INSURANCE WITH STEUARTS

The e-magazine of George Steuart Insurance Brokers (Pvt) Ltd.

Volume 03 | Issue 01 January - March 2021

GSIB - NEWS

GSIB Opens In Kandy

We are pleased to announce the opening of GSIB's new branch in Kandy to meet the increasing demand of our customers and to deliver prompt and speedy service to all our patrons. The branch is located at No. 7B, Primrose Road, Kandy . Please contact Ms Nilakshi Senanayake on (076 9661847) or email her at nilakshi@gsinsurance.lk

Best emerging insurance broker professional of the year 2020

At a ceremony conducted by the Sri Lanka Insurance Brokers Association and sponsored by Fairfirst Insurance Ltd., Mr Izree Shehan of GSIB was awarded the Niranjan Nagendra Memorial Trophy for the Best Emerging Insurance Broker of the year 2020. We at GSIB are proud of his achievement and wish him all best in his future endeavors. Mr. Niranjan Nagendra was a close friend of many of those working in the insurance industry and was hugely supportive of insurance brokers. The award to Izree resonates with those who have fond memories of Niranjan and miss his friendship and professional support is so many ways.

Reinsurance Issues

Local insurance companies are struggling to support insurance covers on large and specialized insurance policies. Withdrawal of some reinsurance companies, the global economic downturn consequent to covid19 and the potential for significant claims arising from the pandemic, has resulted in a tightening of terms and conditions coupled with significant increases in premiums. These conditions are hitting businesses at a time which they are facing other challenges in dealing with the impact of covid19. The insurance industry will need to find viable solutions if they are to support businesses (and indeed the economy) in Sri Lanka with viable risk transfer alternatives.

The Risks of Sanitation and Disinfection–Covid 19

One of the changes borne out of the COVID-19 pandemic is increased mindfulness about cleanliness and sanitation to help stem the spread of the disease. With most people having become neat freaks over the past few months, businesses make sure to keep their premises clean to avoid violating health regulations and facing possible liability in case of COVID-19 transmission.COVID-19 has made cleaning and disinfection a top risk management concern.

It should also be noted that increased storage of disinfectant agents containing high percentages of alcohol puts premises at higher risk of fires, while certain disinfectants can cause irritation to skin without the proper protective measures, and prolonged exposure to UV lights may damage skin and eyes.

Cleaning too often or with agents that are too harsh for the surface's material could result in physical damage due to erosion. This could also lead to additional costs to replace the damaged material or surface. Disinfecting too often with an unsuitable agent may also cause resistant germs to emerge.

Therefore, it is important that cleaning and maintenance staff know what to do in advance as well as receive training. They must also know how to handle any new materials and equipment they need to carry out their part of the cleaning and disinfection plan.

Editorial

The fundamentals of the insurance industry are starting to shift.

Insurance is starting to go full circle. Just like 100 years ago, when insurance as we know it today was in its infancy, new industries are springing up that require new policies, services and approaches to managing and transferring risk.

A core driver of this change is that many of today's most valuable companies are not dependent on physical assets for their market value. Their balance sheets are heavily skewed towards traditionally uninsurable intangible assets, such as intellectual property, data, brand and reputation.

The insurance industry has started to respond to this shift, notably with cyber insurance, where the number of organizations with coverage has increased substantially. But insurers are still struggling to find solutions that address their clients' need to protect the value of their brands, reputations and intellectual property.

This poses a challenge to traditional insurers — who are already finding their business models threatened by the rise of InsurTechs and other innovative new entrants — aiming to help protect these increasingly important intangible assets. But it is also an opportunity to redefine the insurance industry's value proposition.

For centuries, insurers have felt that their primary purpose is to help customers recover from loss. This has led the industry to worry that if their clients have fewer problems, they'll buy less insurance. This attitude — and value proposition — is not sustainable in the modern industrial and commercial world. The purpose of insurance must also be to reduce the likelihood of loss for its customers. After all, businesses would much rather avoid losses in the first place than receive compensation for them.

Delivering a service that prioritizes risk prevention will require a major shift in how the industry has traditionally viewed its value proposition. Insurers would need to rethink the role they play, the value they can bring to clients and how to really leverage their data to help reduce risk and prevent losses.

Despite customers' expectations that insurers' products and services will work for them in a personalized, data-centric way, commercial insurance organizations continue to sell annual products based on generalized trend data. Because of this, the core insurance product is designed to cover a generalized representation of the likely risk rather than the specific risk the policyholder is actually facing.

Don't think about an insurance product as a commodity that is bought simply on price; it must be a service solution that is bought based on perceived value to reduce risk and manage loss.

M.Z.M. Nazim

Business English Vocabulary
Pawn off and Palm off

These verbal phrases are defined synonymously, and from their beginnings, they have been steeped in deception—pawn off slightly less so. That phrase has the basic definitions of "to get rid of" and "to pass off" (with or without deception), which hint at the pawning of an item for a loan.

Palm off, on the other hand, specifically refers to getting rid of something underhandedly as well as to sneakily passing off a thing or person as something or someone they are not. The phrase signals "deception," whereas pawn off has a "business" sense. And it is from these nuances in meaning that we can begin to differentiate the usage of the two.

Case Law

Dominion Insurance Ltd v Westpac Banking Corporation [1998] FJCA 48; Abu0005u.97s (27 November 1998)

Marine Insurance- non - payment of premiums does not affect the existence of the contract of insurance. Court looks at wording of Renewal notice and history of dealings between the parties

The plaintiffs were the owner of the insured vessel and the bank who held the mortgage on the vessel and was named payee on the policy. The defendant was the insurer. The plaintiff had insured the vessel with the defendant since October 1990. There had been 3 renewals of the coverage in October 1991,1992 and 1993. The vessel was damaged beyond repair in March 1994. The insurer defendant denied coverage on the basis that no insurance premiums had been received since the October 1993 renewal.

DECISION: for the Plaintiff

HELD: The fact that no premiums have been paid does not affect he existence of the contract. The court looked at the Renewal notices and at the history of dealings between the parties. As to the Renewal notices, while they demanded payment, there was no clear statement that coverage would be canceled if payment was not received. As to the dealings between the parties, the court found that previous claims had been paid as credit for owing premiums so clearly in the past it had been the practice to renew without the payment of premiums.

How Brokers can enhance their reputation

Risk is the name of the game for insurance brokers. It forms the foundation of the conversations they hold with their clients, which often develop into discussions about how businesses and individuals can be protected from worst-case scenarios by having the right protection in place.

To improve public recognition of what brokers do, broking professionals need to be having open and frank discussions about their place in the insurance value chain. As a profession, insurance can be guilty of using too much jargon which can alienate the general public - so this value needs to be explained in clear, digestible terms.

Brokers speak with people from all walks of life and this needs to also be reflected in the industry's talent pool. Information that brokers give to clients needs to improve. It goes back to that point around the demarcation between brokers and insurers.

Brokers need to make sure they are really having that conversation and making sure clients understand those risks. Because the last thing we want is policyholders looking at the broker for recommending a particular provider if it does happen to go bust.

How brokers can enhance their reputation emphasises the role that professional qualifications play in building trust. Gaining qualifications and increasing the number of people in the industry who have their ACII or the diploma or the cert is essential. It would be great to see more brokers becoming Chartered and it is important that, whatever their size, insurance brokerages facilitate their employees in taking that leap and support them on their path to professionalism.

The other other angle is focusing on disclosure and transparency. The public often views insurance companies as wanting to avoid claims and this can trickle down to them seeing brokers as "secretive", which can lead to a breakdown in trust. the best way for broking professionals to combat this is by having open conversations with clients and being as transparent as possible.

By getting to grips with these areas, insurance brokers will be well-placed to enhance the public perception of what they do, she said, but it's a two-way street and consumers can also help drive this change. And the message to the public is to make sure they ask the important questions and that they are having a trust-based conversation with their broker. They must assure their clientele that they want to make sure that the clients have the best possible cover at the best possible price, and to know that they really understand what they have purchased. So, while brokers are benefiting from clients business, they must make them understand and see the value in that purchase and know that you're getting a good deal.

Insurance is based on building Trust

At a basic level, insurance is a promise to put things right when the worst happens, whether that be something as small as cracking the screen on your new phone, or as serious as being involved in a life-changing accident. It offers financial support when problems hit, increasing financial resilience and security. In other words, insurance helps towards its customers' financial well-being.

This is precisely what insurance was originally invented to provide centuries ago – and could be the route to fresh relevance for the industry in the uncertain future facing both insurers and their customers.

Financial well-being is the ability to make well-informed money-related decisions that result in greater financial security and confidence for both the short and long term. At the heart of the concept is a trusted relationship between customer and financial service provider including a sense of long-term financial security.

The insurance industry has an opportunity to reduce such falling levels of trust by informing customers of their options in a clear and simple way – because a lot of the issues that arise in insurance stem from the customer first and foremost not understanding what it is they are buying. Lengthy policy documents littered with industry jargon, exclusions and limitations mean that many customers are either buying policies for risks that they already have cover for or are leaving themselves dangerously underinsured.

This means that when they come to activate a policy and make a claim, the cover they expect to support them in their time of need sometimes simply isn't available. This naturally erodes trust even further.

One of the main issues facing the insurers of today is that they do not have enough contact with their customers, usually only interacting with them once a year when the policy comes up for renewal, or if the policyholder is unfortunate enough to need to make a claim.

This means that insurance companies become the forgotten partners of the financial services world, usually only becoming involved in a customer's life to facilitate a grudge purchase that the individual or business hopes they will never have to use.

Traditional insurers are simply unable to embed themselves in the lives of their customers.

Today's insurance customers are constantly connected to the internet via a multitude of different devices. From watches to smart electricity meters and home assistants, everything is becoming increasingly 'smart', creating ever more sources of information about the day-to-day lives of consumers and the ongoing business dealings of companies, no matter what their size. Ultimately, this gives insurers a real opportunity to offer better services and build brand loyalty in a new way compared to what they have been doing so far.

Global News

UK

No one is above the law.

A police officer was convicted for a motor fraud valued at £10,000 after he was incriminated by his own dashcam footage which showed that debris from a passing van that was alleged to have caused him personal injury and damage to his car turned out to be polystyrene.

Zurich

Over 1,100 classrooms razed by fire in the past five years

More than 1,100 classrooms have been destroyed by school fire incidents over the past five years, a new report from Zurich Municipal has found. Zurich has pointed to the data as further proof that sprinklers must be made mandatory in England. By comparison, Wales and Scotland have already made sprinklers compulsory in all new and refurbished schools. "These figures highlight the devastating impact of fires on the school estate. Unless the government changes the law on sprinklers, accidental and malicious fires will continue to blight schools and children's futures," said Zurich Municipal head of education Tilden Watson. Fire won't just wipe out progress in improving the condition of schools, it will send it into reverse. It makes no economic sense to pump millions of pounds into refurbishing schools without protecting them with sprinklers," commented Watson. "Sprinklers are proven to contain the spread of blazes and limit the damage they inflict."

Global reinsurers

Innovative traditionalists are remixing their talent base and upgrading their technology to provide compelling risk-transfer solutions and access to secondary markets.
Future global reinsurers will devise innovative risk-transfer solutions with smaller teams. By creating partnerships with alternative capital providers, these reinsurers will increase product innovation and boost their market penetration rate. Additionally, they will diversify their offerings to include primary insurance products and new loss-prevention and ancillary services.

Advances in data mean they will employ more data scientists and fewer claims processors. Their ability to match different opportunities and new products for different risk appetites will help them provide access to secondary markets and engage with more stakeholders.
To fully succeed, their strategies must prioritize growth opportunities and capital risk management capabilities. They must partner with alternative capital providers on product innovation, increase their access to big data and augment their analytical capabilities.

Risk Management at warehouses and logistics platforms

One of the biggest changes today in the management of warehouses and logistics platforms involves the appointment of a Risk Management officer as an essential way of identifying, analysing and assessing those situations that may have a negative impact on the business, with the aim being to minimise the potential losses the organisation may have to bear.

The increase in the international movement of goods due to the sharp increase in global trade means logistics firms are generating new business opportunities that in turn increase their level of business risk. Any break in the supply chain, for example, may have a serious impact on a firm's income statement and its relationship with its customers, leading to, among other possible outcomes, higher operating costs, a weakened brand reputation, or even the direct loss of customers.

Within this context, Risk Management has a critical role to play by identifying the origin of situations of risk in the organisation, providing it with the different options that may be adopted for their mitigation.

Some of the more salient activities in this field involve the identification of the risks inherent to logistics processes and facilities as regards, the condition of premises, fire prevention and emergency evacuation measures, the physical security of installations and their protection against robbery, natural risks, as well as any breach of the rules and regulations governing the business or the sundry processes involved in handling and storing goods.

Proper Risk Management has numerous benefits, ranging from a greater awareness of risk as a key factor in decision-making across the entire organisation, through to the adoption of preventive measures in those aspects that may be "triggers of risk", with the aim being to correct them or keep them under control and, as appropriate, also adjust the cover and the transfer of cost to the insurance sector.

Humour

Wife: "Wait for me honey, I'm just finishing my make-up."
Husband: "You don't need make-up, Jane."
Wife: "Oh, Richard.... really? That is so sweet of you!"
Husband: "What you need is plastic surgery."

How technology can help tackle climate risks in insurance

The Global Risks Report 2020, published by the World Economic Forum (2020) at the beginning of 2021 highlighted that, for the first time in the 15 year history of the annual risk report, environmental concerns accounted for all of the top five long-terms risks likely to have a major impact over the next decade. Since the COVID-19 pandemic hit, however, long-term risks and concerns have increasingly found themselves overshadowed by the more immediate and pressing problems afflicting businesses and individuals throughout the world.

As economies, governments and businesses restart, however, there is an opportunity for climate change policies to become embedded in the strategic development of organisations. The role that technology will play in leading this change in direction is as yet unknown; but more people and businesses than ever are looking to technology to provide solutions.

Companies which are focused on implementing new technology solutions designed to solve any of the many problems associated with climate change have been rewarded with significantly increased investment.

However, while technology certainly has the capacity to help tackle climate challenges, it could also potentially lead to the creation of new obstacles. The push to fast-track technological innovation generates risks that must be monitored and managed.

COVID-19: FCA business interruption insurance - Test Case

The COVID-19 pandemic, and the government controls imposed as a result, have led to widespread disruption and business closures. This has resulted in a significant level of financial loss for businesses, particularly for small and medium-sized enterprises (SMEs). A large number of businesses have made claims for these losses under business interruption (BI) insurance policies. However, there have been widespread concerns about the lack of a positive response from some insurers, and the basis on which they have made decisions to refuse COVID-19-related claims.

The FCA brought the test case in the High Court of England and Wales raising issues of general importance that require immediate court guidance.

The FCA believes the circumstances of the COVID-19 crisis, and its effect on businesses holding BI policies (especially SMEs), means the uncertainty needs to be resolved as quickly as possible. It commenced proceedings for a declaratory judgment about the meaning and effect of a representative sample of BI policy wordings to help resolve the contractual uncertainty around the validity of many BI claims. The FCA has explained that the test case is covering as broad a cross-section of BI policies and issues as is compatible with an expedited court process.

The final guidance which came into effect on 3 March 2021 and will cease to have effect on 31 January 2022, by which time it is expected that all issues relating to proving the presence of Covid-19 will have been resolved.

This guidance is for: policyholders; insurers (including managing agents at Lloyd's) and insurance intermediaries
This guidance builds on the High Court's judgment and declarations and the additional statements from the Supreme Court in the context of insurers' obligations under standard rules so as to handle claims fairly.

It is intended to provide clarity for all parties; to help ensure that the process of proving the presence of Covid-19 is made as simple as possible for eligible policyholders and enable those policyholders to receive claim payments as early as possible.

Placing Risks Through Lloyd's and its Syndicates

A common misconception is that Lloyd's of London (Lloyd's) is a single insurance company. However, Lloyd's is the name of the corporate "umbrella" under which the various syndicates working within the organization operate. These syndicates are, in effect, individual insurers that all carry the security rating of the Lloyd's name.

When placing a risk through Lloyd's, the broker can use one or multiple syndicates, depending on the requirements of the business. The first syndicate to agree to write a risk is referred to as the "lead" syndicate. When there is more than one syndicate participating on a risk, it is called a "subscription market," as the syndicates together subscribe to the contract document, or "slip." This slip historically contained all the coverage and contract conditions relating to the risk, as well as deductibles, premiums, and other related information about the policy. The policy wording is also included within the slip, which is the first document the claims department reaches for when advised of a new loss. The exception to this, which is particularly relevant on larger open market risks, is when the London policy is written on a co-insurance basis, following the form (but not the settlements) of a domestic carrier.

Insurability of Pandemic Risks

Covid-19 has evolved into a crisis of global proportions with a significant impact on individual health, real economic activity, financial markets, and political and social systems; we are still at the beginning of the crisis.

and even more uncertainty regarding the ultimate consequences for insurers, regulation, and how society views the industry as well as to determine how well insurer risk management practices have worked during the crisis. There are two major potential impediments to the insurability of pandemic risks: the first is the large potential loss accumulation and the second is the issue of potential external moral hazard caused by distorted incentives for public policy decisions. Epidemic and pandemic risks are characterized by accumulations potentially large enough to raise the question of insurability. Like natural disasters (such as floods, earthquakes, hurricanes) or man-made catastrophes (e.g., caused by terrorism), an epidemic can generate large accumulations of insured losses. As natural and man-made disasters typically are regionally concentrated events, insurance markets make use of regional diversification via global underwriting, Still, certain types of such catastrophes cannot be fully covered by the insurance industry. As demonstrated by Covid-19, a contagious virus can travel around the globe quickly, impacting a large part of the world at the same time—a characteristic which is shared by, e.g., cyber risk, where, because of the connectedness of computer systems.

While high correlation in life and health insurance potentially covered losses is a defining feature of pandemic risk, the Covid-19 crisis has highlighted the accumulation potential also with respect to financial market losses and to property and casualty losses (in particular non-property damage business interruption and event cancelation). Combined with legal uncertainty and issues with imprecise wording this has caused an unpleasant "surprise" for the industry. Unambiguous wording and the precise definition of the insured event and coverage are straightforward requirements of an insurable risk. The consequences of the lock-down in many cases have led to discussions about whether there actually was coverage under certain policies.

This highlights how the insurability criterion of an unambiguous and precise definition of the risk often represents a challenge for real-life insurance policies, especially when new risks or unprecedented events are concerned. The realization that, e.g., business interruption insurance might (unintendedly) include protection against losses caused by a general lock-down, resembles the problem of so-called silent cyber risk or, similarly, of emerging threats and unexpected court rulings in the context of liability insurance.

The fact that in many cases wording has turned out to be imprecise with respect to the question of whether specifically the accumulation risk of lock-down related business interruptions was covered, suggests that these scenarios were underestimated or ignored. This also demonstrates the challenges of adequate quantification and pricing of such risk. Generally, it can be noted, that there is severe uncertainty associated with modeling the frequency and severity of a pandemic.

Food For Thought

Advertising is the art of convincing people to spend money they don't have for something they don't need.

Special coverage for your house and/or household contents for a competitive premium.

- ☑ **Personal liability**
- ☑ **Personal accident cover**
- ☑ **Coverage for domestic helpers**
- ☑ **Wide coverage**
- ☑ **Fast tracked claims**

Hotline - 0761136586 | Website - www.gsinsurance.lk | Email - dilshan@gsinsurance.lk

orient INSURANCE LIMITED

George Steuart INSURANCE BROKERS

George Steuart Insurance Brokers (PVT) Ltd.
No.439, Galle Road, Colombo 03, Sri Lanka.

GS &Co