THE NEW STATESMAN

Spotlight

Thought leadership and policy

Risk and Resilience: Shoring up the economy

Guy Hands | Walton Webson
Caroline Wagstaff
Charles Walker MP

The poverty premium

The UK may have a new prime minister, but the headlines are still filled with economic gloom. In its ongoing effort to tame inflation, on 3 November the Bank of England announced the biggest interest rate rise (of 75 basis points to 3 per cent) in Britain since 1989. The Bank's governor, Andrew Bailey, said he expects a "tough road ahead". A two-year slump is predicted, as is the near doubling of unemployment by 2025. The country is bracing for a prolonged recession.

Chancellor Jeremy Hunt, yet to give an Autumn Statement widely expected to include major cuts to public spending, urged people to "balance the books at home", as businesses and families prepare for rising loan and mortgage payments. The government "must do the same", he added.

Of course, balancing the books might not suffice for those already squeezed by the cost of living. Crisis, the homelessness charity, has warned that spiralling bills are putting many at risk of losing their homes. Government statistics on homelessness in England show an 11 per cent rise between January and March this year in households going to their councils for help because they were homeless or at risk of homelessness, compared to the previous quarter. Rents have risen by 11.8 per cent outside London and by 15 per cent in the capital since last year, according to Crisis.

While the financial sector is a place for investors to support businesses, and a core contributor to the UK economy, as Caroline Wagstaff writes (see page 11), it is also somewhere that can provide protection for those vulnerable to economic headwinds. Insurance and long-term savings can help people on lower incomes to navigate the economic storm. And yet, much like energy bills, which are higher for those on prepayment meters, there is a poverty premium in insurance. Research by Fair by Design and the Institute and Faculty of Actuaries has shown that people on lower incomes are "increasingly" quoted higher premiums or refused cover.

We know now that what was thought a short, sharp economic dip is likely instead to be a prolonged recession. The market and the government need to interrogate how insurers are serving the most vulnerable in our society, and how they can guarantee cover for all. ●

Contents

Spotlight

40-42 Hatton Garden
London
EC1N 8EB

THE NEW STATESMAN

Subscription inquiries:
digital.subscriptions@newstatesman.co.uk

Director of Client Solutions
Dominic Rae

Account Managers
Katy Pieris
Benjamin Bracken

Special Projects Editor
Alona Ferber

Design/Production
Rebecca Cunningham

Special Projects Writers
Jonny Ball
Harry Clarke-Ezzidio
Sarah Dawood
Samir Jeraj

Cover Illustration
Klawe Rzeczy

BRITISH SOCIETY OF MAGAZINE EDITORS AWARDS 2017 WINNER

First published as a supplement to the New Statesman of 11 November 2022.

Registered as a newspaper in the UK and US.
The paper in this magazine is sourced from sustainable forests, responsibly managed to strict environmental, social and economic standards. The manufacturing mills have both FSC and PEFC certification and also ISO9001 and ISO14001 accreditation.

This supplement can be downloaded from: newstatesman.com/spotlight/reports

The view from industry

Guy Hands
Chairman and founder,
Terra Firma Capital Partners

"To save the economy, the Conservatives must tell the truth about Brexit"

Rishi Sunak is now our Prime Minister. But despite the drastic events of the past few weeks, his appointment is likely to prove little more than cosmetic – unless he is willing to face up to several difficult truths that the Conservative Party has been running scared from in recent times.

The first of these is to permanently bury the extreme form of "Thatcherism" in the Conservative Party that is espoused by the Institute of Economic Affairs think tank, among others. This low-benefit, low-tax economy is a political philosophy that has been around since the early 1970s. Its believers include many Tory activists, who determine the prime minister if the vote on who should be leader goes to party members. Many of these joined up to vote for Boris Johnson, convinced that a new political order could be introduced once a hard Brexit was complete and the UK removed itself from the rules of the European single market.

Many at the top of the Conservative Party realise that the only way for Britain to compete on the world stage outside of the EU is by becoming the "European Singapore". Since Thatcher, large sections within the Conservatives have dreamt of a low- or no-benefits economy, in which the resulting social unrest is controlled by ever-more repressive means, with ever-harsher policing and ever-tougher sentences. However, the power of democracy means that the path to their utopia is never going to be open in a Britain where the majority of voters are either economically left-wing or right-wing paternalists, and only a very small minority support the libertarian right.

It seems as if all the Conservative Party can do, after Liz Truss was unable to enforce extreme Thatcherism on to the country, is to make the best of a ghastly job by getting the financial books to balance. In this way it can lower interest costs and inflation before the next election. The Conservatives' plan is to save as many seats as it possibly can – particularly in the south-east – to avoid total electoral annihilation. The presumption in the party is that, post-Truss, it has no choice but to raise taxes substantially and minimise welfare spending.

Truss's appointment, and then sacking, of Kwasi Kwarteng as chancellor was not only one of the most gutless political acts committed by any prime minister in the democratic era, but it also made her own resignation inevitable. Truss's decision to appoint Jeremy Hunt as Kwarteng's successor – who U-turned what the Conservative government had stood for only a few weeks earlier – was effectively an admission that everything Truss had promoted and promised in her campaign to become prime minister had been abandoned. She should have resigned when Kwarteng went; not only would it have been the honourable thing to do, it would also have saved the Conservative Party from being humiliated and Britain from becoming a political clown show internationally.

I predicted Brexit would turn the UK into the sick man of Europe within ten years. The country would be like it was during the 1970s: torn apart by high taxes, social unrest, strikes, low productivity and poor social services. I also talked about power blackouts as Europe kept its own energy, and the possible need for intervention from the

MARTA SIGNORI

Outside the EU, the UK is turning into the sick man of Europe

International Monetary Fund as borrowing costs rocketed. I said Britain would be increasingly seen as an unreliable partner, and the idea that new trade deals with the rest of the world would make up for what we lost by leaving the EU was delusional. I predicted greater, not lower, immigration as we tried to replace "skilled" European workers with "less skilled" workers from Africa and Asia.

Sadly, this gloomy scenario is being played out in full. The problem for the Conservative Party is that when conviction politicians make a big mistake, rather than own up to it they see everything that happens as evidence that they were right. Thus it was right to leave Europe as "now we are outside the EU, we can see how badly they are treating us, and we clearly should never have been part of such a terrible organisation" – avoiding any recognition that divorce almost always tends to be bitter and leads to a breakdown of relations.

Therefore, the second thing that Sunak will need to be is very brave and tell the truth to the electorate, and admit that they were lied to. To confess that Brexit was really about introducing a radical libertarian right-wing agenda, one which was only ever going to help the ultra rich. If the mistake of a hard Brexit is not owned up to, then the Conservative Party will be stuck justifying the many lies of the Vote Leave campaign in 2016.

There is, however, a positive alternative to the disastrous direction that the Conservative Party has led itself and Britain over the past six years, and Sunak could be the leader to take a new one. Instead of trying to deal with its internal problems, this once-great party could instead focus on what the country requires and get on with the job of government.

However, he must first admit that the hard Brexit negotiations were a complete disaster. As the world has changed since 2016, the party has the perfect excuse to alter direction and renegotiate a revised Brexit along the lines of Norway or Switzerland's relationships with the EU. This renegotiation will require Sunak to behave with integrity and employ enormous diplomatic skill. However if it's done quickly, before it is too late, negotiations just might put the country on the path to recovery, and even produce a Conservative victory in the next election. ●

Advertorial

Securing our future

The insurance and savings industry is adapting to risk

By Hannah Gurga

In association with ABI

The insurance and long-term savings sector was born out of a simple idea: where once the future had been fraught with risk, it could be made secure.

The first commercial insurers, in the coffee houses of 17th-century London, freed businesses to pursue ventures they could never otherwise have embarked on. The first personal insurers saved war widows from a life of penury. The first pensions, offered by forward-thinking employers, saved workers from the fear of poverty in old age.

Today, the insurance and long-term savings industry is firmly rooted in society. Homeowners and motorists know they will be covered when trouble strikes, with insurance policies paying out an average of £38m each day. Life insurance policies ensure that a tragedy doesn't leave a family unable to cope financially, paying out an average of £13m each day. Long-term savings firms, meanwhile, manage the pensions and investments of more than 18 million people, stewards of their assets and guardians of their futures. All told, ABI members manage £1.7trn in invested assets. Without insurance, no UK business could manage its risks and focus on its opportunities. Without long-term investors, no UK business would have the capital to do so.

The opportunity we have now to serve society is greater than ever. Climate change is the greatest threat we collectively face, and both insurers and investors have a considerable role to play. Insurers are already helping society adapt to its impacts, whether that's helping households become more resilient to flooding or helping farmers who face failing harvests.

They are also helping support the transition to the new technology we need to get to net zero, with risk management services for users of renewable and microgeneration energy infrastructure, and new policies that help project developers manage risks. Long-term investors are doing the same, funding the generational investments in our national infrastructure that the transition requires.

The UK's renewable energy opportunity is a key example of where our sector's contribution is vital. Renewables account for more than one third of the UK's energy generation, and no country has more offshore wind capacity than Britain. This rapid expansion in UK wind power would have been impossible without insurers, whose sophisticated risk assessments and underwriting made embracing new technologies a commercial possibility.

The huge investment requirements of wind farms, meanwhile, could not have been funded without long-term investors. Dogger Bank, 80 miles off England's east coast, where the world's largest offshore wind farm will generate 2.4 gigawatts of energy, is one example.

While this sector has never been more important, it is vital that it continues to adapt to a changing world. In this regard, the revolution in data and technology has been transformative. New technology will make it easier for people to manage their investments and savings, for instance, with the launch of pensions dashboards that will allow people to see all their pension information in one place.

Insurance policies can also now be targeted far more precisely to the needs, and risk profile, of a customer. Thanks to new technology, while insurers once only protected against risk, now they can reduce it too. Take motor insurance, for example. Sensors on a car can now monitor an individual's driving. As a result, careful drivers, less likely to cause a crash, can be rewarded with cheaper premiums. This doesn't only make insurance cheaper for safe drivers. By dropping prices for those who are better drivers, less careful drivers are incentivised to change their ways.

Of course, it is vital that data and technology do not unfairly disadvantage certain customers. In the UK today, there are already examples of action being taken on this front, both in legislation and by the industry itself. Working closely with government, Britain's insurance industry has developed a Genetics Code to define what is and is not acceptable in terms of using personal data to model risk for protection policies, as well as health and travel insurance. The Genetics Code has been recognised by Genetic Alliance UK for the valuable reassurance it provides to consumers taking genetic tests, and it reflects the industry's support for developments that improve health and reduce risks to society.

For all the power of modern technology, in an increasingly complex world, there are certain risks, sometimes called "Mega Risks", that are beyond what any industry can handle alone.

There is nothing new about catastrophes, of course. The modern fire insurance industry emerged from the wreckage of the Great Fire of London in 1666, which destroyed a third of London and left 100,000 people homeless.

More recently, reinsurance – the insurance that insurers themselves take out – was invented to account for risks that might hit all of an insurer's policyholders at once. Some risks, however, hit every policyholder, everywhere, and so dwarf what even a reinsurer can cover. Think of a massive cyberattack that wipes out the grid. Or an extreme weather event sweeping away an entire region. Or, lest we forget our recent experience, a pandemic that shutters the world.

JENNIFER BOGLE

The insurance and long-term savings industry is securing futures

To handle risks like these, we need to explore new models, and we are doing so. Public-private partnerships are one such solution. Flood Re, a joint initiative of government and insurers, enables homeowners in flood-prone areas to get more affordable home insurance. Pool Re, meanwhile, ensures there is a viable market for insurance against terror attacks. Both are funded by industry, but backed by the state, which would step in if the losses were too great for these institutions to fund. The interaction between state and private sector is also important in the debate on social care, where close collaboration will help people meet care costs. While the approach will vary with each challenge we face, the potential of our industry working with government is considerable.

The insurance and long-term savings industry is more than 300 years old. In that time, the nature of the risks society faces has transformed. This industry has adapted, and is adapting, with our changing times. But its fundamental contribution to life in the UK remains the same: to secure our future. ●

Hannah Gurga is director general of the ABI. To find out more about how the insurance and long-term savings industry is securing futures across the UK, visit abi.org.uk/securingfutures

Cop27

"For us, it's life and death"

Walton Webson on the climate finance needs of small island states

By Elizabeth Meager

For the Alliance of Small Island States (Aosis) and its 39 members, the climate crisis is no distant threat. These communities have long faced the lethal combination of slow-onset events like rising sea levels and ocean acidification, along with the yearly cycle of hurricanes, cyclones and excess rainfall, all of which are becoming more extreme every year.

With the effects of climate change a clear and immediate danger, Aosis was established in 1990 to represent the interests of small island and low-lying coastal developing states on the global stage. The association's members – which include much of the Caribbean, Fiji, the Maldives, Mauritius, the

KLAWE RZECZY

Seychelles and Singapore, among others – are responsible for less than 1 per cent of global historic greenhouse gas (GHG) emissions. Yet for too long they have been left largely on their own to cope with the already catastrophic impact of those emissions.

According to the Economic Vulnerability Index, small island developing states (Sids) are the most economically vulnerable countries worldwide – both when it comes to the climate crisis and in general, largely because of their lack of diversification. They make up two-thirds of the nations that suffer the highest relative losses from natural disasters at a cost of between 1 and 9 per cent of their GDP every year. They also tend to be heavily reliant on imports and are less likely to have diversified economies, with tourism – itself decimated by the Covid-19 pandemic – often making up the biggest chunk of national revenues.

Aosis's current chair is the Antigua and Barbudan diplomat Walton "Aubrey" Webson, whose 30-year career has featured roles at the Perkins School for the Blind and Helen Keller International, as well as a 2017 stint as president of the executive board of the United Nations Children's Fund (Unicef). He is also ambassador and permanent representative to the UN for Antigua and Barbuda. This year's Cop is far from his first rodeo.

"In many ways we [Sids] are the guardians of the Paris Agreement, because for us it's life and death: it's the reality of sustained livelihoods within a society or losing not just livelihoods but losing people and land, and the danger of becoming extinct – some islands will be swallowed up unless something happens," says Webson. "These aren't just words; this is a fact."

Ahead of November's Cop27 summit in Sharm el-Sheikh, the world was facing a triple threat of crises, says Webson: climate, Covid-19, and Russia's invasion of Ukraine. Many countries, particularly those in the Global South, are constantly playing catch-up to rebuild from the unrelenting effects of the climate disaster, alongside the public health crisis wrought by Covid-19 and the war in Ukraine, which has rapidly become a global food crisis. But these catastrophes must not derail governments' focus on the climate crisis, he adds. According to the UN's Intergovernmental Panel on Climate Change (IPCC), global GHG emissions must peak before 2025 at the latest and be slashed by nearly half by 2030.

At previous United Nations Framework Convention on Climate Change (UNFCCC) gatherings there has been too much talk and nowhere near enough action, says Webson. Rich countries turn up, make grand statements that too often are not backed up by policy, then come back the following year and do it all again. "We make great promises. Many [world leaders] give good soundbites and speeches, but we've heard it all now – it's about implementing," says Webson.

Loss and damage finance will be a key focus of this year's summit, including insurance schemes as part of mitigation efforts. Some groundwork was laid at Cop26 in Glasgow last year – including the creation of the Santiago Network on Loss and Damage – but there is plenty more to be done. Sids are heading to Egypt with some clear, concrete demands. As Aosis points out, these requests are essentially unchanged since the UNFCCC process began in 1994: access to grant-based or, at the very least, concessional finance for both adaptation and mitigation.

According to the OECD, Sids are able to access just 2 per cent of the ▸

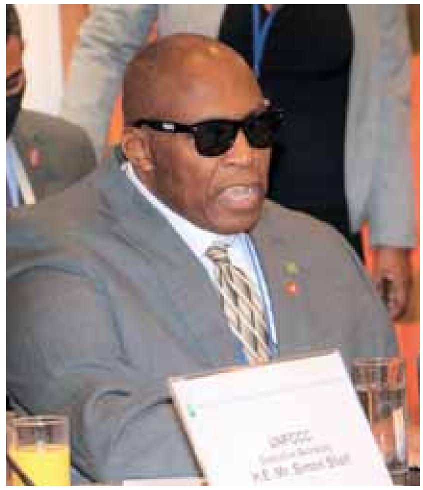
◂ total climate finance being provided today, which itself falls far short of the minimum $100bn per year promised in 2009: the annual total reached a high of $80bn in 2019. One issue is around how it's categorised, with no clear rules in place – for instance, some call it climate finance, while others call it humanitarian aid, official development assistance, or something else altogether. Burden-sharing could also be better addressed, says Webson, as the current system is highly unfair, with contributions waxing and waning depending on the politics of the donor country at the time.

This year Aosis has drawn up plans for a Loss and Damage Response Fund, which would operate as an entity of the UNFCCC and centralise both public and private finance sources to help developing countries rebuild following climate-related disasters. Governments would apply to the fund for support for a range of activities, from critical infrastructure repairs to the restoration of health services. "Even though there is an entire article [Article 8 of the Paris Agreement] addressing loss and damage, we still don't have a fit-for-purpose funding arrangement," says Michai Robertson, Aosis climate finance adviser and policy officer within the Antigua and Barbuda government.

Of the limited finance that has historically been made available, too much of it is made up of concessional loans, which condemns developing countries to an ever-growing pile of national debt. "We are still using mostly our own funds for adaptation and resilience, which is just not enough – and it traps us in a vicious cycle where our development is slowed, and we get into more debt because, before we have rebuilt, a new extreme event happens," says Robertson.

Aosis's proposal is not a panacea, but it would begin to address loss and damage in the right way, he adds, and innovative financing arrangements – like debt-for-climate swaps, and de-risking or guarantee instruments – could be part of it.

Aosis says small island states are doing more than their bit to mitigate the risks of the climate crisis to their economies. And while the non-financial contributions of richer



Walton Webson is chair of Aosis

countries are welcome, they often miss the point: what Sids really need is money.

For instance, says Robertson, the conversation is often focused on early-warning systems for extreme weather events like hurricanes, with increasingly sophisticated and expensive solutions being proposed. Yet cultural practices have prepared generations of Caribbean people for hurricane season for centuries.

"All my life I've had songs in the back of my head about battening down the hatches in hurricane season – we've been doing this for so long," says Robertson. "Many countries already have great systems in place, and besides, if you know a hurricane is coming at you, a warning system is only so useful. We can't move our island out into the ocean. So we have to be careful in how we talk about this. We're doing well more than our fair share."

In a sense Sids, which are almost always the first to suffer at the hands of extreme weather events, are themselves the world's early-warning system for the climate crisis. Yet year after year their warnings go unheeded. Robertson says that in the same vein, because of their small size, helping Sids to justly

Climate risk insurance can help crisis-hit nation states

transition to a low-carbon economy now can provide a future model for bigger economies.

Climate risk insurance can provide various solutions to crisis-hit countries, whether it's risk sharing and transferring to unlock more financing, or providing the funds to help rebuild following a disaster – but its usefulness is highly limited. "Insurance companies are private entities and they know all too well the risks Sids face, and that those risks are not good for their bottom line," says Robertson.

And as the intensity of extreme weather events worsens over time, the tools become even less effective. For instance, in 2007 the Caribbean pioneered the first regional catastrophe risk insurance facility (CCRIF), which was designed to assist in the event of hurricanes, earthquakes and excessive rainfall. The damage wrought by 2017's category 5 Hurricane Maria caused damage to the tiny island of Dominica equivalent to an estimated 225 per cent of GDP – yet the CCRIF's payout was equivalent to just over 3 per cent.

"In my mind there is an even more fundamental problem with insurance, and that is simply: should the people, who are being forced into increasingly vulnerable situations by events beyond their control, have to pay for their own protection?" says Janine Felson, Belize's UN ambassador and senior adviser to Aosis. "If that is expected of them, they will always be [suffering] a loss."

For small island states, this is not just about survival, however. "We're also talking about the ability of our islands to thrive as nations, recognising the historic and contemporary struggles we face – including colonialism, slavery and the degradation of our cultures and resources," says Webson.

"This is a climate disaster that we have inherited as a result of other countries' actions, yet we are the ones paying the price, and it is putting our whole humanity at risk. So we are going to Sharm el-Sheikh with the issue of loss and damage as a major agenda item, but what we are really talking about is surviving – and thriving." ●

Elizabeth Meager is a freelance journalist

COURTESY OF AOSIS

Comment

Caroline Wagstaff
Chief executive officer of the London Market Group

"The Financial Services and Markets Bill is critical for the economy"

Financial services accounts for 8 per cent of Britain's GDP – it is a sector that needs to thrive for the economy to grow. Insurance accounts for a significant proportion of that and without it many things we take for granted would stop, be heavily curtailed or become prohibitively expensive.

Much of the world comes to the UK to find insurance for the most complex risks because we have world-leading expertise and large pools of capital. When an earthquake devastated the New Zealand city of Christchurch in 2011, its recovery was made possible by the UK's international insurance industry. Green tech is another example. The UK leads in the climate risk modelling that will help businesses to manage the risks of adopting the technology to get us to net zero.

The UK has much to offer, but we risk falling behind. While, according to the Association of British Insurers (ABI), our insurance industry is the largest in Europe and the fourth largest in the world, our market share has been stagnant for a decade. Businesses have choices about where they place capital, income and people, and regulation is a vital part of those decisions. The quality of our financial regulation is a major asset for the UK and nobody is looking for a reduction in those standards. But the burden and cost of regulation and supervision can be a significant deterrent.

The Financial Services and Markets Bill currently making its way through parliament is critical for the sector and the economy at large. The inclusion of a growth and competitiveness objective for the regulators is welcome and something the London Market Group (LMG) has sought for some time. Having regulators who think about our place in the world, alongside stability and consumer protection, is vital for our future growth.

But the Bill lacks detail on what the regulators need to do to show that they are considering our competitive position, or how they will be held accountable – it lacks teeth. The LMG has developed a range of ideas on this, and we are keen to work with government, the regulators and parliament to ensure the objective makes a real difference.

Proportionality, already an existing duty of the regulators, also needs to be delivered in practice. The regulatory measures in the Bill could make a greater distinction between types of firms and their clients, between wholesale markets with sophisticated corporate buyers (like the London Market) and individual consumers buying home or car insurance. By showing more refinement in classifying customers and activities, regulators would have greater resources to protect vulnerable consumers.

Most of all we need a regulatory culture which says "how can we help?". This is critical when there are opportunities where the UK could be a global leader. Many other well-respected regulators guide incoming businesses through the complexity – not lowering the barriers but helping to clear them. This is as much about culture as it is about rulebooks and legislation. But the details will ultimately kick-start the change in behaviours – so the Bill needs to get them right.

The London Market Group is sponsoring the New Statesman's "Global Re/insurance: Shaping the Future of Risk" conference on 30 November

MARTA SIGNORI

Advertorial

How tech is transforming the world of insurance

Automation and digitisation are revolutionising the sector

By Aidan O'Neill

In association with DOCOsoft

Insurance makes things possible. It protects us against the risk of something going wrong with our cars, our homes, our possessions or our health. Insurance frees businesses to take risks – while managing the impact if trouble strikes. Technology is rapidly transforming the world of insurance. A new generation of insurtech businesses is reinventing traditional insurance processes, and even the most traditional insurers are getting to grips with a digital future.

Technology creates almost unlimited new possibilities. It's not unusual now for insurance providers to offer cover by the hour, with premiums based on detailed location and usage data from in-car black boxes, smart watches, or drones. Meanwhile, our increasingly connected material universe, and the so-called Internet of Things, enables real-time monitoring of everything from the contents of your freezer to fire and flood risk.

My own journey on the path that led me to the intersection between insurance and technology began in Japan back in the 1980s. I travelled there from Ireland as a young man on a government-backed scheme to gain experience in the world's most dynamic technology economy at that time. The years I spent in Japan left a lasting impression. They imbued me with a mindset focused on quality and service that's informed everything we do at DOCOsoft to this day.

Since setting the company up 15 years ago, we've gone from providing document management software right through to the highly sophisticated insurance claims management systems we specialise in now. The combined commitment to innovation and engineering excellence that I encountered in Japan has helped us compete and win against far larger tech companies. As an independent company, with no outside investors to please, we're free to do things on our own terms and remain completely focused on our customers.

We provide mission-critical back-end systems for global insurance carriers like Munich Re, Chubb, The Hartford and SCOR. More than 30 per cent of Lloyd's managing agents use our claims management systems, reflecting £15bn in premium income. We processed around £10bn in claims payments during the 2021 calendar year, with roughly half of all claims messages in the London insurance market passing through our platform.

When a claim comes in from a customer, claims handlers need to check it against the relevant insurance policy and a range of other information to take a view on whether that claim should be paid. Our systems bring all the information claims handlers' needs together into a single dashboard, making the whole process faster and eliminating manual errors. We find ways to automate routine tasks that are adding little value to the claims process. We apply artificial intelligence and machine learning to improve process efficiency and enable data-driven analysis and decision-making.

A lot of what we do in practice is about enabling our customers' systems to integrate and exchange with other systems and market platforms. Using application programming interface (API) software, we can link to external applications, bringing in data from a broad range of sources to inform and empower the claims management process. In future, Open APIs will massively reduce the time it takes to link to external systems, building up different functionalities like Lego bricks to create systems that are greater than the sum of their parts.

For example, the topic of sanctions has been much in the news recently, and our claims management platform links to official lists of individuals and organisations that are subject to sanctions. This means that when a claim comes in, claims handlers can quickly see whether the beneficiary of any payment is on a sanctions list (in which case, the claim cannot be paid) without them having to leave their dashboard to check lists manually. This accelerates the process and removes the risk of mis-keying or other user error.

Cybersecurity is a huge and rapidly expanding area of risk for all companies and organisations. Insurance companies have stepped up to provide cover against such risks – but they face challenges. Premiums have risen dramatically with the recent increase in criminal and state-sponsored cyberattacks since Russia's invasion of Ukraine, making cyber-risk increasingly hard to manage and, from an insurance underwriting perspective, to price appropriately.

AI and machine learning are improving efficiency and decision-making

ELENABSL / SHUTTERSTOCK

The reach and potential impact of cyberthreats was vividly illustrated by the recent alleged cyberattack on Lloyd's of London – an institution at the very heart of the global insurance market. We're keenly aware of how crucial it is that our own systems are secure. Many companies still use outdated legacy systems. Older in-house hardware is particularly vulnerable, while the best-established cloud-based systems are better secured and supported. Ultimately, insurance companies need to focus on their core activity and outsource their technology to specialists like us, with their back-end systems hosted on the cloud.

Technology opens up a world of new possibilities, but insurance businesses need to take a long hard look at what they hope to use technology for – and the associated implications in terms of costs and benefits, risks and rewards. We collaborate closely with our insurance customers, helping them derive maximum value from a targeted investment in appropriate technology solutions. The insurance sector needs to embrace the potential of new technology, but it must do so with its eyes wide open. That way, insurers can maximise efficiency and profitability, while generating competitive advantage from providing outstanding customer service. ●

Aidan O'Neill is CEO of insurance technology firm DOCOsoft, providing claims management systems for the world's leading insurance companies

Infographic

Prices are rising – and so is insurance fraud

By Harry Clarke-Ezzidio

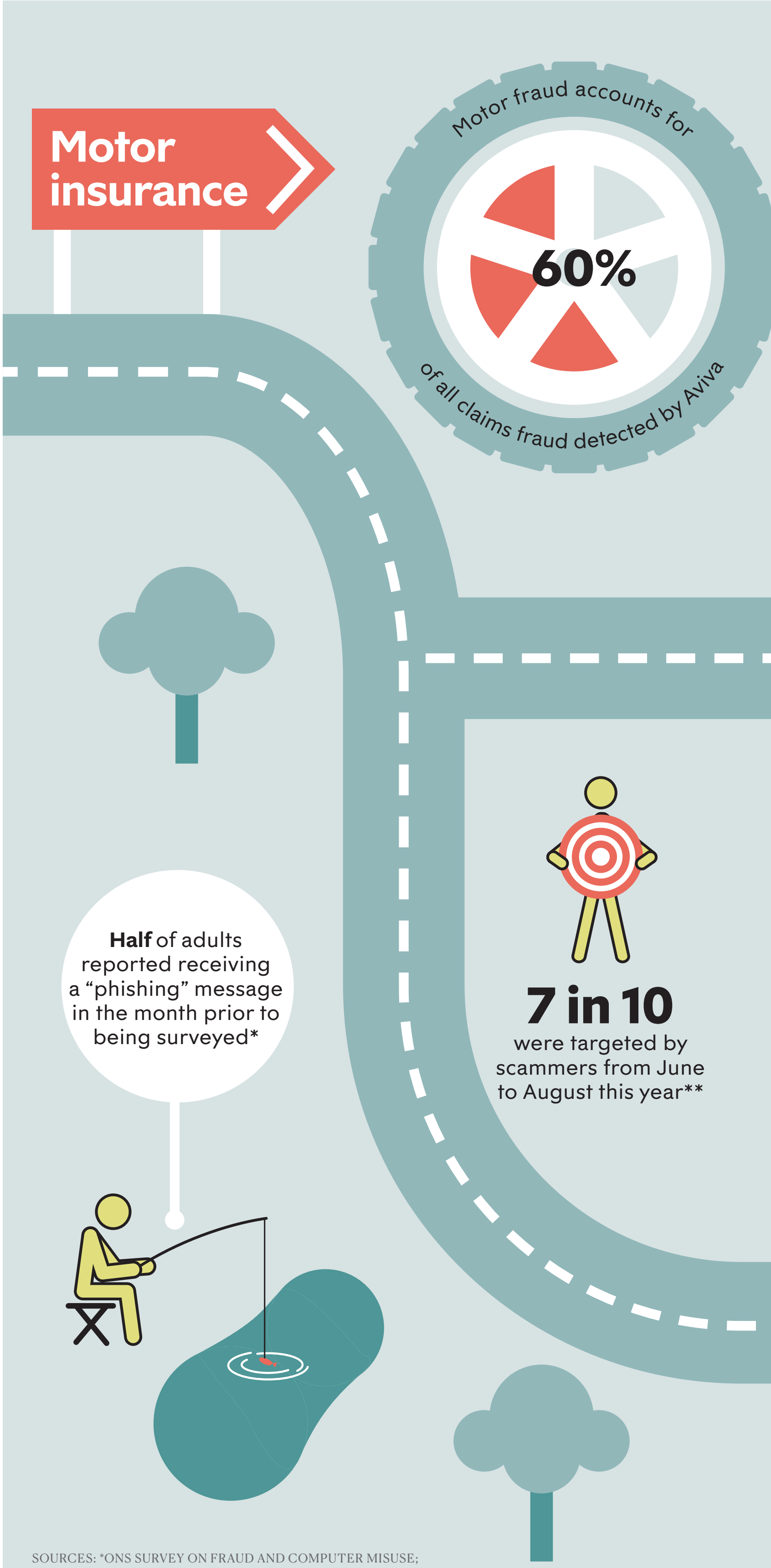
The cost-of-living crisis has led families across the country to examine where they can cut expenditure. Insurance, whether it be for a car, pet or home, is among life's necessities – but fraudulent claims and organised insurance crime are becoming increasingly prevalent, encompassing everything from bad-faith claims to scams.

More people in the UK are being exposed to fraud, a trend that accelerated during the Covid-19 pandemic. According to a recent survey by the credit agency TransUnion, 73 per cent of respondents said they had been targeted by scammers in the previous three months, as the cost of living rises. Meanwhile, UK insurer Aviva uncovered more than 11,000 instances of claims fraud last year, worth £122m.

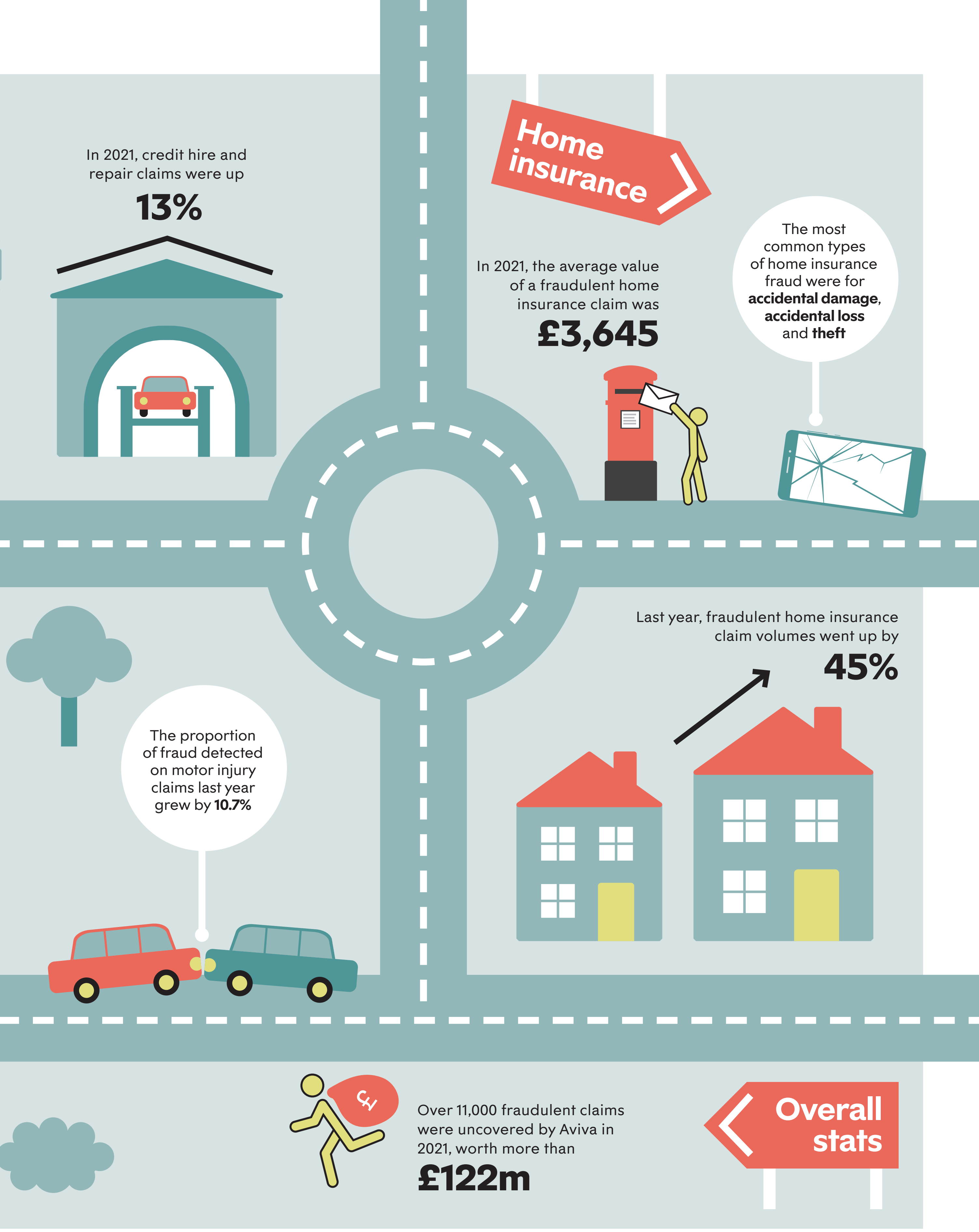
Instances of "ghost broking", where fraudsters masquerade as insurance intermediaries and purchase insurance policies for victims using falsified information (only to then quickly cancel the contract, leaving people uninsured) is likely to increase as people search for cheaper deals. This appears to be a common practice in car insurance in particular, Aviva reported ghost broking accounted for 15 per cent of the 20,000-plus motor policy applications in which it identified fraud in 2021.

Comprising 60 per cent of all fraudulent claims, motor-related insurance continues to be the preferred area for scammers to operate in, according to Aviva's data.

The UK's Financial Conduct Authority (FCA) has warned that financial crime will become "even more prolific" as living costs increase. In September, Sarah Pritchard, the FCA's executive director, warned of the "complex and ever-evolving enemy" scammers had become. "They will adapt to exploit new weaknesses in the financial system," said Pritchard, "and they will constantly vary their tactics when targeting the vulnerable for fraud."



SOURCES: *ONS SURVEY ON FRAUD AND COMPUTER MISUSE;
**TRANSUNION, SURVEY OF 2,000 PEOPLE IN THE UK, AUGUST 2022;
ALL OTHER FIGURES AVIVA, BASED ON ITS OWN FIGURES FOR GENERAL INSURANCE FRAUD, 2021



In 2021, credit hire and repair claims were up
13%
Home insurance
In 2021, the average value of a fraudulent home insurance claim was
£3,645
The most common types of home insurance fraud were for **accidental damage**, **accidental loss** and **theft**
Last year, fraudulent home insurance claim volumes went up by
45%
The proportion of fraud detected on motor injury claims last year grew by **10.7%**
Over 11,000 fraudulent claims were uncovered by Aviva in 2021, worth more than
£122m
Overall stats

Has the insurtech bubble burst?

As investor confidence wanes, efforts to disrupt insurance are faltering

By Oscar Williams

In the summer of 2016, leading insurers gathered in London to discuss the sector's future. It was the early days of the fintech boom and delegates representing the insurance giants could have been forgiven for feeling anxious. Their counterparts in banking were watching nervously as start-ups like N26, Revolut and Mondo (now Monzo) were luring away their customers with flashy digital offerings. Some insurance insiders feared they would be next.

"If we cannot deliver [our products] in an efficient manner, we are open to disruption and we will, and are, being disrupted," said one panellist at the Airmic conference. "Disruption in our industry," said another, "will absolutely happen in a short timescale."

Over the following six years, venture capital investors in the US and Europe funnelled billions of pounds into the "insurtech" sector. This funding spree peaked in 2021, driving record valuations for some of the sector's leading start-ups. At the time, it looked like 2022 would represent a bumper year for stock market listings, too.

But the mass sell-off of tech stocks in May, driven by the Federal Reserve's interest rate rises, derailed those plans. Entrepreneurs in the sector, and the wider fintech community, are now finding it significantly harder to raise late-stage investment. While the challenger banks have successfully gained market share from their larger rivals, particularly in the small-business banking space, not a single insurtech start-up has been given approval by the Prudential Regulation Authority (PRA) to underwrite their own offers. Expectations about the sector's capacity for disruption have been pared back, but many entrepreneurs and investors remain bullish about its long-term prospects.

The sector's fear of disruption was perhaps always exaggerated. The rise of mobile apps made it easier to reach new customers and develop the infrastructure underpinning digital financial services, but the regulatory requirements have not changed. It is much harder to insure an individual or a business than it is to set up a current account on their behalf. For one thing, insurers are subject to strict capital requirements to ensure that if they need to pay out to several of their clients simultaneously they have the reserves to do so. They face a range of other complex regulatory requirements, too.

This is one of the reasons that new businesses have entered the market in partnership, rather than in competition, with existing players. Lemonade is one of the most high-profile insurtech start-ups globally. The New York-headquartered business has raised more than $500m from deep-pocketed investors, including Softbank, Sequoia and Alphabet, as well as the German insurance giant Allianz. Its AI-powered software helps its customers register and file their claims more efficiently. The company has expanded into four European countries to date. But when it arrived in the UK in October, it did so in partnership with Aviva. The insurance giant reinsures Lemonade's UK business. Reinsurers typically provide financial support, and sometimes guidance, to enable insurers to underwrite more deals. Lemonade hasn't needed to secure PRA approval because its offers are underwritten by its Dutch subsidiary.

James York, the former chair of the

Insurtech UK trade association, says it will become increasingly common for larger players to serve as reinsurance partners to younger companies.

"Someone will fast-track themselves," York tells *Spotlight*, "by starting off as an appointed representative [AR], working with an insurer that's effectively underwriting them and that then adopts the position of reinsurer." While the pound remains weak, many expect that more US businesses will enter the UK market. York believes that some will begin as ARs before pursuing PRA approval, while others will apply for a licence to sell their own products from the outset.

Amazon, which has long threatened to disrupt the sector, is also working with existing providers. The company has major ambitions in financial services, but is primarily focused on providing a platform for other firms' insurance products, rather than selling its own. The online retail giant launched a price-comparison site for home and buildings insurance in the UK last month. Its European payment products chief, Jonathan Feifs, said at the time that this was "just the beginning" of its ambitions, but signalled that the company isn't prioritising its own products. "There are opportunities," he added, "to improve other insurance shopping experiences as well."

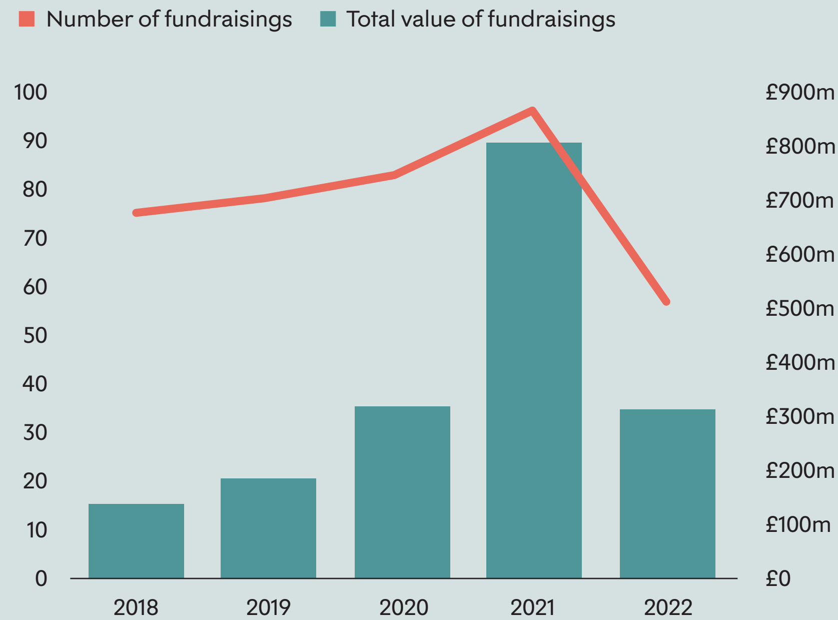
In recent months investor confidence in start-ups has diminished amid the wider tech stock sell-off. Insurtech is not immune to this trend. In the UK, investment in private insurtech start-ups topped £800m last year. So far this year it has reached less than half that amount, according to analysis produced by Beauhurst, an investment data platform. While many VCs and entrepreneurs ultimately expect the sector will rebound and grow again in the coming years, the challenging investment landscape will prove perilous in the short term.

Even in less turbulent times, three in four venture-backed start-ups fail. If late-stage investment remains hard to secure, there may be an uptick in bankruptcies in the coming months. Meanwhile, for those businesses that were hoping to list on public markets this year, exiting via acquisition may become more common. The insurance giants will see insurtechs as appealing targets, given their customer bases. Software-as-a-service (SaaS) providers, which can help incumbent insurers to keep pace with start-ups, may also become attractive to established firms, says Philip Edmondson-Jones, a principal at Oxx VC, which specialises in SaaS businesses.

"Because valuations are a little bit down across the whole of tech," says Edmondson-Jones, "you might well end up seeing some of these large traditional insurers use the advantage of their balance sheets to start acquiring either some core infrastructure technology to bring that competitive advantage in-house, or maybe even buying some of the largest start-up carriers to improve that customer-facing proposition."

But even insurtech's champions acknowledge that those who are seeking to overhaul the industry face a challenging future. "Let's face it, could the economy be more primed for a better, more empathetic, listening-based service from insurance? Oh my gosh, yes and the rest," says James York. "The opportunity is there for disruption. It just happens that the water flows to collaboration, because that's where the taps are open."

Investment in insurtech start-ups has slumped



SOURCE: BEAUHURST

$5.5 trillion

The value of global insurance premiums written in 2021

£1.8 billion

Investment raised by UK insurtechs since the start of 2018

397

The number of UK insurtech fundraisings since 2018

SOURCE: BEAUHURST, ALTUS

Comment

Charles Walker MP
Chair of the Commons Administration Committee

"The next financial crisis is incubating in the UK's multibillion-pound corporate debt market"

As of late September, who on Earth knew about Liability-Driven Investment (LDI) and the threat it posed to the viability and liquidity of pension funds? Clearly not the Bank of England and regulatory authorities, who had to make £65bn of emergency funding available to ward off a debt market meltdown and the wider financial contagion such an event would trigger.

As Gordon Brown has warned, the UK's shadow banking system poses an ongoing and material risk to our financial stability, with speculation and poor practice stoked by the rock-bottom interest rates of the past 14 years. But as interest rates rise at an eye-popping pace it is likely that the next financial crisis is being incubated in the UK's multibillion-pound corporate debt market.

There are many with a vested and – given the consequences of systemic failure – an understandable interest in keeping the ship afloat. But lax banking regulation, of the type that threatens pension funds and collapsed stock exchanges and fractured economies in 2008, is beginning to cast a long shadow across the Square Mile.

Up until a few months ago, money was cheap. Low interest rates and quantitative easing left the City of London awash with cash looking for a home. Instead of lenders being in the driving seat, borrowers held the whip hand, allowing them to strike the most favourable deals and rates.

Now there is increasing concern in some professional quarters that in the age of cheap money the pendulum swung too far, with the City at the forefront of the phenomenon commonly referred to as "sponsor-designated legal advice".

In its simplest form, sophisticated corporate borrowers demand that, at the price of securing their business, lenders use their hand-picked legal advice. This means that a contract, which can run into billions of pounds, is drafted by a legal team in the pay of only one side of the transaction. Bluntly, low financial returns, like high returns, can persuade normally sane and clever people to do really stupid things.

Clearly, there is little or no incentive for the lawyers to protect the interests of the lender because they are in the pay of the borrower, and want to secure their client's business when the next deal comes around. The more advantageous the contractual terms for the client paying the bill, the better the chance of being retained.

As interest rates rapidly march upwards and global pressures, such as soaring energy costs, once again fracture markets, as they did in 2008, there is a very real danger that loosely regulated and drafted debt agreements will begin to unravel. And let's be clear: when the cost of borrowing rises from its March 2020 low of 0.1 per cent to its widely forecasted ceiling of 6 per cent, that is a 5,900 per cent increase.

With many companies' balance sheets loaded with debt, there will inevitably be corporate failures

MARTA SIGNORI

> When the market unravels there is a danger of systemic failure

as interest rates rise and the cost of servicing their debt goes up. It is at this point that the weaker loan documentation of poorly advised lenders will put them at greater risk of suffering unrecoverable losses. As with the subprime mortgage-backed securities contagion of 2008, when the market unravels there is a danger of systemic failure.

Will poorly drafted and weak loan documentation be the only factor in another banking crisis and taxpayer bailout? Probably not. But will it be a contributing factor when combined with a raft of corporate failures and other pressures on a stressed financial system? Almost certainly, yes.

When recently questioned about the risks attached to this glaring best advice conflict of interest, hiding in plain sight, the Treasury said that it was "not aware of any concerns that sponsor designation of legal advice poses a risk to UK debt markets, and as such has not raised this matter with the Financial Conduct Authority or the Solicitors Regulation Authority".

The Treasury's insouciant response has echoes of the subprime disaster that precipitated the most recent and far-reaching crisis in capitalism. The argument then, as now, is that "everyone is doing this, so what's the problem". It might be the case that on this occasion there will be a happy ending to the story with the greed, avarice and stupidity attached to the decade-long glut of cheap money not leading to another bout of toxic financial indigestion.

But just before we hope for the best it is worth noting that the Treasury, when issuing debt through the UK Debt Management Office, makes no provision for its legal advice to be funded by the counterparts buying that debt. In its own words, "each party selects and pays for its own legal advisers as it deems appropriate".

It seems that what is good for the corporate goose is most certainly not good for the Treasury gander. So, instead of 11 Downing Street waving away the concerns attached to sponsor-designated legal advice, it should instead, as a matter of urgency, be auditing debt contracts to ascertain the risk they pose to an already stressed financial marketplace and the wider economy.

Recent events in the pension fund industry provide a salutary warning to regulators: everyone was doing LDI and no one saw the risks because everyone was doing it. ●

Complex cover

Space junk

Orbiting debris is making satellite missions uninsurable

By Samir Jeraj

In May 2021, a routine inspection of the International Space Station (ISS) turned up a problem. Orbiting space junk had punctured a hole through the thermal protection which surrounded a 60-foot mechanical arm. A month earlier, four astronauts on their way to the ISS received a warning that they were in danger of a collision. Fortunately this was a false alarm, and the dangerous object passed by without causing a problem.

Both incidents, however, highlighted the growing risk posed by "space junk", the detritus of more than 60 years of space exploration – from small pieces of satellites to objects the size of a double-decker bus. Though the hole punctured through the ISS was just 0.2 inches wide, NASA is currently tracking around 23,000 objects which are the size of a tennis ball or larger. A collision with one of these larger objects could be catastrophic. In one scenario, posed by NASA scientist Donald J Kessler in the 1970s, these flying objects could smash into each other and create a cascading set of collisions in space. The 2013 film *Gravity* depicted such a nightmare.

Part of the problem is that we take our eyes off debris, says John Crassidis, the Moog professor of innovation at the University at Buffalo, who is working on how to better monitor space junk in order to improve safety. "We have telescopes and radars, and then we lose track of them," he tells *Spotlight*. Without fully following the space junk, to predict what happens next scientists currently have to turn to Newton's law of universal gravitation – a 1687 mathematical model developed 270 years before Sputnik, the first artificial earth satellite, was launched.

Crassidis' work involves looking at how to calculate the shape of debris and how fast it rotates, as well as accounting for drag effects in lower orbits and any other factors that could affect how the space junk moves. "As we get better attributes, that may lead to better tracking and hopefully to better estimates of the probability of collisions and how to avoid collisions," he explains.

Given the very high risk of collision from flying space junk, insurance is at a premium. Canopius is a firm that insures large geostationary orbit (GEO) satellites for an estimated $200m to $400m. Richard Parker, the joint head of space at the company, explains that GEO is the "prime real estate" for insurance, comprising higher value missions and much less debris from space junk. The problems, according to Parker, are mostly in Low Earth Orbit (LEO), where there's been a steady growth in the numbers of satellites – and where there is much more space junk and a greater risk of something going wrong.

Space insurance covers "all perils" – in part because it's very difficult to discover for certain what has caused a satellite to stop working: it could be a collision, a malfunction or a design flaw. The challenges involved in insuring these LEO missions are also about the business models at work. Only a fraction of companies developing LEO missions will make it into space and a further fraction will turn a profit. The spacecrafts involved in LEO missions are much smaller and might carry several satellites for different operators. As such, the insurance cover is still complex, but low value, ranging from a few thousand to a few million dollars per satellite. But, despite the lower coverage amount, the insurance policies would need to be as detailed as for a $400m mission because the risks are essentially the same.

The big companies involved in LEO missions sometimes choose to shoulder the risk themselves. Elon Musk's StarLink network, which provides low-cost internet to remote locations, is one example. In StarLink's case, Musk's company SpaceX has deployed 3,000

A likeness of the Vespa capture during the ClearSpace-1 mission

CLEARSPACE EPFL 1

satellites with a plan to put 12,000 in space (and maybe as many as 42,000) with a lifespan of five years. "If you have a spacecraft that fails, you don't need to file an insurance claim because next month you're going to launch another 50 spacecrafts and you're just going to replace that one," Parker says. However for many satellites they send into space, the companies face the same risks, and they absorb the financial loss as part of their business model.

Still, on a personal level Parker is concerned. "I, for one, am worried that we're screwing up the space environment for the future," he says. "I don't want to encourage bad behaviour and want people to do the right thing." For him that means no debris, good communication between satellite operators to avoid collisions, cooperating internationally, and being open to changes such as in-orbit servicing rather than disposable satellites. Under the 1967 Outer Space Treaty, nation states license companies to send satellites into orbit, but mega-constellations, such as StarLink, did not exist when the treaty was signed.

Governments have already tried one satellite disposal approach: blowing them up. The US launched an "anti-satellite missile" as early as 1985, and in the last 15 years both Russia and China have used missiles to destroy satellites. However, this mostly turned a large hazard into thousands of smaller-sized hazards, which will orbit Earth for decades to come.

A number of companies and governments, including the UK, are now working on recovery and removal projects to clear up their space junk.

"Our focus is really on the engineering challenge of how we can clear up these orbits and make sure that we're leaving this environment in a good state for future generations," says Rory Holmes, the UK managing director at ClearSpace, a start-up headquartered in Switzerland. In 2019, the company won a contract from the European Space Agency to develop a debris removal mission, which it hopes to launch in 2026. The approach involves launching a space vehicle with a set of grabbing arms that can take a piece of space junk, pull it down, and release it so it will burn up in the atmosphere.

The engineering challenges of this are significant. "You've got to be able to rendezvous with the debris in orbit and approach it in a controlled manner. You have to image it, sense it, and inspect it. Then you need a robotic system that can grab hold of it and secure it," Holmes says. Then, the debris is moved to the right place to dispose of it.

At a policy level, there's the question of "who pays" for removal. "There's no international mechanism to fund it, or to address the problem in general," says Romain Buchs, a space policy analyst at ClearSpace. Buchs is pessimistic about the likelihood of a global consensus emerging to tackle the problem of space junk. He believes, however, that "like-minded nations" can start to address the problem together. The European Space Agency and the UK are both developing missions to deal with their own debris, and if more countries join them that could have an impact.

"That's really what these missions will show," says Holmes. "That this is feasible." Crassidis welcomes the mission to test removal but is sceptical. "You can't overcome the math," he says. "Pushing, pulling, grabbing or harpooning space junk is incredibly complex and we're only just starting to understand it."

Focus needs to be on stopping people adding to space junk, he says, as we face a future crisis: "The younger generation is going to have to solve this problem."

And if that doesn't happen, this could make a Kessler scenario more likely and LEO missions uninsurable.

Jon Danielsson: “The government should ditch financial regulation that protects big incumbents”

The co-director of the Systemic Risk Centre at the London School of Economics on fair market competition, universities, and why we need a better system for training and apprenticeships

How do you start your working day?
With a double espresso, checking my emails.

What has been your career high?
I am not one for thinking about the past, so for me it’s always the latest success – in this case, publishing my book *The Illusion of Control* this summer, which is about why financial crises happen and what we can (and can’t) do about them.

What has been the most challenging moment of your career?
It tends to be when I have to do five hours of lectures in one day, as I am this term. Standing on my feet and teaching our students all the intricacies of risk forecasting is very rewarding but also very hard.

If you could give your younger self career advice, what would it be?
Don’t worry, do what you think is best and everything will turn out OK. I used to have a tendency to overthink problems and have learned it is best to be more relaxed and enjoy life more.

Which political figure inspires you, and why?
Konrad Adenauer, the first chancellor of the Federal Republic of Germany (West Germany), from 1949 to 1963, who was pivotal in rebuilding the country after the Second World War. He took over a broken country twice defeated in a world war and built a modern successful democracy – one that is a model for the world.

What policy or fund is the UK government getting right?
Its higher education policy – we have the best universities outside of the United States. We tend to criticise our higher education system, and there is certainly plenty of room for improvement. However, the rest of the world looks at us as a model. Our universities are well funded, relatively unbureaucratic and focus on both high-quality teaching and research. They therefore deliver world-leading research and education, and other countries aspire to our system.

And what policy should the UK government ditch?
Financial regulations that protect the big incumbents and prevent start-ups from entering the market. Our financial regulators are quite unwilling to allow new types of financial institutions to set up shop. They prefer the old business models over the opportunities afforded by technology.

What upcoming UK policy or law are you most looking forward to?
I am looking forward to seeing whether the reform of financial regulations now under way will succeed or whether it will be hijacked by those with special interests who don’t want any changes. I am cautiously optimistic.

What piece of international government policy could the UK learn from?
Germany’s apprenticeships and training system for students who decide not to go to university. Here in the UK, young people are directed to university, but 50 per cent don’t get to go. It would be much better for them and the UK as a whole if they received proper training. In this area, Germany is world-leading and we should learn from it.

If you could pass one law this year, what would it be?
A law that forces the financial regulators to be much more willing to quickly grant licences to new innovative firms, especially those working with state-of-the-art technology. Our economy would prosper and the stability of the financial system would increase. A win-win for all except the incumbents.

MARTA SIGNORI