experienced insurance market professionals.

### **How do you assess the condition and evolution of the Mozambican insurance sector in recent years?**

In recent years, the insurance sector in Mozambique has seen new insurance companies join the market and brokerage services stabilise. About three reinsurance brokers have entered the country and we believe another reinsurer may arrive soon.

With products, the market continues to trade traditional policies and there is no product or service innovation. Although there have been market entrants (referred above), this has not encouraged a widespread take-up of cover or increased insurance penetration in the country. Going forward, we will focus on developing new products, for example, specialist products for the oil and gas industry.

### **What for you, are the main challenges the Mozambican insurance sector faces?**

The main challenges are:

- To create awareness within society about the importance of insurance. This is a crucial challenge and an enormous task, given as I have just mentioned, the very low penetration of personal and business insurance in Mozambique.
- Associated with the awareness issue – to provide and promote a wider range of insurance products and enable us to protect the economies and lives of citizens with low incomes.
- To train competent experts in the field of insurance – there are still few specialists in this area.
- To review and optimize the insurance industry's legal framework, protecting the interests of citizens and the State while at the same time, encouraging healthy competition.

- To create the technical capacity to respond to clients' mega-project insurance needs, now and in the future, particularly those investing in oil, gas and other natural/energy resources.
- Finally, though no less important, to increase the purchase of insurance for agriculture and weather risks. It is well-known that 80% of the Mozambican population is employed in agriculture and that Mozambique is prone to natural disasters.

#### **How has EMOSE contributed to the development of the sector and what is your strategy for the future?**

EMOSE is positioning itself to meet the challenges of the market and the government's agenda.

With gas and petroleum, EMOSE has since 2013, taken the initiative to create capacity in this area. We developed a strategic partnership with Empresa Nacional de Hidrocarbonetos EP (ENH), creating a captive insurance company, and worked in partnership with the government, particularly the Ministry of Mineral Resources and Energy and the National Institute of Petroleum. Other initiatives include developing relationships with operators such as Anadarko and ENI and for the latter, insuring 10% of the Coral South Project, covering the risks associated with the floating Liquefied Natural Gas Plant in Palma.

From a strategic positioning and technical expertise viewpoint, since 2014, EMOSE has invested in staff training to ensure those working in our specialist office providing insurance for the gas and oil sector, have unrivalled experience and knowledge. Our partnership with MDS, for insurance and reinsurance broking, consulting and training, fits well with this strategy.

Looking to the future, EMOSE is undergoing a process of organisational, cultural and technological change. In order to achieve maximum efficiency and increase our responsiveness, we are transforming EMOSE into a holding company with specialist and additional support business areas. Our focus is to consolidate our leadership across all areas of the Mozambican insurance market while recognising the active roles other insurers have to play.

#### **How can the insurance sector be a springboard for the country's economic development?**

Insurance, from an economic perspective, acts as the protector of investments. This means that if a person or business, in the course of their duties, has assets or investments to protect, they must insure against acts of nature or any other unforeseen risks that will cause, sometimes irreparable damage. Insurance can not only guarantee the partial or total replacement of the damaged assets, preventing further new investment by the individual or business owner, but it can keep a business running. The insurance industry must therefore continue to develop initiatives and increase the number of people and companies that use insurance as a tool to protect their assets. EMOSE's participation in the national strategy for financial inclusion 2016-2022 (ENIF) is without a doubt, a step in the right direction to make insurance more widely available and increase insurance penetration. If we develop products and services that are more inclusive and accessible to people with low incomes and small and microenterprises, we will contribute to the country's socio-economic development.

#### **Do you believe greater cooperation between international companies can provide the Mozambican insurance sector with the expertise and experience it needs?**

One of the major constraints in the insurance industry is a lack of specialized professionals with the knowledge, training and experience in their chosen sector. Partnerships with international entities, such as insurers, reinsurers, consultants and risk analysts are therefore crucial. At EMOSE we highly value our partnership with MDS Group; we rely on MDS Re as our reinsurance broker and count upon other Group companies, such as MDS Mozambique, for technical input. We believe this enhances our technical capacity. EMOSE is also committed to furthering relationships with national technical and higher education institutions, calling for them to include insurance tuition in their curricula.

EMOSE is already the largest and most financially secure insurance company in Mozambique, but we also want to be the best; a goal the country can count on us to achieve. •



#### **Joaquim Maqueto Langa**

Joaquim Maqueto Langa has a doctorate in Agricultural Extension and Rural Asset Management and a post-graduate diploma in Business Administration. In 2007, he managed a project to create and establish the Eduardo Mondlane University School for Rural Development (*Escola Superior de Desenvolvimento Rural da Universidade Eduardo Mondlane*), becoming its first director and serving from 2008 - 2013. In March 2017, Maqueto Langa was appointed chief executive officer of Mozambican insurance company EMOSE.

# ENERGY WILL MODERNISE MOZAMBIQUE

BY PAULO VARELA

It is said that energy is the industry that drives all others. In the case of Mozambique, this statement is truer than in any other part of the world. The country's energy potential, both in hydrocarbons and hydroelectrics is huge. The ongoing projects in this area will truly transform Mozambique and such is their power, they will dictate the future direction of the entire country's economy.

While the challenges are large and complex, the opportunities are even greater. But these ventures will only be successful if robust governance and prudent management is in place. Yes, this tree will bear fruit, but only if the correct seeds are sown.

The most important project, involving Galp as a sponsor is, without question, the development of the reserves of around 85 trillion cubic feet (tcf) of gas identified in Area 4 of the Rovuma basin and the 75 tcf of additional reserves in an adjacent block, Area 1.

Collectively, the reserves in these two blocks are equivalent to the total consumption in Germany, the United Kingdom, France and Italy for 20 years, propelling Mozambique as one of the most important regions worldwide for natural gas production.

The size and quality of these resources enable Galp to develop a large-scale project at very competitive unit operating costs in a strategically significant location (in the context of other LNG<sup>1</sup> projects) as it is equidistant from the European and Asian markets.

The first gas shipments are expected to be delivered to the market in 2022, using an innovative floating unit that converts natural gas to a liquid state, enabling its export by sea to anywhere in the world.

Central to this project, however, are the major industrial gas liquefaction units to be built on land in the Cabo Delgado province.

Galp is an active participant in the Area 4 project; led by Eni it has a 10% stake and ExxonMobil, which is finalising its involvement, will lead the construction and land infrastructure operations. The Korean company, Kogas, and ENH, owned by the state of Mozambique have identical holdings of 10%, while the Chinese company, CNPC, has an indirect stake of 20%.

This project will also be crucial to the Mozambican population, impacting several generations. It is therefore an objective of Galp and its partners to ensure that the said impact is as positive as it can be.

Although there is presently an abundant supply of gas at a global level, worldwide consumption is expected to increase significantly in the coming years, primarily due to its low environmental footprint which makes it a key element in the transition to a low-carbon economy.

In order to meet the South Coral field development projections (via the floating liquefaction unit), and the Mamba project (based on land liquefaction units built in the Afungi peninsula in Palma), the Government of Mozambique may receive tens of billions of dollars in tax revenues, royalties and profit throughout the projects' lifespan.





This project will also be crucial to the Mozambican population, impacting several generations. It is therefore an objective of Galp and its partners to ensure that the said impact is as positive as it can be.

In addition, multiple industries in the region will be competing to access to this energy, improving their efficiency and bringing development to one of the country's most impoverished areas.

However, such transformational challenges are not limited to these big projects; there are opportunities for development and modernisation further down the supply chain, namely in the import, storage and distribution of fuel. Galp has been involved in this since 1957 and is a long-term investor in Mozambique, contributing to its social and economic development and adoption of suitable energy solutions.

Within its corporate social responsibilities, Galp has introduced, in cooperation with the Government's FUNAE department, the installation of photovoltaic solar panels in rural

communities, connecting power supplies to among others, healthcare centres, schools and water pumping systems.

Mozambique is the only African market where Galp is present in both ends of the supply chain. It is a significant market for Galp and one which continues to grow through substantial investments for example in logistics and infrastructure and through the construction of terminals for the storage of liquid fuels and bottled gas (LPG<sup>2</sup>) in the country's main ports.

Galp is also increasing its capacity for the storage and filling of LPG bottles, replacing domestic consumption of coal, wood and electricity. This enhances the population's quality of life, tackles deforestation and reduces pollutants.

And Galp continues to significantly expand its network of stations and shops in Mozambique; it currently has 50 stations and 41 shops and by 2020 expects to more than double the network it had at the beginning of 2016.

This demonstrates Galp's commitment to further developing an energy sector that moves Mozambique forward on a wave of modernisation and above all, improves the living conditions for all Mozambicans.

This is where we focus all our energy. •

1 Liquefied Natural Gas

2 Liquefied petroleum gas

## Paulo Varela



Paulo Varela has a Law degree from Portugal's University of Coimbra and completed post-graduate courses in Business Management and Administration at the Catholic University and AESE. He is the administrator of Galp Marketing Internacional, responsible for East Africa, a representative for Galp Energia and president of the General Assembly of CCIPA - the Portugal-Angola Chamber of Commerce and Industry. From 2002 to 2014, Paulo was vice-president of the Board of Directors of the Visabeira Group and since 2006, has been president of the Board of Directors of Visabeira Global SGPS. From November 2009 to May 2014, he was president of the Board of Directors of Vista Alegre Atlantis. From 1999 to 2014, Paulo was president of the Board of Directors of Visabeira Moçambique and from 2002 to 2014, president of the Board of Directors of Visabeira Angola. He was also non-executive administrator at the Banco Único (Mozambique) - Parque de Ciência e Inovação Aveiro.



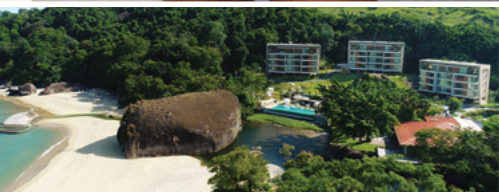
Offshore gas platform

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# EIB

## BROKERSLINK POLAND

UNSTOPPABLE ENERGY: FROM CAPTIVE TO GLOBAL BROKER

POLISH INSURANCE MARKET

TORUN: THE HUB OF POLISH BROKERS

# EIB – ENERGO INWEST BROKERS

## UNSTOPPABLE ENERGY: FROM CAPTIVE TO KEY PLAYER

Founded in 1994 in Torun, EIB has expanded its business over the last decades and is nowadays recognised as a multi-specialist insurance broker adviser to some of Poland's largest companies and financial services groups.



For over 22 years EIB has been insurance adviser to Poland's largest companies and financial services groups. Founded in 1994 in Torun, EIB initially focused on the energy sector, providing an in-house broking service to a Polish public energy company. Building upon its success, EIB started to expand its activity, working with other sectors of the Polish economy. Over two decades later, EIB is recognised as a multi-specialist, comprehensive insurance broker and adviser with a wide-ranging client portfolio.

The company has developed mainly through organic growth; EIB is one of Poland's biggest insurance brokers with expertise in building and developing specialised programmes to protect the financial interests of clients. Over the last three years, EIB has continually been ranked among the top five Polish insurance brokers for income revenue.

The firm specializes in providing business insurance and employee benefits services to upper middle market companies and calls itself a 'one stop shop', meeting the needs of clients requiring a range of cover including

property & casualty and credit & surety insurance, plus employee benefits etc.

EIB works in partnership with clients from numerous sectors, operating in Poland and abroad, and gives insurance advice and support to around 750 firms and financial services groups. Client sectors include; energy, heavy industry, construction, manufacturing, food, plastics, wood, furniture, shoe and textile production, agriculture, leisure and servicing, transportation, pharmaceuticals, healthcare, utilities, local government and financial services. Within the Polish insurance sector, EIB has a reputation for service excellence and unrivalled knowledge and its brand is synonymous with the provision of a superior quality service. EIB currently protects assets of more than EUR 150 billion and the health and lives of over 100,000 people, making it one of Poland's largest insurance brokers working closely with the Polish insurers.

The company employs over 150 professionals including 100 licensed brokers and 10 legal counsels – all providing the highest level of service.



Rafał Kaszubowski, EIB CEO

EIB annually places some EUR 80 million of clients' premiums into the insurance market, making it an important partner for stakeholders with leverage and buying power to secure the best terms and conditions for customers.

### Creative solutions

The diverse and growing needs of clients coupled with a rapidly developing market, inspires EIB to create new solutions and continuously improve its service provision. In a tough market saturated by brokers, and in order to retain its leading clients and win others from rival firms, its focus is on core competencies, specialist areas and the competitive advantages of its superior client service. EIB annually measures client retention rates and is proud to admit that in recent years, it equates to around 97%.

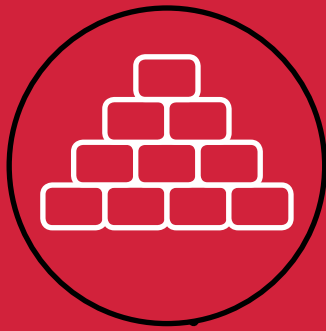
EIB is renowned for its expertise within major construction projects, big industrial risks and public tender activities. It successfully designed and placed an insurance programme for the biggest

investment project in central-eastern Europe valued at nearly EUR 3 billion and adjusted the biggest claim in the history of Polish insurance. While this evidences outstanding credentials and experience, EIB knows it needs to be dynamic and client-focused in order to grow. It recently moved into trade credit insurance – a fast growing market demanding high levels of expertise in order to secure robust coverage and to be able to adjust claims accordingly. A further portfolio addition is the Pension & Benefit programme protecting 100,000 client employees. To maintain growth, EIB is constantly developing its client services and IT innovation and has what it describes as 'the most advanced in-house insurance and claim management system' directly accessible by clients.

EIB appreciates that Poland's highly competitive, complex and modern economy means insurance brokers can no longer survive with personal customer contact and commissions generated by simple insurance placement. In order to grow and meet customers' complex risk management and transfer requirements,

brokers need to possess higher levels of expertise. In response, EIB ensures employees not only have the education, skills, knowledge and experience the market requires, but also an in-depth understanding of; insurance products, the markets they're working within, the clients' business model and risk exposure and their protection needs. In order to maintain that competitive edge, EIB continues to invest in employees' skills and IT solutions while enhancing their market knowledge and legal and technical competences. The company's strong international presence is facilitated by Brokerslink membership, enabling it to provide unrivalled services wherever clients undertake their business.

EIB recognises clients today expect their brokers to provide the IT tools that allow them to monitor their insurance programmes, activity and progress. In response, the firm employs five programmers, who working alongside their broking colleagues, deliver new IT solutions to meet clients' expectations.



**1994**

EIB founded as an in-house broker for one of Poland's biggest energy companies.



**1997**

Service expands into new sectors.

**1996**

New branches open in main cities of Warsaw and Katowice. Launch of CRM and electronic document distribution.

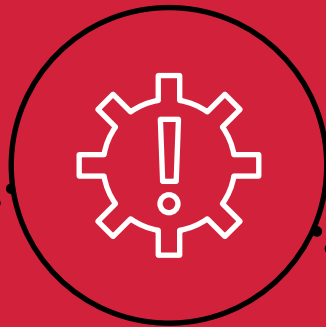


**2001**

Employee recruitment begins with first internship program for students.



# EIBMILE



**2012**

Risk engineers department created.



**2015**

EIB becomes a member of Astreos Risk, giving wider access to the credit insurance market.



**2011**

Management and employee company buyout (MEBO) from public sector, giving management greater motivation to improve profitability and value.

Capital group established, comprising all the companies, including a reinsurance broker and multi-specialised agency.



**2002**

Employee development program implemented with continuous training and workshops.

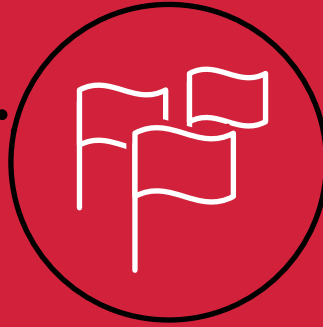


**2006**

International client management department created.

EIB negotiates with insurers to include own policy terms & conditions wording for key clients.

Receives Information Security Management System – ISO 27001:2005 – accreditation.



**2005**

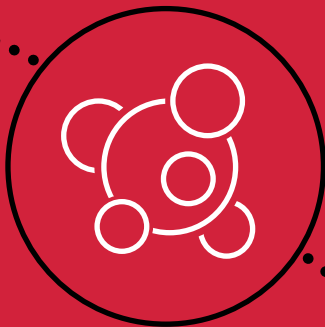
New offices open in the cities of Cracow, Wroclaw, Gdynia and Rzeszow.

# STONES



**2007**

Joins Brokerslink.



**2010**

Acquisition of smaller Polish brokerage firms and retention of key employees.



**2009**

Develops claims tracking IT solution for clients.

## Brokerslink enables the building of international connections

After many years of being a major player within Poland's domestic market, EIB took the strategic decision to join Brokerslink. Membership of this global broking company enables EIB to continue to further develop, grow and build relationships with other specialists around the world.

Being part of an international broking company means EIB can respond to the specific needs of Polish companies requiring global support. Its relationship with international brokers in foreign markets and ability to expand its service and solutions portfolio enables EIB to create and successfully implement international programmes for Poland's leading companies operating in different sectors. The local handling of multinational programmes by Brokerslink partners allows EIB to provide tailor-made services for even the most demanding clients. In addition, the support of Brokerslink ensures EIB-brokered solutions meet local law and market requirements; giving the client's business the cover it needs, reinforced with an effective risk management process.

When managing international insurance programmes for multinational companies, EIB can extend its local broker service by liaising with Brokerslink partners to offer a broader range of global solutions that fill any cover gaps in their master policies. International broker cooperation provides a platform to share knowledge and gives EIB access to the world's best solutions for non-standard risks cover – something not available to local Polish brokers.

Being a member of Brokerslink gives EIB a competitive advantage; it enables the company to gain new experiences and work with insurance brokers around the world, increases its potential for client expansion and strengthens its position among its domestic competitors. EIB's long association with Brokerslink and its shareholder status has strengthened market awareness and international recognition of EIB as an experienced and reliable partner.

## An innovation pioneer

In order to provide customised brokerage services, EIB became an innovation pioneer in the field of computer administration. In response to the growing needs of customers, EIB developed an *Insurance Management System (IMS)*, enabling clients to manage and administer their insurance contracts and claims handling.

The IT platform gives clients unlimited on-line access to a comprehensive portfolio of insurance and claims documents, enabling them to monitor all activities undertaken by EIB within a client-broker-insurer context. This innovative IT solution allows them to view; insurance documents, assigned tasks, training/courses and presentations related to their insurance cover, instructions on what to do in the event of a loss, loss adjusting documents/ correspondence and relevant statistics.

In addition, the EIB-developed system provides full claims management support. The claim notification starts with a simple on-line form and as the claim progresses, clients can access all claim documentation enabling a real-time monitoring of EIB activity. The basic principle of the system is to record every piece of claim activity from the inputting and copying of correspondence (in digitised form) to every telephone conversation, etc. This database access ensures broker and client can monitor the claim's progress and be alerted to any loss outcomes.

The System shows what premium is paid for each policy and automatically summarises and notifies clients when upcoming payouts or instalments are due. IMS is not only an effective tool for overseeing and managing the work of EIB and its claims adjusting services, but it also increases the quality of its service provision and streamlines the risk management process for clients.

## Meeting client expectations – intermediary or consultant?

In today's developing economy, Polish companies perceive a brokerage service to be more than an intermediary negotiating the cost and scope of insurance cover. Expectations over the years have changed

significantly. A broker should treat every customer as an individual, meeting specific insurance and risk management needs. EIB recognises this and designs and delivers tailor-made programmes and insurance solutions. Nowadays, companies expect their insurance broker to provide a more comprehensive service and act as a consultant and specialist in many related fields.

One such area EIB specialises in is insurance law. Thanks to investment in its advisory business, customers do not have to use additional consulting firms, giving them significant savings. EIB's professional advisers are experts with many years' experience of working in insurance-related sectors. They have unrivalled knowledge about market conditions, including complex cases, and so can help EIB source the appropriate insurance cover and develop solutions suitable for each particular client.

EIB also provides legal counsel support by professionals with detailed knowledge of today's insurance market – and there's an investment advisory service to help clients with their asset management and protection in the construction sector. For Construction/Erection All-Risk (CAR/EAR) insurance clients, this involves helping them prepare tender documents (including insurance clauses), analysing contracts to determine risk exposure and responsibilities and supporting financial stakeholder negotiations. Guidance from an experienced specialist can ensure the correct risk management policies and processes are in place.

Included within its advisory service provision, EIB monitors Poland's legislation, including insurance law and the broader civil, economic, tax and other areas. If there's a change in the law that affects the responsibilities or rights of clients, EIB advises them of their new legal situation, highlighting the associated benefits and threats. With Polish legislation constantly changing, this type of assistance is vital for businesses.





Center of Warsaw

## Insurance education

EIB equally recognizes the importance of insurance education and how increasing insurance awareness ensures business continuity, and so offers clients seminars, courses and training sessions. In addition, clients have the support of a risk engineer who can advise on the often complex technical aspects and safety requirements of their particular business activity.

These services are examples of how Polish insurance brokers can enhance their everyday role of; risk analysis and identification, the sourcing and placement of insurance programmes, mediating and managing the purchase of insurance contracts and other activities surrounding insurance provision, claims management and adjusting.

## Keeping pace with change

EIB is one of Poland's leading brokers and aims to strengthen its market position by attracting new customers from differing sectors. One way to secure this competitive advantage is to consistently

develop additional services to support the standard broker model. In doing so, it will meet the needs of the most conscientious and demanding client and meet EIB's goal to provide comprehensive insurance solutions for every client – from the smallest to the most complicated.

In order to enhance its global brand awareness, build upon its experience and extend its client base, EIB will continue to expand its international partnerships.

The aggressive competition between brokers in Poland benefits strong firms such as EIB; it increases market consolidation and small to medium broker acquisitions, expanding staff numbers and the customer portfolio.

EIB realizes the most important business resource is its people and so will continue to focus on organic growth and create a work environment for employees who want to learn and develop their skills.

The broker is also aware that Poland's economic situation and insurance market is rapidly evolving and only someone who keeps pace with the surrounding changes will be recognized as a trustworthy business partner. •

# THE POLISH INSURANCE MARKET

## Key players

The Polish insurance market is the 15<sup>th</sup> largest in Europe with EUR 12,5 billion gross written premium. Life insurance accounts for EUR 5,2 billion while non-life is valued at EUR 7,2 billion. While the market is supported by a large and buoyant economy, it is restricted by a low insurance penetration. Gross written life and non-life premiums in Poland total EUR 325 – per capita yearly – an estimated sixth of the EU average. This figure is a result of demand restraints from a developing economy. Most major international insurance groups are present in Poland and offer a full range of products. The Polish market is full of opportunities with great long-term growth potential, particularly as demand for insurance is growing alongside an increase in risk awareness and disposable income.

## Life insurance

The life insurance market was growing rapidly but began to significantly decline over the last few years mainly due to legislative changes that led to fewer sales of unit-linked insurance. Traditional life insurance however, continues to grow and in addition, insurers are developing a commercial medical insurance policy making it a topic of conversation. The market size is over EUR 130 million and has huge growth potential.

## Non-life insurance

The non-life market in comparison has experienced a steady growth over the last 10 years. Premium income is evenly split

between motor insurance and all other non-life products. Over the last year, the former witnessed a dramatic rate increase, boosting total premium volume (this trend continues). Other non-life products report a steady growth even though the market remains soft – a result of proactive intermediaries increasing awareness.

## Claims ratios

Claim ratios in 2016 were: 77% for life insurance, 67% for motor insurance and 44% for other non-life business. Due to a claims ratio permanently exceeding 100% for motor third-party liability, insurers were forced to significantly increase rates. Now the claim ratios are considered healthy, the underwriting policy can stay as it is for a longer period of time. The remaining figures are steady year upon year, however there are times when non-life business is impacted by a rare natural disaster. Poland is not in a seismic region but flooding can be an occasional issue. The non-life sector remains very soft in terms of premium rates, but there are some early signs of a harder approach being taken.

There are 27 life insurers operating in the Polish market; the six largest account for two-thirds of gross written premium. The leading life insurer is PZU Zycie SA with a nearly 30% market share, this is followed by AVIVA and Metlife.

In non-life there are 31 insurers; PZU SA is the market leader with more than a 30% share, next are Ergo Hestia and Warta (Talanx Group) who are similar in size. The five biggest insurers account for more than two-thirds of gross written premium.

## Mandatory insurance

There are over 150 mandatory insurance policies in the Polish market – the second largest number in Europe behind France. Typically offered by commercial insurers, there are no single providers specialising in this cover alone.

Legislation surrounding mandatory insurance is very complex and requires the skills of a professional broker to interpret properly. The vast majority of this mandatory cover is within the professional indemnity area. In most cases, policies offer a wide range of cover, meeting legal requirements, and a low minimum guaranteed sum. An example of this is the need for fire insurance for farm buildings.

Companies required to have this type of cover should work with their broker to assess exactly what is needed. The broker can then design a comprehensive insurance programme that combines mandatory and non-mandatory policies, optimizing cover and premiums.

## Non-admitted insurance

As Poland is a member of the European Union, it enjoys freedom of service within the insurance sector, and because there are no specific regulations for non-admitted cover from a legal perspective, it is possible for non-Polish firms to enter the market and take advantage of the dramatic increase in awareness of the need for insurance. Many companies operating in Poland however, face strict cover requirements associated with, but not limited to, third party liability. Cover restrictions can come from financing parties, public and private buyers,



landlords, etc., so it is vital businesses use a skilled and experienced local insurance broker to ensure all their key risk exposures are covered. If there is a growth in non-admitted cover it is likely to hinder those keen to build a strong business presence. Premiums and payouts are not taxed in Poland which makes it a good base for international insurance programmes. A developed product portfolio with very competitive rates and low deductibles are also key attractions.

### Distribution channels

Poland's three main distribution channels are similar to most European countries; direct, sales via agents and sales via brokers. Polish regulations however, consider brokers to be buyers, rather than sellers, so they should not be viewed as a single distribution channel.

It is a very competitive market. There are over 16,000 businesses registered as multi-agents (agents representing more than one insurer), 17,000 sole agents, 800 individual brokers, 400 corporate brokers and more than 120,000 people registered as agents. This figure almost recently doubled due to changing legal regulations concerning *bancassurance* and insurance distribution. This fierce competition is driving brokers to extend their service provision, but it is the larger and more technologically advanced brokers that have the edge and as a result, the market is starting to consolidate. While the number of businesses and agents are likely to significantly decrease, this should be beneficial for clients.

With life insurance, agents are the main distribution channel, responsible for around 60% of premium income. Brokers – mainly focused on group life insurance organised by the employer – are responsible for less than 10% of the market but this figure is growing alongside increasingly popular employee-funded health insurance programmes. Direct sales account for the remaining 30% of the market.

The non-life market is slightly different; direct sales are steadily falling and currently account for 15% of total premium income while the brokers share is increasing and is now close to 20%. Agents control over 60% of the market

(boosted by individual motor insurance, which is an important part of the market). Corporate insurance is very different and due to the complexity of the risk, is dominated by brokers. Poland's top 10 corporate brokers handle most of this business.

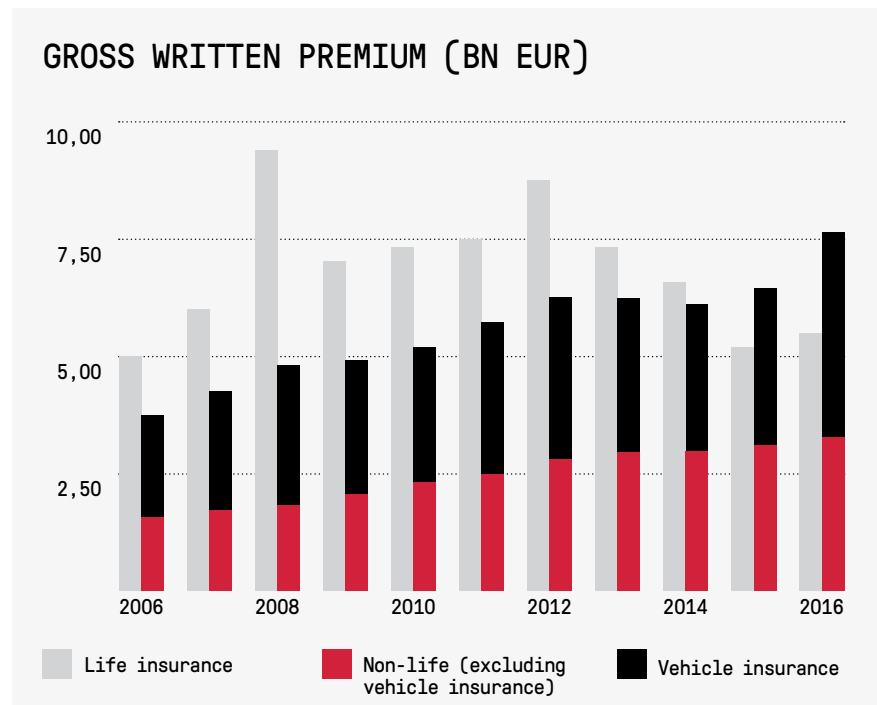
### Employee benefits

The unemployment rate in Poland has continued to fall over the last 15 years and was of 6.9% at the end of 2016. In order to attract potential employees they must be given incentives – most commonly life and health benefits for them and their families. Both types of cover are beneficial for employer and employee. Employer-funded benefits are tax deductible in Poland and health policies reduce levels of sickness absence as they enable employees to talk to and arrange an appointment with health professionals immediately and attend any follow-up medical examinations. It is compulsory for health policies to provide an occupational health service, which can save time and support HR processes.

Benefit programmes were typically offered by large corporations but they

are now becoming standard even within small and medium-sized businesses, especially in large cities with low unemployment rates. In the past, employers offering such programmes were recognised as exceptional, but as awareness about benefit programmes has grown, it is very likely that during the interview an employee will ask what the employer will provide. Employers who are keen to recruit and retain suitably qualified professionals should consider introducing quality employee benefit programmes.

Health benefit programmes are the most popular in Poland; between 2015 and 2016 the number of people with health policies grew by almost 27% and the total number insured was 1,48 million people. This increase is in response to public health sector concerns around limited access to specialist doctor consultations and hospital and outpatient procedures. In order for an employee benefit package to be well designed, effective and contribute to long-term employee satisfaction, it should be developed using an experienced insurance broker. •



Source: Poland Financial Supervisory Authority

# TORUN: THE HUB OF POLISH BROKERS



Warsaw and Vistula river

Poland is centrally located in the heart of Europe at the crossroads of several major transit routes. Its closeness to the Baltic Sea gives it a natural link to the Scandinavian countries and its long border ensures easy access to the biggest EU economy, Germany. Poland can also easily access southern and eastern Europe via its borders with Ukraine, Belarus, Russia to the east and Slovakia/ Czech Republic to the south.

Poland's total area equals 312 679 km<sup>2</sup> making it bigger than the UK (242 900 km<sup>2</sup>) and similar in size to Italy (301 336 km<sup>2</sup>). The country's population is 38.5 million; more than Canada (35 million) and almost double Australia (22.9 million). Poland is ranked as the sixth largest market in the EU and 33<sup>rd</sup> in the world in terms of Gross Domestic Product (GDP). It is the 24<sup>th</sup> largest economy in the world.

After the collapse of communism in 1989 international investors started to appear and now major global companies have established a presence in Poland.

Poland has been a member state of the European Union since 2004 and is a member of the World Trade Organisation and Organisation for Economic Co-operation and Development, confirming its strong international position. Poland is a North Atlantic Treaty Organisation member evidencing its security and authority.

Since joining the EU, the country has enjoyed constant and sustainable development. Almost all the major cities (16) have their own airports, there are three main sea freight ports (Gdansk, Gdynia and Swinoujscie) and recently a direct freight train connection has opened between Chengdu (China) and Lodz (Poland). This takes 14 days and is a great alternative to sea freight (that takes a minimum of 45 days). The roads are improving constantly and highways and expressways are completed every year.

There are 470 higher education institutions offering nearly 200 subject areas, schools employ over 100,000

teachers and there are currently two million people studying in Poland (one of the highest Gross Enrolment Ratios in the world). Recently its software engineer qualifications have gained recognition and this is why Google for example, has opened a research & development centre in Cracow employing coders.

Poland currently has a stable economy. When the last financial crisis hit the EU countries, Poland was the only EU member not going into recession and was described as 'the green island on the red map'. The Polish banking sector was equally unaffected by the global crisis. In addition, EU structural funds support Polish growth and from 2013-2020 it will provide EUR 106 billion. The government is also boosting domestic growth with infrastructural investments; EUR 25 billion a year is to be invested primarily in the energy sector and road, rail and aviation.



## Torun – a city of tradition

Torun is one of those rare cities having been given UNESCO World Heritage status. Founded in the 13<sup>th</sup> century on the banks of the Vistula river, over the years it has become a flourishing commercial centre yet evidence of its historical past survive to this day. Its unique character is due to its well-preserved monuments; Gothic churches, Baroque granaries and charming townhouses. Many of which have stayed the same for centuries.

Torun is the birthplace of the great astronomer Nicolaus Copernicus. During a visit to his family house (now a museum), you can experience his life and work, his family environment and the era that influenced him.

The city is a lively cultural centre where numerous festivals, exhibitions, concerts and artistic meetings take place. During festivals, concerts in the historic interiors of urban architecture play music from the Renaissance to more contemporary periods. Torun is also an important

academic centre; Nicolaus Copernicus University with its 15 departments and some 40,000 students has been Poland's leading university for over 40 years.

Alongside the magnificent cultural heritage, Torun is renowned for its highly developed broking market – and is called *the hub of Polish brokers*. The main Polish insurance brokers are based in Torun and according to latest statistics, Torun and the capital of Poland – Warsaw, generate the majority of premium income for insurers. A rich history of brokerage services in the city can be traced back to essential support from the university, where almost 25 years ago and in a revived free market economy, academic authorities in the field of insurance law co-created the insurance market.

Torun is a place where the past meets the present and business works in harmony with culture. Its old town is full of charm and encourages everyone to follow the footsteps of its European heritage. •

## Economic data (2016)

- **GDP growth** 2.7%
- **GDP value** USD 469.8 bn  
(current prices)
- **Inflation** 0.5%  
at the end of 2016)
- **Exports** USD 203.7 bn
- **Public debt/GDP** 51.1%  
(at the end of 2016)
- **Unemployment rate** 6.9%  
(at the end of 2016)



Nicolaus Copernicus statue in Torun

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**pwc**

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# BROKERSLINK

HISTORY IN THE MAKING

GLOBAL CONFERENCE 2017 MARRAKECH

JACQUELINE LEGRAND NEW CEO

NEW BRAND AND WEBSITE

# HISTORY IN THE MAKING



## 2004

### CREATION OF BROKERSLINK

**1<sup>st</sup> Brokerslink Meeting  
Porto, 9 July**

Brokerslink was created by MDS (Portugal) that invited Pérouse and Firstassur (France), Artai (Spain) and Lazam-MDS (Brazil) to follow the portuguese broker in this adventure.





2007

## BROKERSLINK EXPANDS TO ASIA

During the PanAsian Alliance summit in Shanghai, Brokerslink and PanAsian Alliance sign a partnership protocol that formalises the discussions initiated in 2006 with their respective leaders, José Manuel Fonseca and Hei Wong.



MONDAY 5 JANUARY 2008

ISSUE 2,762

# Insurance Day

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## Merged Brokers Link targets global giants

Pan Asian Alliance and Alinter join European network to give clients a global offering

**Richard Banks**

THREE international broker networks are preparing to merge this year to create a body capable of taking on the global giants.

The three networks - Pan Asian Alliance, Latin America's Alinter and Europe-based Brokers Link - will come together under the Brokers Link brand.

Together they boast a membership of 60 brokers with offices in 59 countries and account for €1bn (£550m) in premium.

The new organisation will officially come into being at its conference in Hong Kong in June but the global brand will be unveiled to clients and carriers at the Risk and Insurance Management Society's (RIMS) annual meeting in Florida in April.

José Manuel Díaz de Fonseca, chief executive of Portugal's mido Holdings, chairs Brokers Link. He explained the three networks already had close ties but said the decision to merge was prompted by discussions with multinational carriers which said they saw an importance in appearing as a global network.

In particular, he said the move would give members strength in managing multinational clients and added that the aim was to be a global network while maintain-

ing a regional culture.

"The markets are very different and it's important in each country to have a regional presence and know the culture," Fonseca said, stressing, "We will keep the regional philosophy but on a global basis."

"The close bond between members is a key selling point for the network, Fonseca believes. He said: "We know who to call/offer other side - not just their email address but the person."

He claimed the network would work on all kinds of business. "We're not just interested in the big business," he said. "New business can be very small at the beginning and global brokers are not interested in that. We work for everybody."

Fonseca said Brokers Link would have an advantage over the global broking houses because it was made up of a group of entrepreneurial players rather than branches vying for the

spot, which is holding part of the firms annual conference, where Brokers Link will unveil its global brand.

attention of a head office.

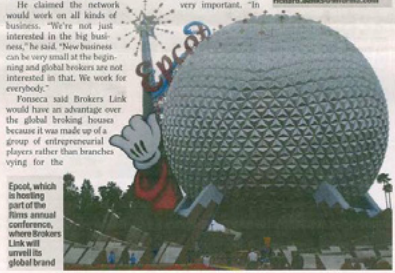
"The issue in the big brokers is that sometimes they are a global brand but not a global network. There are a lot of differences between countries and [in a global group] people might not know each other because the company is the result of a lot of mergers."

He said because Brokers Link members were entrepreneurs who had had to work hard to win and retain clients, trust and service was very important. "In

the case of global accounts, our objective is that the network can work as a global broker but organised in a horizontal rather than a vertical way."

The members of Brokers Link are retail brokers but London-based Cooper Gay will operate as their preferred reinsurance broker. Brokers Link also has a partner in the US and has plans to expand into the Middle East, the former Soviet states and Africa.

richard.banks@riforma.com



## Renewals show no consistency

CEIDANTS' January 3 renewal experiences varied widely depending on their geography and loss experience, early indications suggest, writes Richard Banks.

Gay Carpenter's latest Global Reinsurance Review revealed moderate average reinsurance rate increases at the January 3 renewals but insisted that there was no market-wide general trend.

In the World Rate on Line Index was up 8% but that masked a wide variety of experiences. The variety was especially pronounced in the US, although it averaged out at an 11% increase.

Within that were national programme rate on line increases of between 8% and 12%, while loss-suffering programmes in the Gulf of Mexico (petroleum) saw increases between 30% and 40%.

In continental Europe, Gay Carpenter pointed to rate increases between zero and 10%, while in the UK the report said risk pricing was between flat and decreases of 5% and catastrophe pricing ranged from 2.5% reductions to increases of 5%, based largely on exposure.

Reinsurers' strong capital positions at the beginning of 2008 meant that their response to the economic crisis was not as severe as some commentators had predicted.

Gay Carpenter's Global Composite, which looks at 141 publicly traded insurers and reinsurers around the world, showed carriers lost 15% of their implied aggregate book value over the course of the year, compared with a 32% drop in the Standard & Poor's Banks Index.

pk.ryan@riforma.com

## Allianz gives XL the AIG front treatment

**Herbert Fomme, Cologne**

GERMAN insurance giant Allianz has increased the pressure on rival XL by refusing to front for the Bermudian firm in consortiums writing long-tail business.

And Thies, chief executive of Allianz Global Corporate & Specialty (AGCS), told Insurance Day that his firm would now be taking a similar stance with XL as it has with AIG, which has only survived thanks to a \$150m US government rescue package.

Industrial insurers almost always work as part of a consortium when it comes to insuring

large industrial groups, with the leading insurer fronting for consortium members. However, if a partner is unable to pay, the lead insurer in question is left with a loss, prompting the decision from Allianz to front for XL.

Thies denied that the decision was being made as a competitive weapon against the Bermudian firm. "This has nothing to do with any kind of arbitrariness," said Thies. "Our security vetting procedures are very objective."

Other competitors have also taken a similar stance to Allianz, he said, pointing out that XL Capital "is by no means a bad insurer."

pk.Allianz plans further restrictions, www.insure.com/News/Interviews

## London market overhauls its clauses governing air cargo

**James Brewer**

LONDON underwriters have begun 2008 with revised clauses for the carriage of cargo by air which are seen as more favourable to the assured.

The updated clauses, which became available for use on January 1, 2008, are in line with amendments that were consistently being made in the market to the previous clauses.

A London working party, which is chaired by Nick Cooling of XL Group, has been drafting and consulting on the changes for the past two years.

In essence, the air clauses, which are widely used, have followed the same revisions just made to the A, B and C Institute clauses relating to marine cargo.

The main change is to clarify the fact that there is cover for salvage charges which could

arise in the event of an aircraft landing on water. Previously, the clauses were silent on that question, which meant that salvage charges attaching to cargo on a ditched plane might have had to be recovered as sue and labour.

Amendments to the marine clauses, where applicable, have been carried through to the air sector.

The duration of the transit clause has been extended and some of the ancillary language has been softened. The word "voyage", with its maritime connotation, has been replaced with the word "transport" to ensure consistency.

The modifications affect Institute Cargo Clause (air cargo) 388 and Strikes Clause (air cargo) 389.

pk.ryan@riforma.com



Cargo is loaded on to a plane. London market underwriters have revamped their air cargo clauses.

2008

## BROKERSLINK BECOMES A GLOBAL NETWORK

During a conference held in Bangkok, Brokerslink, PanAsian Alliance and Alinter, a Latam network, decided to merge their networks and to operate under the single Brokerslink brand as one global network.

# 2009

## 1<sup>st</sup> BROKERSLINK GLOBAL CONFERENCE

### June, Hong Kong

Linking Clients, Markets and Knowledge. 50 members from around the world attend the conference.



## BROKERSLINK USA

Crystal & Company joins Brokerslink paving the way for the US market.



# 2015

## FROM AN ASSOCIATION TO A FOR-PROFIT ORGANIZATION

Incorporation in Switzerland with 5 prominent shareholders: MDS Group, Crystal & Company, Filhet-Allard, Ed. Broking, Nova Insurance.



# Brokerslink

## The Global Broking Company

Committed to deliver bespoke insurance & risk management services across the board



brokerslink

# 2016

## BIG INTERVIEW

### A capital network

The recent stock offering represents a significant change to Brokerslink's business model, but co-operation among its members very much remains at the core of the new company, its chief executive says



José Manuel Dias da Fonseca CV



Board of directors had its first meeting in London in January at the offices of broking group B&W, a Brokerslink partner. A key focus for the company in its year ahead is broadening its presence in the African continent. "We have got quite a few gaps in our network on the African continent," Fonseca says. "There are around 50 countries in Africa and we are currently present in about 15 of them. This compares with the Middle East, where we are present in all of the markets, so, in terms of our expansion over the next year or two, we need to make progress in Africa."

The company is currently present in 100 countries across Europe, North America, Latin America, Asia Pacific, the Middle East and Africa.

**Expansion plans**  
Brokerslink is also in the process of developing what Fonseca describes as an "aggressive" business plan. This will focus on the year to 2017, he says, to bring Brokerslink closer to the competitive risk management and insurance market.

"In the same time, we will continue to expand our network of brokers and insurance services companies. We will work together with our partners and our members to complete the acquisition of Brokerslink," Fonseca says.

Under the plan, which began in October 2014 with the creation of a holding company, Brokerslink now a formal structure of broking, risk consulting and insurance services companies based around the

#### Fonseca on...

**Expansion**  
"We have got quite a few gaps in our network on the African continent. There are around 50 countries in Africa and we are currently present in about 15 of them"

**Going for-profit**  
"It was clear to us that we needed to be more than just a defensive network which existed to protect its members' business interests, extend their geographic reach or to help them provide a certain level of service to their clients"

**Proactive approach**  
"In the current environment, no broker can afford to sit around and wait for business or talent to walk through the door"

world. Although Brokerslink's 76 or so member companies currently combined annual premiums and operating fees of more than \$10bn by 2014, there was the issue for compliance, Fonseca says.

In fact, the decision to set up Brokerslink as a corporation had been formally approved a year earlier at the network's annual conference in London.

"It was clear to us that, as an organisation, we needed to be more than just a defensive network which existed to protect its members' business interests, extend their geographic reach or to help them provide a certain level of service to their clients," he says.

The holding company, Brokerslink Management AG, represented a very different vision and business model for the network and its members, Fonseca says. The company was initially capitalised with \$100m provided by its board members: 50% of Portugal, 25% of Germany and 25% of the US. Elliot Altman of PricewaterhouseCoopers (PwC) was the lead advisor of the UK.

The second structure would allow Brokerslink to organise and resource itself in such way that would enable its members to be more proactive and dynamic in terms of acquiring and competing against other brokers

## A GLOBAL BROKING COMPANY

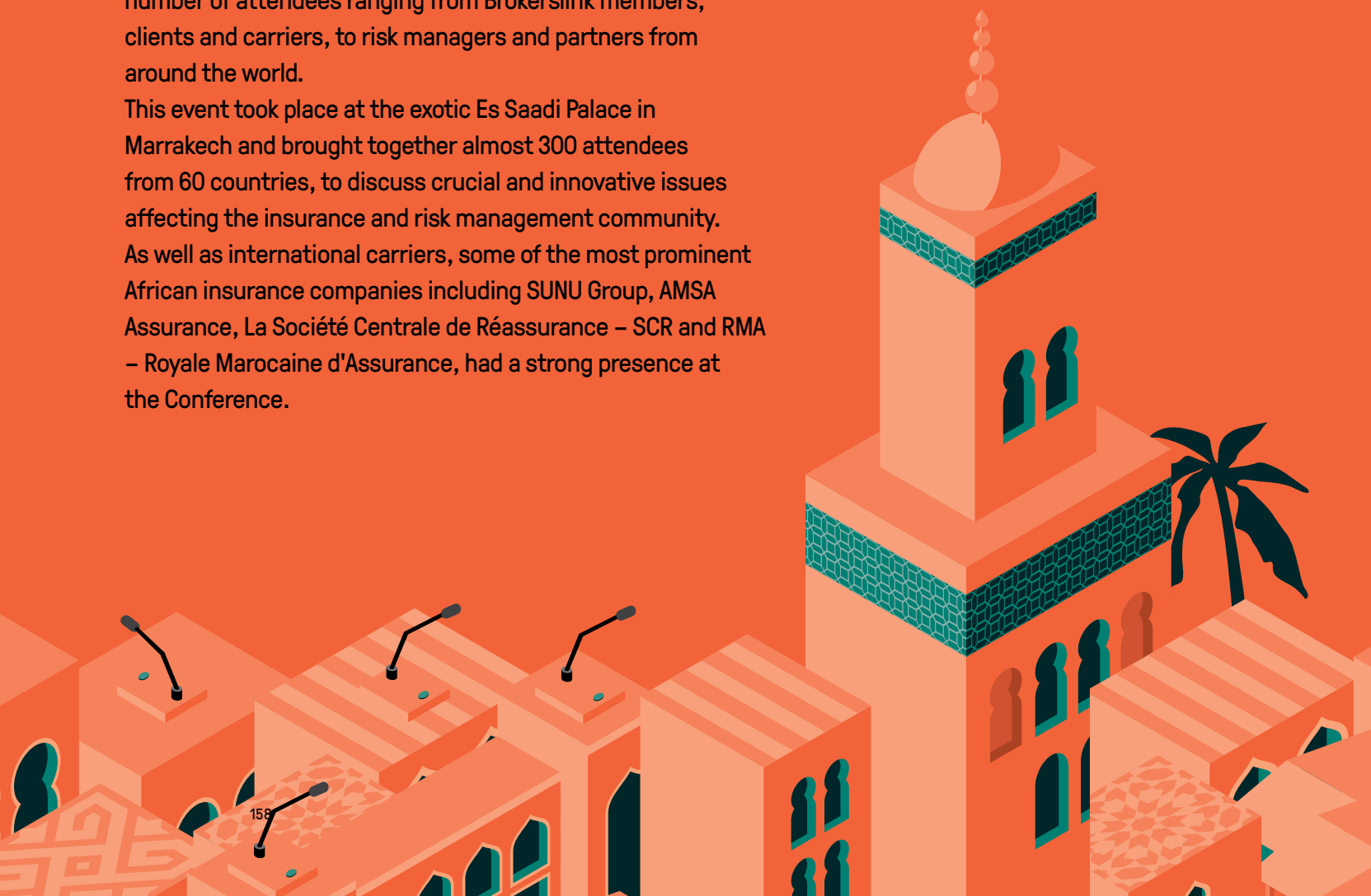
After a private stock offering, Brokerslink is owned by 55 shareholders from 40 countries all over the world.

# GLOBAL CONFERENCE MARRAKECH, SEPTEMBER 2017

In 2017, the Brokerslink Global Conference was held for the first time in Africa; an important indication of the organisation's strong ambition to develop its footprint in the region.

The Conference has become a major event in the insurance industry calendar and, each year, attracts an increasing number of attendees ranging from Brokerslink members, clients and carriers, to risk managers and partners from around the world.

This event took place at the exotic Es Saadi Palace in Marrakech and brought together almost 300 attendees from 60 countries, to discuss crucial and innovative issues affecting the insurance and risk management community. As well as international carriers, some of the most prominent African insurance companies including SUNU Group, AMSA Assurance, La Société Centrale de Réassurance – SCR and RMA – Royale Marocaine d'Assurance, had a strong presence at the Conference.





## BROKERSLINK LAUNCHES RISK MANAGEMENT FORUM

Another first for the event was the launch of the Brokerslink Risk Management Forum. A small group of leading Risk Managers from around the globe and various industry sectors shared insights and perspectives on a range of current risk and insurance topics. Attending this first Forum were, Franck Baron of PARIMA; Manuel Padilla from MacAndrews; Forbes; Jorge Luzzi of Brokerslink and APOGERIS; Cristiane Alves from *Companhia Siderúrgica Nacional* and ABGR; Javier Mirabal of FUNDALARYS and Mirabal Risk Management; Thiago Amorim Santana of Suzano Paper and Pulp; Zaiella Aissaoui from Bouygues Construction and; Maurizio Castelli of PCA SpA.

## NEW AFFILIATES

Brokerslink expansion continues and during the Marrakech Conference, four new affiliates had the opportunity to introduce themselves to the audience:

### → PERAJ (India)

The oldest intermediary services company for retail and commercial insurance in India.

### → EPPIONE (United Kingdom)

A UK and Ireland based specialist employee benefits broker that offers a unique online platform to help clients manage HR and Employee Benefits.

### → STP (United States of America)

A technology-led insurance platform focussed on building global programs and products for new economy and technology businesses.

### → NIKOLOZ GROUP (Georgia)

Established by Nikoloz Kitiashvil, a highly experienced insurance professional, the company provides its corporate clients in this rapidly developing nation with full insurance and reinsurance services.

## THE CONFERENCE ATTRACTED RENOWNED KEYNOTE SPEAKERS



**“The insurance industry needs to work harder to get a seat at the table and get in the ear of CEOs. In company boardrooms, insurance can sometimes be considered a necessary evil or even an unnecessary cost.”**

**Steve Hearn** Group CEO at ED



**“Private equity has been playing a major role in the brokerage sector, namely allowing independent brokers to maintain a competitive edge in a rapidly growing landscape, and the Brokerslink model is the ideal strategic solution to achieve that.”**

**Daniel Zilberman** Head of European Business at Warburg Pincus



**“Brokers should spend more time discussing the benefits of multinational insurance programmes with mid-market companies.”**

**Stephen Morton** Head of Complex Multinational Accounts for AIG Continental Europe, Middle East and Africa

**“From an insurance and reinsurance perspective, the intermediaries of the future are going to be heavily focused around innovation and not selling products. For many of our clients it is much more about advice. Data processing and digital technology is going to be fundamental going forward.”**

**Jonathan Prinn** Group Head of Broking at ED



**“Digital technology is a key driver for growth and operational efficiency. Insurance needs to migrate more customers to digital platforms and stimulate customer behaviour to drive transactional growth.”**

**Moruf Apampa** MD/CEO at SUNU Nigeria



**“Future, effective risk management requires a holistic approach and risk managers playing a central role in strategic planning.”**

**Wendy Liu** Head of Global Employee Benefits Solutions at Zurich

**“Managing general agents (MGAs) will align with alternative capital as the evolution under way in the MGA sector continues and more and more insurance business is placed through such channels.”**

**Gary Corke** CEO of Global Underwriting at ED



**“Communication is the key for success and digital activities can positively impact traditional organisations.”**

**Filippo Cinelli** Head of Broker Relationship Management at Generali Group



**“Insurers have plenty of levers to fight back against climate change and help businesses mitigate associated risks; parametric insurance is a key tool.”**

**Tanguy Touffut** CEO of AXA Global Parametrics





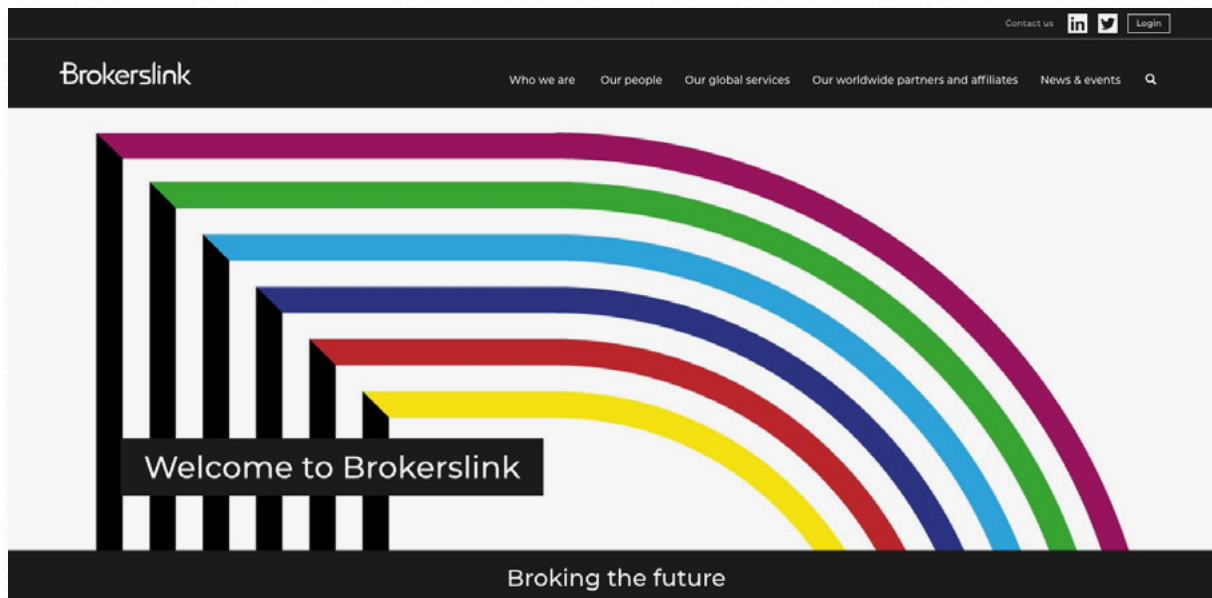
# JACQUELINE LEGRAND SUCCEEDS JOSÉ MANUEL FONSECA AS BROKERSLINK CEO

Jacqueline Legrand has been appointed Brokerslink CEO, succeeding José Manuel Fonseca who is stepping back to focus his efforts on managing the significant growth of the MDS Group, a Brokerslink shareholder. José Manuel Fonseca is CEO of MDS Group and as founder of Brokerslink will remain a board member, demonstrating his ongoing commitment to the company.

Jacqueline Legrand is a board member at MDS, overseeing business development and operations in Portugal and Brazil. During the past nine years, she has worked closely with José Manuel Fonseca, more recently as regional director Europe, and will continue to further enhance Brokerslink's global offering, extending its reputation for specialist industry expertise and access to the world's insurance markets.

José Manuel will continue to play a key role in shaping the future of Brokerslink.

[www.brokerslink.com](http://www.brokerslink.com)







# BROKING THE FUTURE

## NEW BRAND AND WEBSITE

Brokerslink  
Partner

Brokerslink  
Affiliate

Brokerslink  
Partner

Brokerslink  
Affiliate

Brokerslink  
Partner

Brokerslink  
Affiliate

Brokerslink  
Partner

Brokerslink  
Affiliate

Brokerslink has undergone a significant branding review. The new corporate identity, that reflects Brokerslink's commitment and involvement in the risk and insurance landscape, was unveiled during the 2017 Brokerslink Global Conference in Marrakech.

This new identity supports the evolution of the business. Since its launch in 2004 as a network, Brokerslink has transformed itself into a successful global broking company. The brand refresh allows Brokerslink to retain its established value while it develops a new identity to suit its new business model. This branding process is further evidence of Brokerslink's continued global development and supports its vision for the future.

### **Stronger together, but flexible and colourful in parts**

Brokerslink is today a global broking company with partners and affiliates that are leading brokers in each market, offering a real alternative to the established listed global brokers. With a distinctive colour scheme, the new brand is design to be adapted to each individual Brokerslink firm's own branding. This clearly represents autonomy and flexibility, the perfect combination of global and local.

The new website has been developed on a leading edge platform to showcase the roughly 10,000 talented individuals that work for the 100 companies that comprise the group. It illustrates what really can be achieved through teamwork combined with independence.



DIELMAR

Amoreiras Shopping Center | Almada Forum | Cascais Shopping  
Norte Shopping | Alameda Shop & Spot | Castelo Branco

[dielmar.pt](http://dielmar.pt)

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absolute cleansing  
strong and flexible  
perfect feeling  
sensitive  
sexual healing  
kind of magic on my body



**Renova** magic on my body



from **renovalab**



# MDS GROUP

CHRISTOPHE ANTONE  
MDS' NEW DIGITAL DIRECTOR

THIAGO TRISTÃO  
LEADS CORPORATE RISKS IN BRAZIL

BOOMING BRAZIL: INSIGHTS FOR FOREIGN INVESTORS



# **CHRISTOPHE ANTONE**

**DRIVES THE DIGITAL  
TRANSFORMATION AT MDS**



With an eclectic career history in insurance and new technologies, MDS Group's new digital director, Christophe Antone, is bringing his enthusiasm for digital projects to Portugal's leading broker. He firmly believes that as we approach the much-heralded era of digital disruption, the adage 'High-Tech, High-Touch' will gain even more value. In his opinion, the fact that 'machines' can potentially replace or modify certain parts of our supply chain reinforces the necessity of business expertise, collaboration and innovation. He is convinced that the more we resort to using complex systems for certain functions, the greater the need for human intervention to be at the core of the process.

### Passion – a driving force

Christophe enjoys discussing when he first started in insurance, over 20 years ago now, and how much he enjoys the distribution area. Having obtained a diploma in marketing from a business school, he began his career in 1993 as a general agent with AXA Assurances in France. While working with this highly-respected insurer he learned the ropes and perfected his sales methods. When the Internet first appeared in France he had a 'Eureka' moment, which he likes to compare to those truly important occasions in life when you look back years later, you know exactly where you were when they happened. "I can describe exactly where I was and the exhilaration I felt when I saw a search engine for the very first time in my life and realised how it could benefit the insurance business."

Since then, his passion for the web continues. Despite having no specialist programming knowledge, in 1995 he developed France's first online insurance website. "At the time, we were the only ones, which may seem unbelievable today." His recollection of those early days is one of amusement: "The first time we received a quote request form by e-mail, you would have thought we'd discovered

America!" Eager to share his knowledge, he wrote a book aimed at colleagues and peers called "Agents, courtiers, comment vendre sur Internet?" (How to sell on the Internet for agents and brokers), which was published by Editions l'Argus de l'Assurance in 1997. A user's guide for a profession that was discovering the media and its potential. "I was in demand for years to speak on Internet strategies at conferences attended by professionals who were discovering this new distribution channel."

Over the years and in a bid to keep ahead of the competition, Christophe used specialist companies to manage the increasingly complex projects: "In the early days of the Internet I could do just about everything myself. Today however, designing, promoting and maintaining a professional website requires a combination of many specialist skills." For one of his projects, Christophe worked with Capgemini, a leading French consulting and technology company, who offered him a position with its consultancy teams supporting companies in the finance sector. "It was a very intense time and I was doing a lot of computer-related work. Fortunately, my wife, who is also a broker, took care of the operational side of our agency... I was now

doing more in IT development and project management than insurance. The idea of working with one of Europe's 'big five' in the insurance sector seemed an obvious next step and a challenge."

### A new perspective

Christophe reminisces about his years as a consultant in the early 2000s: "When I joined Capgemini, I was able to see things from a completely new perspective and discover a wide range of companies, strategies, organisations and information systems. This was a hugely valuable time for me in terms of acquiring knowledge around methodology, organisation and project management." At the time, Christophe specialised in customer relationship management solutions, providing support for major insurance companies in their customer transformation projects, call centres, back office and distribution networks. "I remember that when it was time to explain to the agent networks that their company had decided to install a new collaborative solution, nobody wanted to go. I was the one always sent into the fray on the pretext that I was fluent in 'general agent lingo' and would manage to survive!"

'MDS Lab' is a space for fully exploring innovative ideas. From the original idea to deployment by way of benchmarking and proof of concept, we have a tool at our disposal that will allow us to exploit the opportunities afforded by the digital age.



Christophe continues: “What is interesting about the arrival of technological change, as we have today with digital, is that by shifting the boundaries and creating opportunities and risks, this evolution forces us to question ourselves about the meaning of things. In other words, if we have new tools and new digital powers, what are we going to use them for? To what end? What are the fundamental principles that will help us use these new capabilities conscientiously?”

In 2006, still fired by his passion for writing, Christophe’s second work, “Organiser le CRM dans l’assurance” (Organising CRM in insurance), was published by Editions L’Argus de l’assurance. As he explains: “For me, the process of writing is inextricably linked to action. We are terribly fond of pigeonholing people but I am both a field man and a broker who needs to get actively involved; I also need to manipulate concepts, play around with ideas and explore. When I have the time, writing is a good way of doing this”.

### The business bug

After several years as a CRM consultant for Capgemini, Christophe reignited his passion for business by launching his own freelance strategic insurance consultancy. Alongside this, he and his wife founded a new French broker specialising in affinity solutions. “At the beginning of the 2010s, the social side of the web was growing in importance – many online insurers were still trying to create decent, but classic, websites, at a time when the famous web 2.0 was already churning out all sorts of new uses, marketing and approaches.” Christophe says a common thread running through his various projects is his passion for the way technology can change practices and cause models to evolve, “especially the ones we believed were written in stone”, he quips. “My interest in the new technologies has absolutely nothing to do with their make-up but, rather with the opportunities for change they bring to our business. For me, they are nothing more than a means to serve a variety of ends: strengthening the broker’s role, creating new services, freeing-up

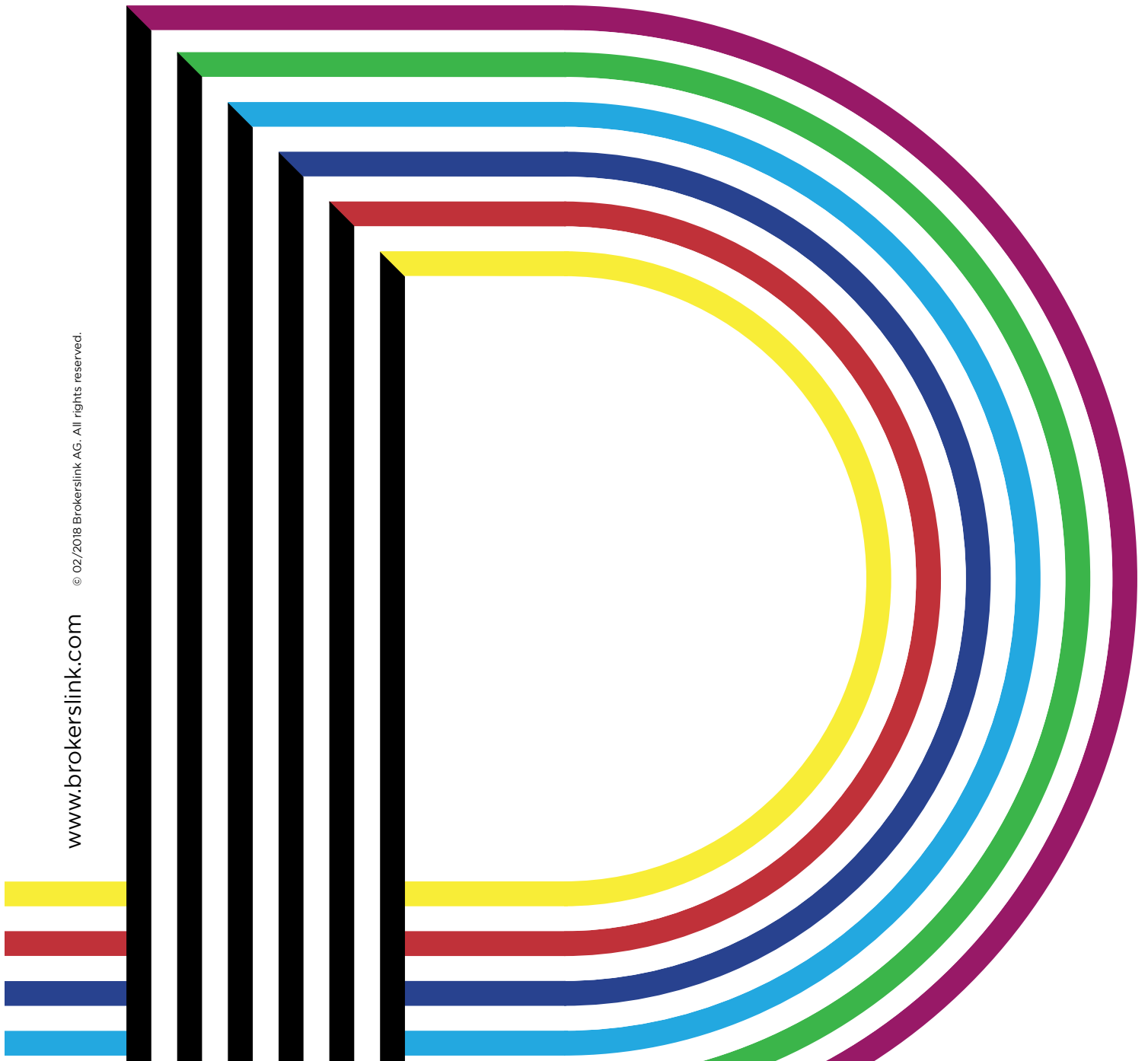
time that can be put to good use by our staff, improving relationships with customers and partners etc. These are the true advantages of the technological avalanche we find ourselves within.”

### Portugal, merging ideas with digital

In addition to his consultancy firm, Christophe and family moved to southern Portugal in 2014 to set up a branch of his French broker with the aim of offering insurance solutions to French-speaking expats. At the time he met with the MDS team, who were developing a similar initiative. Christophe looks back on his first meeting with José Manuel Fonseca, Jacqueline Legrand, Ricardo Pinto dos Santos and Carlos Bianchi de Aguiar: “It was in Porto and we were immediately connected. Our business models, which at the time were competitors, turned out to be very complementary and we quickly decided to combine our efforts and, especially our ideas, to secure a position of leadership in the expat market. Over the following months, we also discussed aspects of our strategy and the direction the Group was taking. “The fact I was both broker and fluent in ‘techno-lingo’ gave us the idea for a digital division that would allow us to coordinate the many already ongoing projects and formalise our thinking.” Having ideas and plans is very dear to Christophe’s heart and he explains why: “In the context of current technological growth, having a future strategy is essential for informed decision-making. We are not ‘digital’ because it’s fashionable but, rather, because we think that certain strategic directions produce, or will produce, shared benefits for our staff, customers and partners.” With the recent creation of ‘MDS Lab’, the digital director hopes to involve the entire Group in the innovation process: “The ‘MDS Lab’ is a space for fully exploring innovative ideas. From the original idea to deployment by way of benchmarking and proof of concept, we have a tool at our disposal that will allow us to exploit the opportunities afforded by the digital age.” •



## Broking the future



# THIAGO TRISTÃO

## LEADS CORPORATE RISKS IN BRAZIL



Working in the insurance market since leaving university, Thiago Tristão has built a successful career with a number of high-profile insurers. Having been with MDS Brazil since 2014, he's had the opportunity to immerse himself in the broking sector – another area of the insurance world and something he considers vitally important. MDS is delighted to have welcomed to its ranks a highly experienced professional with a unique outlook.



## A bright future

“In my university days, I did not have a clear idea of what I wanted to do with my degree and so talked to people who were close to me, including family members, to find inspiration. I was impressed by the experience of one of my uncles who chaired the English company, General Accident. He talked about the characteristics of the insurance sector, its challenges, opportunities and above all, its bright future. This influenced my thinking and a few days later, I applied for a position with General Accident, who took me on as a trainee.”

Thiago admits he is still fascinated by the insurance sector, even now. One of the main attractions is its dynamism. A market, conservative in nature yet with innovation at its core and an ability to develop products, services and solutions that meet the evolutionary challenges of a globalised world. “It is a fascinating market,” says Thiago. And he appreciates the social responsibility issues, valuing company sustainability and working to ensure society has a future: “By replacing a loss, insurance helps rebuild companies and brings families and even countries back together. It has become one of the most important economic contributors to our world’s future wellbeing.”

During his career in the insurance sector, Thiago worked for major international companies whose cultures and business strategies were very different to each other and that of Brazil. “I managed teams at Spanish Mapfre, American Liberty and AIG, national Porto Seguro and the German Allianz.” A journey which has given him an in-depth understanding of many aspects of the insurance sector and its product lines: “... from Varejo at Porto Seguro (retail), to Liberty’s middle market and larger risks at Allianz.” Thiago recalls one particularly memorable experience with Allianz: “In September 2014, not long before I left the company, I was ranked first in an internal survey completed by my subordinates. My team named me the best-rated leader throughout Brazil for among many things, my results and management style.”

## The MDS challenge

After 18 years working for insurers, Thiago decided to take up the challenge of joining MDS team and gain experience in the broking world. Having worked with a number of insurers, he believed this would be a wonderful professional opportunity: “MDS is a fast-moving, technically-skilled, excellently-structured company, and through Brokerslink, a global player. Its different Group divisions, such as the reinsurance business with MDS Re and Ed and its engineering and risk management solutions with Herco, were very attractive to me.”

Today, Thiago says this was a good decision: “We are an extremely flexible company that follows high standards of professionalism and competence. This allows us to compete with any player out there.”

Thiago cites a number of MDS highlights: “The turnaround of the Rio de Janeiro operation, repositioning MDS in the insurance sector and regaining the trust of our customer portfolio and, of equal importance, bringing back the glint in my team’s eye after accomplishing significant goals, like securing important clients and major events such as the 2016 Olympics.”

At MDS, Thiago leads a 72-strong team. At the heart of his success is the spirit of teamwork and cooperation. “These are undoubtedly the key factors. Our success over the past few years is due to a technically-savvy, competent and experienced team who are very knowledgeable about the insurance market. We are among the top brokers in the country for volume of managed premium and our speedy processes and high technical proficiency help us stay ahead of the pack.”

## The Brazilian market

The greatest challenge for the Brazilian insurance market is to balance a need to raise premiums and fees (and so address recent local and world deficits) with companies who, due to the current economic climate, may not have the financial capacity to pay. MDS Brazil’s strategy to sustain growth

in this context includes working more closely with customers, utilising their resources, sharing its risk-management expertise, minimizing the possible risk of loss through effective programmes and managing clients’ operations.

“In the current climate, it is increasingly urgent to redesign policies and risk-management programmes to optimize coverage and control the operation as a whole. In Property & Casualty, Herco, thanks to its technical capability and experience across various industries, has played a significant role. In health insurance, we act through a highly-skilled technical and medical team that puts together detailed studies on meeting client needs and for new clients, we design and offer alternative products for national emerging risks such as Cyber, Weather Risks, Credit Insurance and others. In addition, we take advantage of our relationship with Brokerslink members who extend our product portfolio.”

Over the next five years, Thiago says the insurance sector will face huge challenges, particularly those posed by political and economic issues. This will however, generate opportunities.

## The personal view

First-born son of a Rio de Janeiro family, Thiago spends his free time with his family, especially his three-year-olds who “not only fill my daily life with joy but have also replaced the gym,” he says, jokingly. “I also like to travel locally and play sports like volleyball and tennis with friends.”

With a wealth of experience in the insurance sector and a lengthy journey through the corporate world, the motto for this executive has to come from writer, teacher and administrative consultant Peter Drucker, the ‘father’ of modern management: “There is the risk you cannot afford to take and there is the risk you cannot afford not to take.” •

# MDS NEWS



## The only Portuguese speaking Lloyd's Broker

MDS was recently registered as a Lloyd's broker – such status opens doors to the largest specialised insurance market in the world, ensuring access to professionals renowned for their management of emerging and complex risks. This means MDS can now directly place a wide range of more challenging risks, such as environmental, cyber, natural disasters or major industrial, without having to rely on foreign broker intervention. MDS is the only Portuguese-speaking broker among 258 that work with Lloyd's of London worldwide and says it has contributed to 'history in the making', not only for the insurance sector but also for the Portuguese economy.

Juan Arsuaga, president and CEO of Lloyd's Iberia comments: "It is a pleasure to announce MDS as our sole Portuguese Lloyd's broker. Lloyd's places all its risks through intermediaries; alongside our 258 brokers, we have 99 syndicates and 3,859 coverholders in more than 200 territories. MDS will now be able to help the Portuguese market find insurance solutions, particularly when a large capacity or solid financial ratings are required or when dealing with highly specialised risks. We wish MDS the greatest success and hope it will give us continued access and the ability to work with the Portuguese insurance and reinsurance market."

## Jorge Luzzi to lead Apogeris



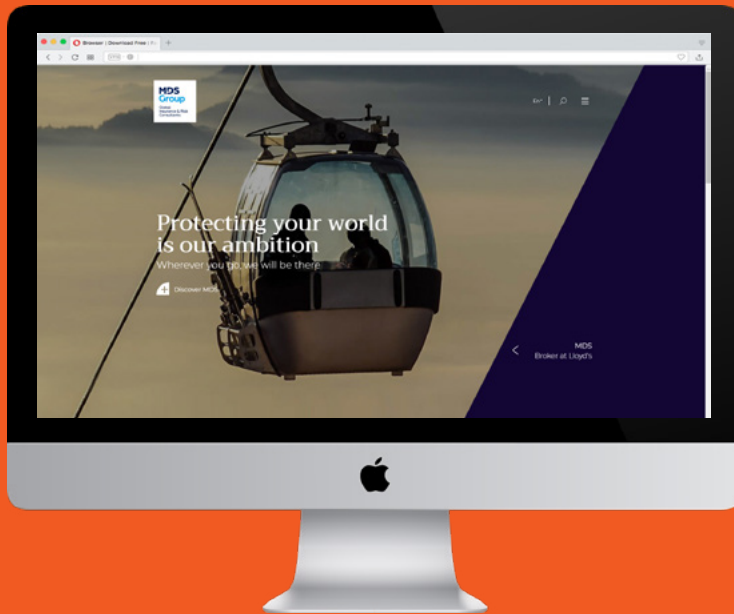
One of the greatest risk management specialists in the world, Jorge Luzzi, has become the new president of the Portuguese Association of Risk Management and Insurance (APOGERIS). His tenure began in May 2017. Established in 2002 under the guidance of MDS Group CEO, José Manuel Fonseca, who was president until then, APOGERIS endeavours to promote the disciplines and application of risk management and insurance in the corporate world and wider society. Among initiatives developed by APOGERIS was the organization of the 2005 FERMA Forum – the largest risk management forum ever held in Portugal and attended by 1,500 people from over 20 countries. Jorge is also chairman of Herco Global, an MDS Group company that specialises in risk consultancy, and heads the risk management teams at Brokerslink.



## Beatriz Cabral appointed Head of Marketing and Human Resources in Brazil



In November 2017, Beatriz Cabral became head of the newly-created Marketing and HR department at MDS Brazil. This new role and function will strengthen the company's identity in Brazil and support internal cooperation and collaboration among its group companies. Beatriz joined MDS in 2014 as Marketing, Communication and Organizational Development manager.



## New corporate website

MDS Group has launched a new corporate website, confirming its leading position in the insurance market and continued investment in innovation and technology. The website is part of a project to increase the Group's presence in the digital world, explore new communication opportunities, bring MDS closer to customers and further develop its business. Described as dynamic and user-friendly with a totally responsive design that suits any device, the site promotes the Group's global offerings and showcases its international reach and scale, with dedicated pages for each area of expertise and specific companies.

In addition, it shares its team's expertise and their specialist areas via opinion articles and promotion of the Group's FULLCOVER magazine – all important ways to share knowledge. This site is the first in a project to redesign a number of local websites, namely in Portugal, Brazil and Angola, which address the needs of each market and bring MDS closer to existing as well as potential customers. Visit the new website at: [www.mdsinsure.com](http://www.mdsinsure.com).

## José Manuel Fonseca, MDS Group CEO, takes on additional executive leadership role in Brazil



In September 2017 José Manuel Fonseca, MDS Group CEO, took on additional executive leadership role at MDS Brazil, replacing Hélio Novaes, who had served as CEO since 2010. MDS Brazil is going through a vibrant growth period with a strategy to take the lead in its specialist practice areas, and as a result,

has strengthened its national presence and customer relationships by opening new branch offices with additional staff.

This expanding operation benefits from the MDS Group's resources and global reputation enabling MDS Brazil to establish itself as a leader in the Brazilian market.



## MDS celebrates Taylor's 325<sup>th</sup> anniversary

MDS celebrated Taylor's 325<sup>th</sup> anniversary of the first time Port was shipped from Portugal to England by supporting sailor Ricardo Diniz in his journey from the Gaia pier in Portugal to London on the sailboat #TAYLOR 325.

The sailor had a 30-litre cask of Taylor's Port which he delivered to London, from the same pier where, 325 years ago, Taylor's sent its first shipment to the English market.



## MDS at 12<sup>th</sup> Brazilian Risk Management Summit

In August 2017 MDS participated in the 12<sup>th</sup> Brazilian Risk Management Summit. Organised by the Brazilian Risk Management Association (ABGR), the São Paulo event was attended by more than 2,600 international specialists who were keen to discuss the biggest challenges in risk management today.

Gustavo Quintão, Head of Health and Benefits at MDS Brazil, delivered an address focusing on 'risk management and benefits contract negotiation', highlighting the importance of corporate investment in risk management and how it increases competitiveness and productivity. He pointed out that, by taking advantage of the opportunities created by technology and artificial intelligence and using data analysis, it is now possible to predict serious cases and complications in chronic illness, preventing future claims.

## MDS continues its strategic expansion in Brazil

MDS Brazil welcomed 2018 by expanding its business and opening three new offices in Recife, Salvador and Belo Horizonte.

The regions have high growth potential and these branches enable MDS to share its expertise, establish closer working relationships with clients and meet the needs of the business community.

In an increasingly dynamic and demanding insurance market, this investment is a logical step forward, following the MDS strategy to focus on innovation and deliver services which bring the business closer to customers.

## Thomas Tescaro appointed Head of Retail in Brazil



With nearly 20 years' insurance sector experience and a degree in business administration and software engineering, Thomaz Tescaro is the new Head of Retail at MDS Brazil.

He has worked with major financial corporations including Alelo, Santander and Itaú (Garantec) and between 2012 and 2015 was affinity manager at MDS. Thomaz is now back with the company and his goal is to enhance customer service in retail and affinity projects.

# BOOMING BRAZIL

## INSIGHTS FOR FOREIGN INVESTORS

BY SAMUEL MARTINS AND VICTOR GARIBALDI

The Brazilian insurance market is in a state of permanent evolution. Within some areas, cultural and market maturity issues means penetration has not yet reached its full potential. However, for property and life protection, where cover should be taken without question, there's room to reach the same penetration level as other countries. Global insurers have recognised this and seized on the new business development potential in Brazil to offer new products and increase their market share.

Pricing is a challenge in Brazil. Factors such as violence and political or economic instability drive up costs. This leads to clients failing to buy insurance or they opt for policies with limited cover. This is where brokers have an essential role; by supplying clear and objective information, they can help clients better understand the wide range of risks they're exposed to.

Another area where brokers add significant value in the Brazilian market is their ability to tailor products to address the needs of each specific client. Not only do they ensure global products meet the legal and regulatory frameworks of their country but they also help customers

choose the most cost-effective, needs-orientated protection packages.

For Samuel Martins, international account executive at MDS Brazil and responsible for managing global programmes for Brokerslink partners, the next two years will be intense for the sector as a whole. He comments: "We're seeing slow signs of an economic recovery which means we are less of a risk to international investors. For this we can breathe a sigh of relief. While the election period and a change in government generate uncertainty, in general, I believe we will see a growth in different sectors as we move forward."





## Global factors

In Brazil, the insurance market is also impacted by global factors; political and economic crises, terrorism, environmental issues, new technologies and cyber risk. MDS Brazil has recognised however that, after the damage caused by the 2014 economic crisis, a new cycle has begun, with confidence returning and foreign investors again taking an interest in the country.

As a result, the insurance market must develop policies that meet the needs of all companies and comply with Brazilian legislation which, in many cases, represents a significant challenge. In some cases, there is no insurance solution in place to reduce the impact of a particular risk on a business so demand is forcing specialists to develop new innovative solutions as quickly as they can.

For example, the political scandals that gripped Brazil over the past few years affected global risk management and, as a consequence, exposure to image and reputation now appears in a significant number of policies. Demand is highest from the industry and service sectors.

Such matters of image and reputation should be key elements within senior executive and professional protection policies. Samuel states: “The demand for D&O insurance, for example, has grown considerably over the last couple of years. I believe this momentum will continue, especially when you consider the level of demand from multinational corporations in the country.”

Renewable energy businesses also create opportunities for MDS to stand out from the competition and offer innovative solutions, particularly as Brazilian bureaucracy and legislation in this sector requires a trained eye to anticipate non-apparent risk. Local specialists are therefore indispensable, as off-the-shelf solutions do not provide the flexibility that’s needed here.

New and disruptive technologies represent another challenge for brokers. For example, offering insurance to a drone company wishing to operate locally requires specialist knowledge; Brazilian legislation does not regulate this specific technology.

With MDS being part of Brokerslink, it is able to connect and share insights

with brokers from different backgrounds. This enables MDS to offer a wider range of protection and services, meeting the specific needs of each customer and ensuring access to international insurance, reinsurance and risk management programmes. All are developed in coordination with national specialists in each country, guaranteeing a local, personal service.

Samuel concludes: “The role played by MDS within Brokerslink allows us to create meaningful international partnerships and consolidate privileged access to highly specialised services. This enhances the solutions we deliver to market and makes us stand out at a challenging time where ever more customised services are in demand.”

## The local market

An important aspect to consider when developing a global insurance programme is local legislation. Brazil, like so many others, is a non-admitted country which means it is necessary to issue a local policy to cover risk on national territory. The few exceptions are oil and aeronautical risk.

Victor Garibaldi, International Business Partner at MDS, reminds that world programmes must comply with the country’s terms and conditions and so policies must be issued locally: “In some cases, in order to meet the programme’s specific terms and cover needs, MDS provides local insurers and regulators with the solutions.”

Victor also reveals that MDS takes a corporate risk management approach when underwriting insurance: “Our engineering experts give substantial support to customers in assessing their needs and developing policies to reduce, control and transfer risks.”

To Garibaldi, this sort of work is fundamental to ensure policies cover the quantified risk. The insurance policy is then an accurate reflection of the policyholder’s internal risk control mechanisms, giving the client the necessary peace of mind.

Victor also points out this particular approach puts the broker ahead of the competition in several areas: “Our methodology, which is embedded across

## Samuel Martins International Account Executive at MDS Brazil



Samuel Martins has a degree in actuarial science, focusing on general business, from Dorset College, Ireland. He joined the insurance market seven years ago working for Metlife, specialising in employee benefit products. He then moved to Seguros Martins & Bononi, focusing on executive projects to streamline operational management and in 2015, joined MDS Brazil. Samuel is currently an international accounts executive, responsible for managing global programmes for Brokerslink partners.



An important aspect to consider when developing a global insurance programme is local legislation. Brazil, like so many others, is a non-admitted country which means it is necessary to issue a local policy to cover risk on national territory. The few exceptions are oil and aeronautical risk.

the business, puts MDS at the top of the class when it comes to insuring property, liability, transportation and financial risk etc.”

When discussing reinsurance in Brazil, Victor explains that, since Complementary Law 126 was introduced in 2007 – opening up a reinsurance market, which until then was virtually monopolised by the Brazilian Reinsurance Institute (IRB) – it has undergone significant evolution. Different classes of reinsurer have been identified, along with offer and retention preferences for each class.

He says: “This 10-year evolution is a direct consequence of Law 126. Not only has the reinsurance market become more competitive, but it has introduced more products and cover with new underwriting dynamics. New players coming into the market also extended the product portfolio.”

### Healthcare

One of the market’s most important sectors is health insurance. Victor explains that Law 9.656 introduced in 1998, regulated healthcare plans: “The current level of cover provided by healthcare plans in Brazil is governed by the National Health Agency (ANS), which sets out what procedures and examinations etc the plans must include.”

To Victor, the corporate sector is one of the most significant niches within the health insurance market and tailoring services for human resources managers is key to remaining competitive: “MDS Brazil offers consultancy services to companies using a unique tool to help HR develop and deliver flexible benefit programmes with policies suitable for each employee. In addition, features such as our concierge doctor, second opinion and workplace medicine services, among others, ensure we are taking the lead in the management of company benefit programmes.”

He points out that Brazil, much like other countries around the world, now deals with an aging population. While this positively reflects improving standards of living and new healthcare technologies, the impact on increasing claims and plan costs is driving up insurer costs.

Victor adds that what’s happening in the country poses a major challenge to MDS – there’s a need to use new strategies to develop tailored solutions for each client and reduce costs.

He concludes: “There is no such thing as a formula. We have to study each customer, their population profile and plan use, not just the company healthcare plan, but their overall benefits package. Then we can develop the most fitting solution that reduces costs while at the same time, reassures the end user their benefits have improved.” •

### Victor Garibaldi International Business Partner at MDS Brazil



Victor Garibaldi has more than 13 years’ experience in the insurance sector. He has worked for companies such as Allianz and ACE and has extensive knowledge in underwriting Property & Casualty, energy, engineering and aeronautical risks. He is also experienced in developing risk inspection and risk management programmes and creating global reinsurance programmes.

Victor has regularly given presentations at FERMA, ALARYS and the Brazilian Risk Management Association (ABGR) conferences. He joined MDS in 2009, building a client base through bancassurance, partnership and affinity distribution channels.

Victor also has employee benefits experience, including health management, actuarial studies and eligibility criteria. He has a degree in mechanical engineering and a post-graduate degree in business administration, having spent four years in the auto and ammunition industries.



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# REMEMBERING BELMIRO DE AZEVEDO

BY JOSÉ MANUEL FONSECA

It is with great nostalgia that I pen this tribute to Belmiro de Azevedo, ‘The Engineer’ as we affectionately called him.

He was a remarkable entrepreneur, a leader, a visionary who challenged us constantly and someone who always wanted to do more.

I met him in my youth, during the vibrant 1980s. Spending even a minute in his company gave you a feeling of excitement – if I could only convey his strength of personality, the depth in his eyes and the mischief in his smile.

I seized an opportunity to join the Sonae Group 18 years ago. As was the dream of many professionals, it came true for me. ‘The Engineer’ himself interviewed me for the job, to this day, it was one of the most remarkable conversations I have ever had – it filled me with motivation and excitement – even joy. I will never forget it. Nor will I ever forget his exemplary morals and the culture of ethics and independence he fostered.

It was my good fortune that, as CEO at MDS, then a small captive broker, he and I would discuss all the insurance and risk issues affecting the Group. I immediately realized I was facing a rare corporate leader. He viewed risk and insurance as his responsibility; not the financial or procurement director’s, but his. How right he was, and how rare is this attitude. And the culture he supported still exists in the Group he founded.

Belmiro had an understanding of insurance strategy, from business continuity, asset protection and employee safety to the reputational impact of a claim and the consequences of exposure due to inadequate contract wording. He was extraordinary to work with. MDS today owes a great deal to the seeds he sowed in the early years: challenging us to innovate, operate internationally and create outstanding teams. He knew all too well about the complexities of our business and the powerful impact it could have on companies and societies.

I recently spent time rereading the speech he gave at the 20<sup>th</sup>-anniversary party for MDS, in June 2004. We were building the foundations for Brokerslink at the time and it seemed almost a dream that was shared by a small group of brokers who wanted to conquer the world. His speech outlined the plans and ambition behind what is our global brokerage firm today. That speech moves me to this day.

Belmiro was a role model as an entrepreneur. He always considered his companies to be active contributors to the country’s economy and was proud to be the largest private employer and tax payer. He help to improve the markets, make them more efficient and ethical, operating independently of the State, cartels and monopolies. He would always invest where there was balanced competition.

A true entrepreneur, Belmiro took chances, daring to innovate and take the initiative. He turned many of his managers into entrepreneurs themselves, and they are now respected market leaders.

Speculation did not please him – he’d rather create value through employment and investment. Always far-sighted, he led the way with his vision for retail, industry, telecommunication, real estate and of course, risk management and insurance.

To Belmiro de Azevedo education was a lifelong passion; he tirelessly supported executive training in Portugal as well as in leading international schools. He was a well-informed man, with a profound knowledge of corporate culture, yet always keeping his ear to the ground in this changing world.

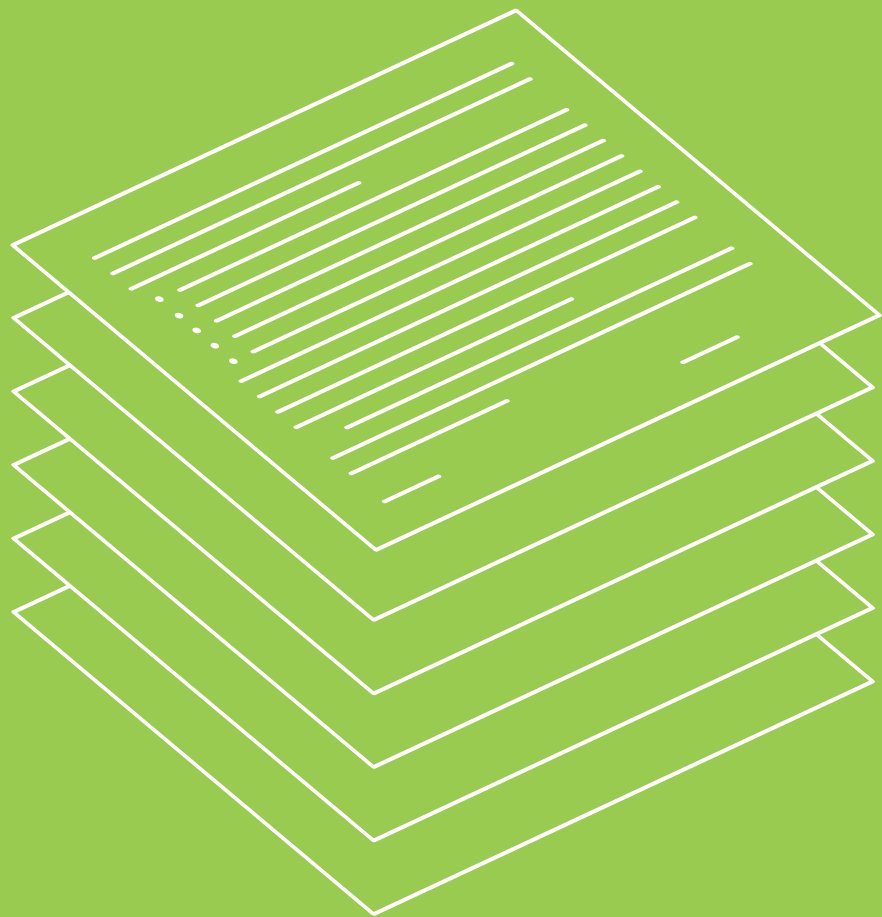
In a little over five decades, the Group he built from small foundations now has over 40,000 employees in around 90 countries, with two holding companies trading in stock exchanges. To this day it is a family-controlled, professionally managed group.

He was the greatest Portuguese entrepreneur of the past 100 years. Many of us now miss him. We miss the voice, the smile and the challenges.

Thank you, Belmiro de Azevedo. •

# LEGAL CORNER

## 2018 BRINGS NEW CHALLENGES



### Data Protection

On 27 April 2016, the European Parliament and European Council approved the General Data Protection Regulation. This revokes Directive 95/46/EC and comes into force on 25 May 2018.

Such is the territorial scope of the new Regulation, that some data controllers and subcontractors based outside the EU whose processing activities relate to offering goods or services (even free of charge), will need to appoint a representative within the EU. Another substantial change, among others, is for subcontractors to maintain a physical register of each data controllers' activities, and appoint if necessary, a data protection officer or notify the data controller immediately upon detecting a personal data breach.

A breach of personal data should also, whenever possible, be reported to the regulatory authority within 72 hours of becoming aware of it. In the event of the breach affecting personal security or privacy, the data subjects must be notified immediately by the data controller.

In order to safeguard personal data access and transparency, the new Regulation aims to extend the rights of the data subjects and enhance their legal

status. This includes a 'right to oblivion' on the part of the data subject and a requirement for each user to consent to the processing of personal data (which will have to be explicit when it comes to sensitive data, clearly identifying the specific purpose intended). These guidelines are more stringent than what has been in force up until now.

Although the new Regulation is an important step towards personal data protection, it brings an increased administrative burden for data controllers, subcontractors and the regulatory authorities. According to a report presented by Verizon, in 2016 there were about 1,935 security breaches in 82 countries. Given data controllers and the supervisory authorities must comply with the deadlines for notifying breaches, it is expected that most reports will be brief in detail. The person in charge will most likely seek to demonstrate – to the satisfaction of the regulatory authority – that adequate security measures were implemented and they were in use at the time of the breach in question. The effects of this administrative burden therefore, are likely to extend to all involved parties and those showing a lack of effective

measures may incur additional costs. Regulatory fines are heavy – a maximum of 20 million euro or, in case of a multinational company, four per cent of worldwide turnover.

With the post-Brexit deadline approaching, the Queen's speech of last June revealed the United Kingdom's intention to include the new Regulation within its internal legal framework (whose rules will continue to be in force after its withdrawal from the EU). This move puts more emphasis on London receiving information than supplying it, because in anticipation of its treatment as a non-EU country, the Government intends to create a high-quality system for personal data protection.

Cyber risk insurance with cover for third parties is one mechanism to compensate for and mitigate losses associated with data breaches. Policies available on the market support the client with services that offer advice and help prevent technological failures. In a broader perspective, this new Regulation reflects the European legislator's commitment to cyber security.



## Changes in Distribution

Also in 2018 is the new (EU) 2016/97 Insurance Distribution Directive (IDD), which replaces Directive 2002/92/EC, combats the fragmentation of the European insurance market and promotes trade between Member States. And as did the former Directive, it also applies to the distribution of reinsurance.

On 21 September 2017, an additional regulation to complement the IDD was also approved. Following the commission's proposal to postpone the IDD's effects until October 2018, this regulation will be in force from 1 October 2018, it aims to 'specify the criteria and practical arrangements for rules concerning conflicts of interest, incentives and the assessment of suitability and appropriateness'.

When it comes to market behaviour, the guiding principle will be 'know your consumer', particularly when it comes to price discrimination and cross-selling.

In order to ensure the product is right for the consumer, the intermediary must inform the client of its specifications and while noting a specific interest, the opportunity to acquire it elsewhere. This type of sale with personalised or tailor-made advice is not often promoted by agents; it is however given by brokers who have a greater influence and can impose conditions on the insurance company. The role of an exclusive agent is to focus on offering advice and product/benefit information.

The suitability of products for different types of customers is dependent upon their needs and the policies' complexities, but there is an expectation that the target market for more simplistic products will expand with a greater emphasis on identifying potential customers. The real focus of the IDD however, is to put the contracting decision and communication flow into the hands of consumers. •

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### Paulo Almeida



Paulo has extensive experience in advising insurance and reinsurance companies on policy provision and developing/revising products for various lines of business, particularly in the financial chapter. Areas of focus include; professional civil liability, directors and officers, plus commercial and corporate law, including banking litigation.

He was a lawyer at Lisbon City Council, partner of Almeida & Athayde, and is currently a managing partner of Kennedys Portugal. Paulo is a member of the International Bar Association, the Portuguese Sector of the International Association for Insurance Law and the Federation of Defense & Corporate Counsel. He was admitted to the Portuguese Bar Association in 1989 and speaks Portuguese, English and Spanish.

# Porque nunca estamos satisfeitos, os nossos clientes são os mais satisfeitos.



Pela 5.<sup>a</sup> vez, a Generali é a seguradora  
Líder na Satisfação dos Clientes.



# OLÍMPIO MAGALHÃES

## A HISTORICAL FIGURE IN THE PORTUGUESE BROKING SECTOR

BY ANTÓNIO VASCONCELOS

António Vasconcelos, executive director at Portoseguro remembers Olímpio Magalhães, who served as president of the Portuguese Association of Insurance Producers (APROSE) between 1983 and 2000. A larger-than-life figure in the Portuguese insurance world, he passed away in December 2017.



Olímpio Magalhães

*A man who made the world  
of insurance his home.*

*A man known to his peers  
as 'Mr Broker'.*

It was 1967 when I completed my university degree and set out to find employment. As fate would have it, my first job interview was in a brokerage founded by Olímpio Magalhães – Invicta Seguradora. This was the start of my career and I was lucky to have a young, enterprising, generous boss who taught me a great deal about insurance and the discipline of work.

Olímpio was a respected and influential figure in insurance; during his career he was always proactive and along with other broker colleagues, founded APROSE (Portuguese Association of Insurance Producers) in the period immediately after the Portuguese revolution of April 1974. He fought for a legal framework and regulation for the broking profession, which until then had no guidelines of its own.

He was elected chairman of the General Assembly of APROSE and later sat on several boards.

Olímpio was a charismatic, hands-on chairman who generated enthusiasm among APROSE associates and was always acting in the best interests of broking entrepreneurs.

He inputted to, organised and managed conferences – events that were praised by all, including the regulating authorities and several Portuguese insurers.

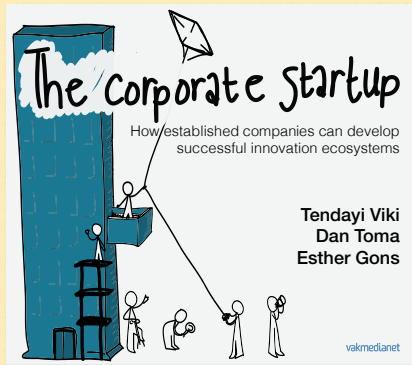
His fourth conference was the crowning glory: a World Summit (BIPAR and COPAPROSE) in Lisbon which was attended by the then-president of Portugal, Jorge Sampaio, and BIPAR (European Association of Insurance Intermediaries) chairman Kurt Sedler. Olímpio at the time was chairman of COPAPROSE – a body that brings together insurance producers from Latin America, the US, Spain and Portugal. He was an outstanding chairman in APROSE's long history.

He devoted much of his life to others and to worthy causes. He founded the Teatro Experimental do Porto (Experimental Theatre of Oporto), chaired the Assembly of Oporto City Council, presided over Instituto Profissional do Terço (Professional Institute of Terço) and served as president of Boavista Football Club and the Clube Fluvial Portuense.

While Olímpio Magalhães has passed on, the cycle of life continues. But Olímpio will remain in our collective memory, a very real presence to us in the noble industry of insurance.

I, who had the good fortune of spending time with him and learning from him have lost the benefit of his company, but Olímpio the unforgettable friend lives on. •

# READINGS



VIKI, Tendayi  
TOMA, Dan  
GONS, Esther  
Deventer, the Netherlands:  
Vakmedianet, 2017  
ISBN: 978 94 627 6195 7

## BUILDING INNOVATION ECOSYSTEMS

We are living in an era where innovation is imperative. Technology and software have transformed business, and continue to do so in more and more dramatic ways. Corporate leaders have to respond. Innovation is no longer a sideshow. It is now the way all companies have to do business in the 21<sup>st</sup> century.

The Corporate Startup describes how companies can put in place an innovation ecosystem. Rather than having innovation as a one-off activity, companies should have a repeatable process for turning ideas into profitable business models. The book describes the five core principles that companies can use to build their innovation ecosystems. The Corporate Startup approach allows large companies to compete with startups, without having to act like startups. According to the book, companies have to align corporate strategy with innovation strategy. Companies also have to develop unique ways to manage innovation that are distinct from how they manage their core products. Lean, agile and design thinking have to become practices that permeate all layers of management. •

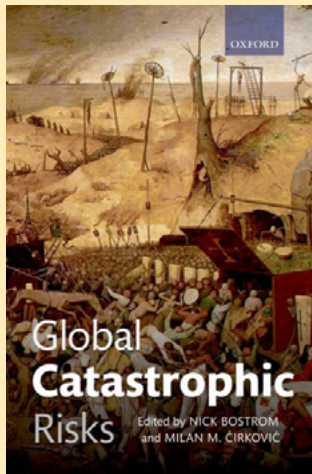
BY TENDAYI VIKI

## THE AUTHORS

**DR. TENDAYI VIKI** is founder and managing partner at Benneli Jacobs, a strategy and innovation consultancy firm that helps companies develop internal ecosystems so they can innovate like startups. He holds a PhD in Psychology and an MBA. He has worked as a consultant for several companies including Pearson, Standard Bank, The British Museum, The World Bank, General Electric and Whirlpool. He is also a Contributor at Forbes Magazine. Dr Viki co-designed and helped implement Pearson's Product Lifecycle, which is an innovation framework that won Best Innovation Program 2015 at the Corporate Entrepreneur Awards in New York.

**DAN TOMA** comes from an entrepreneurial background - having been involved with Hi-Tech & Internet start-ups across the world and being an entrepreneurship community leader in Europe - Dan Toma has a clear understanding of the challenges involved in building sustainable businesses from the ground up. In the years following his graduation from a top MBA program, he started focusing more on enterprise innovation management, specifically on how disruptive new ventures can be built in a corporate setting.

**ESTHER GONS** is co-founder of NEXT Amsterdam helping startups from ideas phase to working business model, she developed the entrepreneurship course for the HVA, is an international speaker, organised the first StartupBus Europe tour in 2011 and acts as lead mentor at Rockstart Accelerator. As a visual spatial thinker she was part of bringing the lean startup movement to the Netherlands. Esther has mentored over 100 startups so far and still acts as advisor for many of them. Connecting corporates to the startup ecosystem is important to NEXT and thus she is also frequently involved in corporate innovation.



BOSTROM, Nick  
CIRCOVIC, Milan M.  
Oxford: Oxford University Press, 2011  
ISBN: 9780199606504

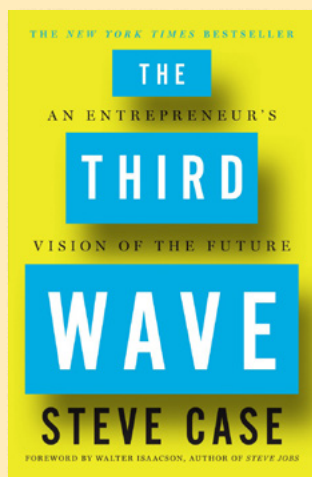
## FROM SCIENCE FICTION TO REALITY

The foreword of this book takes us back to 1903, when a young H.G. Wells gave a lecture on the risk of global disaster at the Royal Institution in London. He said: "It is impossible to show how certain things should not utterly destroy and end the human race and story... something from space, or pestilence, or some great disease of the atmosphere, some trailing cometary poison, some great emanation of vapour from the interior of the Earth, or new animals to prey on us, or some drug or wrecking madness in the mind of man." More than 100 years later, we can only marvel at how accurate his description of catastrophic events still remains, perhaps with the exception of technology risks – cyber risk for instance is something no one could have possibly predicted.

Among the pages of this book several experts (one to two per chapter) share their views on how to tackle the risks that, in their opinion, will be catastrophic for the 21<sup>st</sup> century – from geophysical and volcanic processes, hazards from comets, asteroids and solar flares, climate change, plagues, pandemics and Artificial Intelligence to social collapse, nuclear war and nuclear terrorism, biotechnology and biosecurity risks, nanotechnology and the threat of totalitarianism.

Highly interesting insight into risks that while seemingly more related to sci-fi movies and books than day-to-day reality, could well become catastrophic in our time. ▪

## A CHANGE OF PARADIGM



CASE, Steve  
New York: Simon & Schuster, 2016  
ISBN: 978-1501132582

The book introduces us to Case's view that we are entering a new paradigm called the 'Third Wave' of the internet. Steve Case is an American entrepreneur, best known as the co-founder and former chief executive officer and chairman of America Online (AOL). In 1980, futurologist Alvin Toffler was already describing three types of societies based on the concept of 'waves' (agrarian revolution, industrial revolution, post-industrial society, information age). Steve Case drew his inspiration to share his vision of the future from this concept. The 'first wave' saw operators lay the foundation for users to connect to the internet. The 'second wave' saw companies such as Google and Facebook extend this further by creating search and social networking capabilities, while apps like Snapchat and Instagram then leveraged the smartphone revolution. Now, Case argues, we're entering the 'third wave': a period when entrepreneurs will vastly transform major 'real world' sectors of health, education, transportation, energy and food – and in the process, change the way we live our daily lives. Case outlines his history at AOL, tying it to the 'first wave' of the internet era; however the book is really about what Case calls the 'third wave'.

For Case, this goes beyond just the internet-of-things, it is more a movement towards completely digitized products and services. The Third Wave can be summarized by this quote from the book: "The moment where the internet transforms from something we interact with, to something that interacts with everything around us."

Steve Case was a pioneer of the internet age. His perspective is valuable and adds insights into what's next: "Incumbents often fail because they underestimate the speed at which the future is approaching...Too often corporate executives are too shortsighted to understand how technology that is disrupting a different industry might be adapted to do the same in their own. So put down this book. Pick up your smartphone, your notepad – your blowtorch... Take action. Be fearless...Keep going. Keep tinkering. Build something that makes you proud." ▪



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