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GLOBAL MARKETS TODAY

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IMPACT ON MARKET OF NATURAL CATASTROPHES

Welcome to the first edition of Global Markets Today (GMT) produced by the Global Markets team at Crawford & Company®. The past few months as I write have been dominated by our response to the major natural catastrophes that have impacted our clients. These include Hurricane Harvey, Irma, Maria and Nate, Typhoon Haiyan and the two earthquakes in Mexico. According to RMS, the total insured losses from major hurricanes in 2017 is expected to be in the range of $75 billion to $120 billion, a magnitude that has not been seen since 2011, and not in the U.S. and Caribbean since 2005.

For now the tally of losses rises, with the usual disparity between loss estimates. While AIR Worldwide anticipates the M7.1 earthquake that hit Mexico on 19 September will cost the industry up to $2.1 billion, RMS does not expect it to exceed $1.2 billion, while Mexico-based ERN International estimates claims could go as high as $4.8 billion.

Loss creep will inevitably be a feature as the claims situation in Mexico, across the Caribbean and in Texas and Florida unfolds. Losses are likely to be exacerbated by intense demand for labor, materials and other resources.

Presently all the Caribbean islands devastated by Hurricanes Irma and Maria have limited power, cellular coverage, accommodation and fuel. Given these challenging conditions on the ground, we are continuing to work closely with our clients to fully understand their loss volume expectations in order to deploy staff to the right locations.

Crawford Global Technical Services® is expertly handling the large complex losses, many in excess of $1million. Where adjusters cannot be immediately deployed we have been able to utilize technology to prevent undue delays to the remediation process. This includes our WeGoLook® drone operators and Lookers® to show clients the extent of damage to their hotels and other businesses across the Caribbean, well before adjusters could be mobilised on the ground.

It is clear these events are already having a profound impact on the insurance industry. Standard & Poor's has placed Lloyd's outlook on negative, as the market anticipates $4.5 billion in claims from Hurricanes Harvey and Irma alone. Presently, Crawford is handling 5,000 claims in the U.S. on behalf of Lloyd's.

Market commentators are anticipating there will be price rises on London Market re/insurers' loss-affected lines. Major re/insurers have issued profit warnings and some are anticipating more than just an earnings event. After several years of a soft market these dynamics could alter re/insurance pricing trends more broadly. However, there is a feeling the days of a true market correction are over given the ease at which capital can now flow back into the industry post-loss.

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CRAWFORD® NEWS IN BRIEF

MGAs experience rapid growth

The fastest growing sector of the UK insurance industry is in the MGA (managing general agent) space. There are now believed to be more than 300 MGAs in the UK, which collectively account for 10% of all general insurance premiums in the UK. An MGA (not to be confused with a Lloyd's managing agent) is an agency whose primary function and focus is the provision of underwriting services and whose primary fiduciary duty is to its insurer principles.

The growth in the number of MGAs has a number of drivers. Insurers are turning to MGAs as they seek growth in more specialist lines of business, while for brokers, owning or controlling an MGA is increasingly becoming a key part of their strategies as they look to control more of the distribution chain. MGAs represent a growing market for Crawford®, and we are developing services for this market.

Crawford at FERMA

In mid-October Crawford attended the Federation of European Risk Managers' Association's (FERMA) biennial conference with a team of dedicated specialists. The event offered us a good platform to meet with many of our European corporate clients and an opportunity to discuss partnerships, innovations and developments, as well as to share our best practice and deep knowledge. Rianne Baumann, vice president of Global Markets spoke at a workshop titled: The 4th Industrial Revolution: A Blessing or Curse, which considered some of the ways in which the industry would be enhanced and disrupted by new technology. See page 3 for more details.

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BREXIT NEWS IN BRIEF

The London Market Group (LMG) has called on the UK Government to negotiate a trade deal that would be mutually beneficial to both the UK and the EU. In particular, it has called for regulatory equivalence with the EU's Solvency II regime and a new trade deal which would give both UK and EU insurers, reinsurers and brokers continued rights to carry out cross-border activity.

The Association of British Insurers (ABI) has stressed that leaving the EU without a deal is not acceptable if insurers are to continue to meet the needs of thousands of customers. "The Government has to deliver an orderly withdrawal, a stable transition and a sensible and mutually beneficial future trading relationship," stated ABI director general Huw Evans.

The volume of completed mergers and acquisitions in the insurance industry continued its downward trend in the first six months of 2017. Activity in Europe is down 28%, in part due to the distraction of Brexit. "Uncertainty is the enemy of deal-making," said Andrew Holderness, global head of Clyde & Co's Corporate Insurance Group. "In Europe, Brexit [is] acting as a significant brake on M&A activity."

EUROPE

PREPARING FOR BREXIT AMID CONTINUING UNCERTAINTY

The decision by Lloyd's to open a subsidiary in Brussels could spell opportunity to expand the market's footprint in Europe. At the same time, syndicates should not be taking their eye off the ball when it comes to other international markets, thinks Richard Day, vice president of Global Markets.

The decision by many London market insurers to open subsidiary offices within Europe ahead of the UK's exit from the EU has produced numerous headlines in recent months, with Lloyd's decision to open a Brussels-based European insurance company by mid-2018 gaining significant attention. While the terms of Brexit have yet to be fleshed out, if the UK leaves the single market it will not be possible to write business within the EU from the UK.

From a Crawford perspective, the situation is very much business as usual and we will continue to work closely with our clients and be their claims provider of choice as they negotiate Brexit and as the implications become clearer. Nevertheless, it is important for us to understand the opportunities and challenges Brexit poses for them as the situation evolves, and that we understand the potential impact the changes are having on their businesses.

As European regulators vie to attract London and Lloyd's insurers, other popular jurisdictions that are emerging as second homes include Luxembourg and Dublin. In fact, the competition has grown so fierce that Eoghan Murphy, the Irish finance services minister, has complained to the European Commission that some of its rivals are engaged in "regulatory arbitrage".

This followed AIG's choice of Luxembourg and QBE's choice of Brussels over Dublin. RSA, FM Global and Liberty Specialty Markets have also chosen Luxembourg as their hub on the Continent, while MS Amlin is following QBE and Lloyd's to Brussels. Amongst the challenges for these organisations in setting up subsidiaries is the expense and regulatory burden it creates during what is already a highly testing operating environment.

From a Lloyd's perspective, there are already significant ambitions to expand its presence in Europe, and a Brussels base could enable it to realise these ambitions by moving the market physically closer to its European customers. In the market's strategy 2017-2019, this was amongst its five key areas of focus:

- **Market conditions** – ensuring a responsible attitude to the challenging insurance industry environment;
- **Brexit** – retaining access to EU markets on comparable terms to today;
- **London Market target operating model** – continuing to deliver, and encourage adoption of, improved services for the market;
- **Solvency II –** maintaining Solvency II compliance and applying to the PRA for a major model change; and
- **Corporation Operating Model –** delivering an effective and sustainable operating model for the corporation, that will provide a clearer and more efficient interface with market participants.

However, there is also a risk that with all the focus on Europe post-Brexit, the market could lose sight of other international insurance hubs and steer away from its Vision 2025 aims. As Lloyd's and London market insurers continue to be proactive with their contingency planning for Europe, Crawford will continue to work closely with clients in other important international insurance centres such as Bermuda, Singapore and Dubai.

Richard Day
Vice President, Global Markets

INTERVIEW

PREPARING FOR THE FOURTH INDUSTRIAL REVOLUTION

In 2016, the World Economic Forum (WEF) heralded the arrival of a fourth and distinct industrial revolution, one with velocity, scope and systems impact. Following her presentation on the topic at this year's FERMA Risk Management Forum 2017, Rianne Baumann, VP Global Markets and head of liability, Europe, discusses some of the implications for the risk and insurance community.

Q. What are some of the themes you focused on in your presentation at FERMA in October?

A. Professor Klaus Schwab, founder and executive chairman of the WEF, has argued that the Fourth Industrial Revolution is different to and varies in complexity from any industrial revolution that has come before, with data, analytics and new technologies at its core. During the panel discussion at FERMA I looked specifically at the implications on loss adjusting and claims management, relating to these technological changes underway and forecasted.

Q. Will developments such as artificial intelligence (AI), machine learning, quantum computing and the internet of things (IoT) impact every part of the value chain?

A. Yes, there will be impact although fundamentally the responsibilities of the insurance company, the broker and the loss adjuster will be similar, only in a different world.

We can already see this happening. While some of these technological innovations are still in their infancy, a great many others are already online. What is becoming increasingly clear is that all these innovations that are resulting in new products and different approaches to risk analysis and productivity are not occurring in isolation. It's all part of a new ecosystem with overlapping capabilities so that the combined impact is much bigger overall. As the saying goes, the whole is greater than the sum of its parts. The role of the insurance company and the claims adjuster will change as the world around us will change.

I anticipate that artificial intelligence (AI) will have a significant impact on our profession over the coming years. AI is already around in many different forms and there are so many developments based upon the capability it brings, whether it is 3D printing, DNA sequencing or wearable sensors. A number of insurance companies have already introduced 'chatbots' and many websites incorporate an element of AI.

Q. How will some of these transformations impact the customer?

A. The first consumer group to experience major change will be personal insurance customers. The impact will begin to reach consumers in their interactions with insurers because the high-volume, largely low-complexity nature of retail insurance claims demands innovative and efficient solutions. For business customers where you are dealing with complex risks and losses that require detailed and specialist analysis, the pace of change will be fast but it will be at a slower rate than within retail. As a result, the influence of technology in claims adjusting in this segment is not as immediately obvious. Nevertheless, commercial insurers are already calling upon WeGoLook® to provide its drone based survey solution to reach inaccessible locations after hurricanes Harvey, Irma and Maria. This is an example not of disruption but of an augmentation in what Crawford can provide.

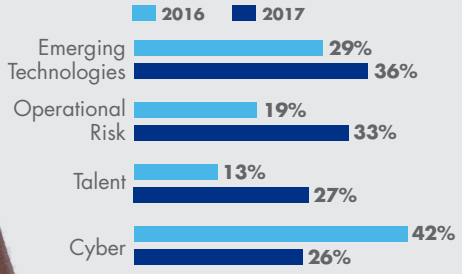
Q. So there will still be a need for claims professionals in the future?

A. Of course! For complex risks and losses in the business insurance marketplace, there remains a significant need for detailed and specialist analysis. New capabilities and technology will however augment what we can provide and Crawford recognizes the opportunity in the claims handling evolution. Our on-demand inspection and validation service WeGoLook is a good example where high-volume services can be met.

TOP OF THE MIND RISKS FOR INSURANCE CEOs

Nearly half of insurance company CEOs expect technological innovation to create significant disruption in the sector over the next three years.

TOP OF MIND RISKS



Source: CEO Outlook, KPMG International 2017

SCENARIO PLANNING

PUTTING GLOBAL PROGRAMS TO THE TEST

As the world becomes more global and complex, and demand for multinational programs grows, scenario testing is becoming an essential pre-loss tool for ensuring policies will respond how they should.

Only 41% of risk managers have carried out any form of loss-scenario planning to test their plans against realistic scenarios and confirm that insurance coverages would respond as expected, according to a survey carried out by Echelon Claims Consultants.

Beyond the obvious benefits of stress testing policies within complex global master coverages, scenario planning is an exercise that brings all parties likely to be involved in complex claims to the table, pre-loss. "It's not ideal if the first time you all meet is outside the building with the smoke coming out of it," explains Geoff Piggot, chief executive officer of Crawford® GTS. "The point of scenario testing is it happens in advance of an event occurring."

"Usually this will involve the insured, the insurer, the broker, the loss adjuster and any other experts likely to be involved in a claim. From our perspective, that creates a familiarity with the insured and the broker and a deep understanding of the business, the premises and the policies before you turn up on site."

Dealing with emerging risks

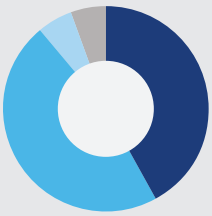
There is a growing recognition of the advantages involved in having a nominated adjuster, particularly on large accounts and complex risks. As the risk landscape has evolved, with an onus on losses within classes such as cyber, supply chain and product liability to be dealt with quickly and decisively, demand has grown for pre-loss services such as scenario planning.

The stress-testing process gives a risk manager and insurance manager certainty that policies and business continuity plans will respond in a way that is expected. It also goes some way to improving the underlying risk and minimising the financing impact of a loss should an incident occur.

For emerging risks, scenario testing can be particularly informative. For instance, Doug Mower, innovation and business transformation director and Paul Handy, global head of cyber for Crawford GTS, are currently working with global insurers and corporates to carry out some cyber scenario planning, which has been extremely well received.

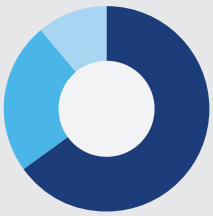
STRESS TESTING

1 Have you carried out a loss-scenario planning exercise in the last 12 months?



42% Yes
47% No
5.5% Don't know
5.5% Unanswered

2 Have you prepared a claims plan in case your business suffers a major loss?



65% Yes
24% No
11% Don't know

3 Does your policy include Claim Preparation coverage?

35% Yes
11% No
54% Don't know

Source:Echelon

NEW REPORTING RULES

On July 1, enhanced bordereaux reporting requirements came into force. Sheri Martinello, VP London Markets, U.S. and Canada, and Gavin Jackson, client liaison manager, London and Lloyd's, explain the changes

The journey towards the new coverholder reporting requirements has happened relatively quickly and many have been ill-prepared. The new market standards, enshrined within the Version 5 (V5) reporting requirements, require insurers and managing agents to improve the level of data granularity that is captured at inception.

Lloyd's Coverholder Reporting Standards, which apply to all coverholders and TPAs with claims authority, includes the requirement that All Claims – Date Claim Opened and Date Claim First Advised are now mandatory. Claims management information requirements have been included but do not need to be reported with other claims information.

Crawford has been working hard to ensure its claims management systems accommodate the new requirements with four new fields and six newly-mandated fields being added to the system.

V5 will drive the need for investment in single claims management systems. Crawford is in a strong position to invest in sophisticated and global IT capabilities required by the new reporting requirements.

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