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Keeping you informed about risk and insurance

April 2012

A storm coming?

In their haste to gain the efficiencies and cost-effectiveness promised by cloud computing services, organisations could be overlooking key operational and security risks. By Helen Yates

Cloud computing – the delivery of computing as a service rather than a product – offers scale, efficiency and cost-effectiveness. The cloud delivers computation, software, data access and storage resources to businesses through a network of virtualised servers accessed via the internet, without the need for the business to house the servers and other computing infrastructure.

Moving from a server-based platform to the cloud can bring numerous advantages, but also significant security issues. With 61 per cent of organisations planning or considering the use of cloud services in the next year, "the threat of security breaches has become an afterthought in the rush to adapt to the rapidly changing landscape", cautions the Ernst & Young (E&Y) 2011 Annual Global Information Security Survey.

"Just because it's called the cloud doesn't mean it's fluffy and nice," says Ian Cohen, Group Chief Information Officer at JLT Group. "All the things you required in traditional sourcing – particularly understanding your exit provisions before you sign the contract – also apply in the cloud. It doesn't release you from all your responsibilities; it just creates a whole load more. There are no free lunches," he adds.

More than half the organisations questioned in the E&Y survey said they had not implemented any controls to mitigate the risks associated with cloud computing. The most frequently taken measure is stronger oversight on the contract management process with cloud providers, but this is only done by 20 per cent of respondents.

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Inside

news in brief

Rounding up the latest news and developments from the world of insurance

JLT continues expansion across UK

JLT Specialty has announced plans to open new UK regional offices in Nottingham and in Reading, in line with plans to link local service with central specialist expertise.

The Nottingham team will be led by Sally Swann, previously at Towergate; she will be joined by Steve Exwood, who will offer insurance due diligence and M&A risk advice to the local business community.

Peter Cant, currently based in JLT's Southampton office, will set up and run the Reading office.

Stuart Winter, who heads the Regional Risk Practice offices, says the developments demonstrate JLT's drive to continue UK expansion. "We believe that we can offer the right expertise and service to clients and a dynamic growing environment to key industry talent."

As part of these plans for growth, JLT has also launched its Risk Practice Division, created through the merger of its Global Risk Solutions and Regional Partnership divisions.

Warren Downey, Managing Director of the new Risk Practice Division, says the launch marks a continuing journey. "We have reorganised our business to strengthen our ever deepening expertise in areas in which we lead the market."

"We will continue our focus on excellent client delivery and a more vigorous, independent alternative to our competition," says Martin Hiller, JLT Specialty CEO. "The changes form an important and exciting part of our growth strategy."

Changes to RIDDOR

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) changed on 6 April 2012.

The previous trigger for reporting accidents to the Health and Safety Executive (HSE) – an employee injured at work with more than three consecutive days' incapacity – has now been increased to more than seven consecutive days (not counting the day on which the accident happened).

However, employers will still need to keep a record of any workplace accident where an employee is incapacitated for more than three days. Where applicable, the accident book is deemed sufficient for this purpose.

Most employers' liability insurers stipulate that they be notified of any incident that is RIDDOR reportable. But most insurers would still like to see three-day incapacity notifications. There are specific clauses in all policy wordings detailing when an incident should be reported – for most the trigger is 'anything that would give rise to a claim'.

For clarity on this subject, please contact your usual JLT executive.

Jon Miller of JLT Specialty's Food & Drink Practice (right) with Oliver Rudgard, Marketing Director of Tyrrell's Potato Crisps

Tyrrell's highlights opportunities for international growth at JLT dinner

Oliver Rudgard, Marketing Director of Tyrrell's Potato Crisps, outlined the importance of embracing export opportunities to the success of the UK's food and drink sector at a meeting of industry leaders from across the country.

At the event – which was hosted by JLT Specialty, Lloyds Bank Wholesale Banking & Markets, and Eversheds – Rudgard encouraged the sector to capitalise on the increased overseas interest and demand for British products.

Rudgard illustrated how Tyrrell's has transformed in the past decade from a Herefordshire potato farm into a global premium brand by combining traditional production techniques and values with a state-of-the-art approach to marketing and product development.

Jon Miller of JLT Specialty's Food & Drink Practice says: "This type of industry event is an important focus for helping food and drink businesses to seize opportunities and develop ongoing growth through innovation. JLT is delighted to co-host this event and values the opportunity to work with food and drink producers."

JLT support helps launch NewBuy scheme

JLT has been appointed by the Home Builders Federation (HBF) to develop and manage a new mortgage indemnity scheme, which will see mortgages on new build homes underwritten by house builders as well as the government.

The government-backed scheme is a response to a lack of mortgage funding for homebuyers with small deposits. The scheme is designed to remove the risk of default losses from lenders, while allowing them to offer 95 per cent loan-to-value (LTV) mortgages on new homes. It is expected to initially run for three years.

JLT is developing the legal framework, scheme structure, bank accounts and systems.

Steven Rance, a Partner at JLT Lending Risk Solutions, says new homebuyers will be able to access mortgages at more competitive rates. "This is an extremely timely and exciting development for lenders, builders and the UK housing sector," he says.

Stewart Baseley, Executive Chairman of the HBF, says the indemnity scheme should provide a significant boost to sales of new homes. "HBF is pleased to have appointed JLT, whose experience and expertise will be crucial to the scheme's success."

> "New homebuyers will be able to access mortgages at more competitive rates. This is an extremely timely and exciting development."

Steven Rance, Partner at JLT Lending Risk Solutions

JLT's first professional services survey

In the latter half of 2011, JLT Specialty commissioned an independent survey of professional services firms, involving more than 20 in-depth interviews with senior management, predominantly from the accountancy and legal services sectors.

There was little disagreement between respondents' views on the sector's key business trends, challenges and opportunities. But the similarities and variations between the professions as to how these factors were affecting risk, and the steps they were taking to develop their risk management approach proved illuminating.

Increasing regulatory demands, financial pressure, competition and changing client needs are affecting the way these businesses are managed and structured. Many of these changes seek to provide greater client value at lower cost with far-reaching risk implications. The survey showed risk management is being used constructively to shape both business strategy and growth opportunities.

One interesting point that stood out in terms of risk was the importance placed on IT and data security. It was mentioned by almost all survey respondents and clearly links closely with the business strategies of near- and offshoring and outsourcing of business functions. This raises the question of how many firms will purchase specialist insurance protection, as traditional property, business interruption and liability insurance offers limited protection, at best.

If you would like a copy of the report please contact Ian Scott on 0113 203 5832 or Ian_Scott@jltgroup.com.

Register for JLT's Euro 2012 Fantasy Football

As the summer rolls in we are getting ready to launch our Euro 2012 Fantasy Football league.

Compete with thousands of other players for excellent prizes for the first, second and third place managers, including a new iPad!

Sign up for FREE from 14 May 2012 at www.JLTfantasyleague2012.com. Or register your interest early by emailing us at jltspecialty@jltgroup.com and we'll send you a reminder email as soon as the competition opens, giving you maximum time to pick the dream team that will take you through the knockouts and on to victory!

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A storm coming

Cover story continued

>> According to cloud provider Doyenz: "Many businesses think of cloud storage as a hard disk in the sky, when in fact the only functionality of cloud storage is file backup and retrieval. In most cases, the end user will never know if the files are recoverable until a critical outage occurs."

Security spotlight

Security concerns over housing data in the cloud have so far proved unfounded, but 2011 saw an increasing number of attacks.

The shutdown of notorious internet content hosting website Megaupload in early January also has implications – at least 50 million customers are now at risk of having their data erased. Stricter US rules on sites it believes are infringing copyright could cause users to lose information unwittingly, warns Cohen.

Indeed, cloud services going down – whether intentionally or not – can have a big impact on the continuity of businesses that rely on just one or two providers. The massive outage of Amazon's EC2 cloud in April 2011, for example, left a number of its websites unavailable, including Foursquare, Reddit and Netflix. In response to such risks, Cohen advises a more portfolio-based approach. "Nowadays you need to design for failures as well as recoveries, which creates a marketplace of providers. That way, if one provider has a problem, the majority of services stay up with another provider."

Competition between a rising number of cloud providers, including services offered by Amazon and Google, has led to an emphasis on high levels of security. But these claims are often overstated: a Ponemon study found that 79 per cent of cloud providers allocate just 10 per cent or less of their IT resources or efforts to security and control-related activities. Simon Milner, Partner and Head of Cyber and IT Risk at JLT Specialty, calls this number "staggeringly low".

> "Cloud service providers do not have security as a priority in service delivery."
>
> Simon Milner, Partner and Head of Cyber and IT Risk, JLT Specialty

"Fundamentally, cloud service providers do not have security as a priority in the delivery of their service," he says. "Companies need to be very careful as to what data they have in the cloud."

Buyer beware

For buyers of cloud services, the onus is on users to conduct adequate due diligence before signing service level agreements. Asking the right questions during the procurement process can make a significant difference if there are problems.

In the case of loss of service, for example, providers will likely compensate for lost time as a proportion of the overall hosting fee rather than financial loss as a result of interruption. A provision guaranteeing fast and effective performance is also unlikely in the service level agreement. Companies should be aware of such shortcomings.

"Forewarned is forearmed," says Kip Berkeley-Herring, a Partner in JLT's Communications, Technology & Media Risk Practice. "Make sure you're aware of how the cloud provider is going to deliver those services and their level of security arrangements – they're the key to successful transfer to cloud computing support."

Cloud software and data are often stored in remote locations. Companies should find out where these locations are and what that means for them from a compliance perspective.

Top tips for cloud customers

Organisations considering moving into the cloud should:

- Ask the provider about its security policies. If possible, visit the data centre.
- Check where data is stored and investigate compliance issues.
- Perform a robust risk analysis and consider a portfolio of different providers.
- Encrypt all data stored in the cloud.
- Check if the service level agreement indemnifies financial losses as a result of outages.
- Ensure contingency plans are in place in case of a service failure.
- Check how easily you can change providers. Ask the provider what will happen if they go out of business.
- Investigate how insurance cover will be affected.

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Risks to an organisation's cloud computing strategy

Percentage of respondents who identify the following as the greatest security risk to their organisation's cloud computing strategy:

32% Uncertain of ability to enforce provider site security

19% Inadequate training and IT auditing

15% Questionable privileged access control at provider site

11% Proximity of data to someone else's

9% Uncertain ability to recover data

SOURCE: THE 2012 GLOBAL STATE OF INFORMATION SURVEY, A WORLDWIDE SECURITY SURVEY BY PWC, CIO MAGAZINE AND CSO MAGAZINE AVAILABLE FROM WWW.PWC.COM

Data protection

Jurisdiction is an increasingly important consideration as the data security environment becomes ever stricter – new legislation is currently being proposed by the EU, for example. Its proposals to strengthen online privacy rights have significant ramifications for how businesses use, store and secure their data.

Companies can be fined up to 0.5 per cent of their global turnover – up to 1 per cent if they fail to correct bad information or hand over data. "The transfer to cloud computing could mean that an organisation that has been fully compliant with the Data Protection Act (DPA) could find suddenly that it is not," says Berkeley-Herring.

In the UK, the cost of the average data breach was £1.9 million in 2010 (see page 7), an increase of 13 per cent on 2009, according to Ponemon. The Information Commissioner's Office can fine firms up to £500,000 for breaching the DPA. In 2010, the Financial Services Authority fined Zurich Insurance £2.25 million for failing to prevent the loss of customers' confidential information. "It does generate new conversation around risk that all organisations need to think about, whether you're regulated or not," says Cohen.

He recommends that organisations learn to better segment their business, including data, information and services, into those that are suitable to be delivered through external public infrastructure and those that are sensitive enough to be managed internally. This is the concept of hybrid cloud computing, where an organisation may subscribe to a cloud backup service while also maintaining a local recovery server or storage environment.

A hybrid approach can make a big difference from a business continuity perspective. "Companies must think differently, considering what material they need immediate access to, what needs to be recovered rapidly, and then what can they take a longer-term view on," says Cohen. "You have to be more granular and focused on disaster recovery and business continuity or you won't get the benefit of these new technology models."

Insurance solutions

Most organisations will have policies that were not designed to cover the emerging risks associated with the cloud. The burgeoning cyber insurance market offers different products so insurance can be chosen to match cover to specific risks, for example the direct impacts of an incident, including the cost of restoring lost data and business interruption. Insurance can also cover liabilities, for instance indemnifying the loss of sensitive customer data.

"Liability particularly applies to anyone in a retail capacity dealing with individual customers," says Milner. "The UK DPA and various other Acts around the world place a heavy responsibility on companies to keep data confidential."

Smaller and medium-sized businesses can choose policies that wrap around their existing property and third party insurance programmes. But careful consideration of potential exposures is needed to ensure that cover meets a company's needs. And they must be proactive when it comes to reducing the risks.

Before providing cover, underwriters will look for evidence that a company is doing everything it should to safeguard sensitive business information and data. "Many insurers are looking for organisations that have got decent security measures," says Milner. "As an absolute minimum they would expect sensitive data to be encrypted, and for antivirus and firewall technology to be operational, as well as frequently updated." ■

find out more To discuss any of the issues raised in this article contact Simon Milner on 020 7558 3647 or Simon_Milner@jltgroup.com talking points

Master class

Jon Fitzsimons, Partner at Echelon Claims Consultants

Claims defensibility

Every day, UK companies are found liable for millions of pounds in claims. There is always a cost when a claim is brought against an organisation but the expense will be much higher if it is successful. As the UK becomes more litigious, liability claims numbers are increasing. Costly payouts can be a serious headache for businesses, but reducing the risk of a claim payout is also good corporate governance. Preparedness is vital.

How can inadequate processes and documentation hinder my ability to defend claims?

Even where established protocols have been adhered to, inadequate processes and documentation can cause organisations to needlessly pay claims. The onus is on proof. For example, businesses must be able to prove that health and safety risk management processes are being implemented, and that human resources processes are adequate – appropriate training must be fully documented, for instance.

How does the claims defensibility audit process work?

A claims defensibility audit is a practical review of your ability to defend liability claims. An audit will look at several areas, including paperwork, processes and procedures. Benchmarking a business's performance will allow it to prioritise strengthening its defences.

A claims defensibility audit will start by clarifying which statutes affect your business. For example, risk assessments are required by many of the regulations – are these fit for purpose and properly communicated to staff?

It is also essential to examine how accidents are investigated. Investigations must be completed promptly as key evidence – such as photos, measurements, CCTV and witness statements – may be lost or altered, diminishing the prospects of a successful defence. Any discrepancies in the injured party's account should be identified as soon as possible.

> “Even where established protocols have been adhered to, inadequate processes and documentation can cause organisations to needlessly pay claims.”

The audit will also look at the quality of the accident and other documentation. Advice will be offered on how not to unintentionally concede liability: for example, potentially damaging comments could be left out and dealt with in post-accident risk management aspects outside of the main accident documentation. In some cases the use of legally privileged document status, where investigations and considerations can be undertaken in a more controlled setting, may be considered.

Other processes also need to be examined in detail. For example, how watertight is the HR paper trail – do job application processes identify those who may be more susceptible to injury and ensure they have the right working conditions? How good is the quality of the inspection and maintenance documentation and can this be improved upon?

The audit will also consider ways to offset liability – for example are terms and conditions with suppliers and contractors suitably watertight?

Emerging trends should be explained by the audit, helping businesses plan ahead for future potential exposures.

What are the key benefits?

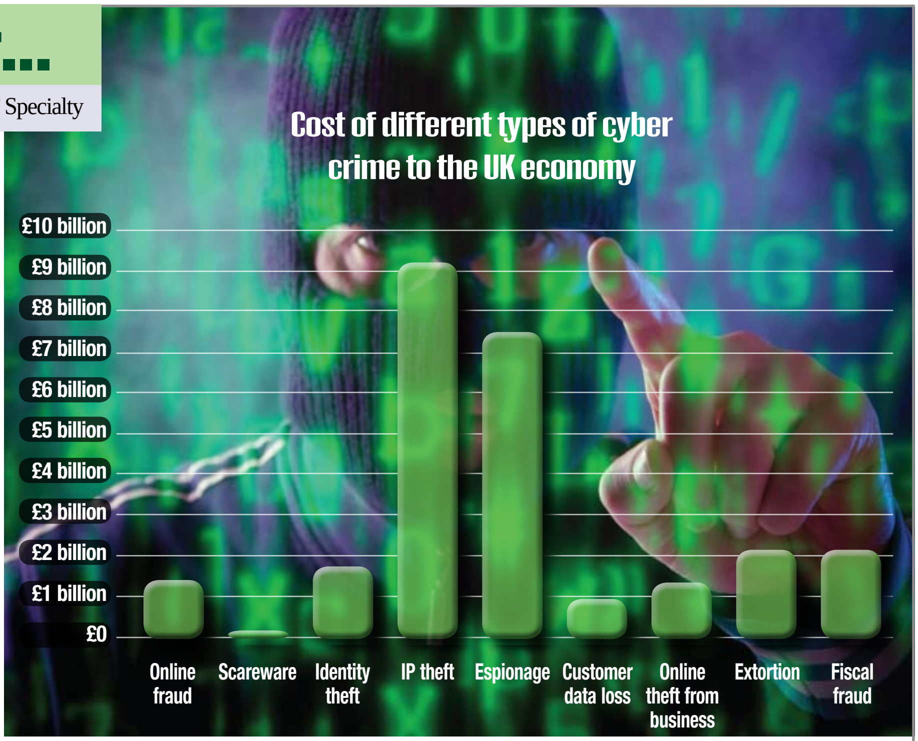
Successfully defending claims and reducing the amount of damages reduces costs, either directly if there is an element of self-insured provision, or indirectly in the form of an improved claims experience and reduced renewal premiums.

Analysing and improving the core processes and documentation involved in the defence of liability claims can have a knock-on effect in improving health and safety culture, as well as reducing the prospects of a successful Health and Safety Executive (HSE) prosecution.

Did you know...

Simon Milner, Partner, Head of Cyber and IT Risk, JLT Specialty

Holes in cyber crime cover can cost your business



SOURCE: THE COST OF CYBER CRIME, DETICA IN PARTNERSHIP WITH THE UK CABINET OFFICE OF CYBER SECURITY AND INFORMATION.

All businesses holding information electronically, especially those trading or holding information online, are potential victims of cyber attacks that can cause significant losses. SMEs, which lack the IT resources of bigger organisations, can be more vulnerable.

The direct costs of dealing with a data breach (where sensitive or confidential data is compromised) can include investigation by a qualified forensic investigator, which will be a drain on management time, especially in a firm that has few specialist staff.

Secondary losses can be even worse. Businesses hit by a cyber attack usually have to go offline while the breach is investigated and new security is put in place. Companies can incur substantial business interruption costs and a loss of service may prompt customers to switch to competitors and not return.

Cyber incident-related regulations are often overlooked. The maximum UK fine for data breach is now £500,000 (up from £5,000) and may increase. Lawsuits can be a significant burden, and businesses with a presence in multiple jurisdictions may be open to simultaneous fines and lawsuits.

Traditional insurance can leave businesses exposed as such policies were not designed for cyber risks. Fortunately, standalone cyber insurance products with modular structures can tailor cover to the specific risks a company faces.

Insurance can cover the costs of rebuilding damaged servers and/or websites and restoring data, for example, as well as any business interruption that occurs while systems are consequently suspended.

Specific policies for SMEs can wrap around existing insurance programmes, providing cover that includes the cost of forensic technical and legal advice. Increasingly common cases of extortion and attacks from within a business can be addressed with cyber liability cover. Insurance can provide voluntary notification coverage, useful for companies that contact their customers after a breach to try to limit reputational damage. Broader 'theft of data' insurance also provides indemnification in such situations.

Given the rapidly evolving nature of the threat, choosing an experienced broker is vital. Some insurers, for example, can provide a preapproved panel of consultants to advise on mitigating the impact of a security breach. More information is available in JLT's cyber crime white paper, available at www.jltgroup.com/business-across-borders.

Back to basics




Coping with catastrophe

A catastrophe at work can be extremely disruptive and indeed may threaten the future of a business. However, dealing with the resulting insurance claim can be at least as challenging, especially if the claim is large or complex.

Insurers often require a mass of information when dealing with a large claim and will routinely appoint a panel of advisers, including loss adjusters, lawyers, accountants and remediation companies to assist them. Faced with dealing with these professionals, a claimant may be understandably intimidated. Richard Gurney, Head of Claims at JLT Specialty, says that support is available. "It's the broker's role to explain to their client the process, the different roles of these specialists and offer step-by-step advice."

The insurer team's investigation will look into the events surrounding the claim, its likely cost, and – most importantly – whether the insurer is liable. This process can take time, which can be very frustrating for a firm that is losing revenue every day it is not working at full capacity. Prompt interim payments reduce the pressure – the best way to secure these is to ensure effective dialogue between the insured and the appointed advisers so the claim submission is right first time.

Let your broker liaise with the underwriter on your behalf, Gurney advises. "A good broker will access claims handlers directly and can leverage a relationship with the insurer if necessary so as to get the right result for its client."

But the company must play a central role, says Gurney. "Investigations into the pre-loss performance of a business can be exhaustive, as can discussions over causation and policy response. Most important is to keep up the momentum in the handling process, reminding everyone of their roles and responsibilities, and ensuring everyone is kept informed. Otherwise, it's all too easy for a claim to drift. Obviously that isn't in your interest so you have to take the lead."

Venturing forth

Joint ventures are not uncommon in the construction sector but partners must take care they are not unwittingly exposed to the errors or omissions of others.

Joint ventures (JVs) are increasingly familiar in construction endeavours, for example in major rail projects such as Crossrail. But the complex nature of these undertakings means companies and professionals could be unwittingly exposing themselves to significant risk, says Dave Cahill, Partner, JLT Specialty Construction and Real Estate.

Joint venture partners (JVPs) must understand the risks of being involved in JVs – they can be exposed, not just through their own actions, errors or omissions, but also through those of their partners. JVPs must carefully consider their insurance strategies to ensure they are not caught out, Cahill explains.

JVPs need to weigh up several factors when choosing insurance – risk appetite, existing annual insurance programmes, self-insurance arrangements, national jurisdictions and the customer's expectations, amongst others.

Insurance options

Bespoke JV-specific policies offer simplicity, with all JVPs covered under a single policy with a consistent wording. However, these are potentially more expensive so, depending on the JV structure, JVPs will often look at how existing insurance programmes can be used.

For example, one of the JVPs may agree to provide coverage for another under its existing insurance programme. This is cost-effective, often has broader coverage available, but it exposes that JVP's annual programmes to the actions/errors/omissions of partners. Therefore they must be comfortable in extending coverage and aware of the consequences should there be a significant loss. This may only be a realistic option where the insuring JVP undertakes the activity that is to be covered under its annual programme, and hence has control of the risk, adds Cahill.

Insuring each JVP's own financial interest is a more practical and cost-effective option. This arrangement can normally be accommodated under existing annual insurances where risk managers are operating familiar programmes. Indeed, it is common for annual policies to include some form of automatic provision for JVs, but this must be checked closely against the JV agreement to ensure that the correct result is achieved. However, evidencing coverage from multiple JVPs to the client may prove unwieldy and having more than one insurer handling a claim increases the possibility of disputes. This approach is not recommended for classes of business with high frequency loss profiles.

Employers' liability

Cahill says that the specifics of coverage are also worth considering.

The JV agreement can be crafted so that each JVP retains responsibility for injury/disease to its own staff, with no recourse from the other JVP in the event of negligence. This arrangement can be supported by the annual employers' liability (EL) policies. However, JVPs need to ensure that labour-only subcontractors and similar classes of 'employee' are insured under one or other annual policy through controlled procurement.

If the JV is incorporated it may be necessary to have a specific JV EL policy.

Contractor's all risks

If each JVP is responsible on a joint and several liability basis, a project-specific contractor's 'all risks' (CAR) insurance should be taken out in the name of the JV company or JVPs so that only one policy of insurance provides cover for the JV's works.

Alternatively, each JVP can take responsibility for its own work and rely on its own annual CAR insurance to provide cover.

Annual CAR insurance will provide cover for contractors' plant and equipment, temporary buildings and contents owned or hired. Where the plant and/or equipment will be shared between the JVPs, responsibility for loss may not be easy to determine and this is most effectively insured via a project-specific insurance on behalf of the JV.

Insurers' view

Insurers generally adopt a more cautious view of JVs but may be more comfortable if the JV is formed from partner companies an insurer already covers. Insureds should seek confirmation from their broker that:

(i) the chosen JV insurance solution matches not only the contractual insurance requirements, but also reflects the risk sharing/allocation agreements within the JV agreement, and;

(ii) the underwriters participating in the JV insurance arrangements have a proper understanding of the risks (and risk allocation) involved.

It is likely that additional information will be required to achieve this level of understanding, Cahill says.

Most of all, JVPs should remember that it is unlikely they will share the same insurance philosophy and style of insurance programme. Different limits of indemnity, levels of self-insurance and scope of cover mean JVPs must be prepared to compromise and close liaison between JVPs, intermediaries and insurers is the best way to secure a certain solution. ■

Important questions to consider

1 Is your JV likely to incur high numbers of low-value claims?
2 Will JVPs be jointly and severally liable for claims?
3 Are the JVPs executing different roles?
4 Is your company a smaller or larger partner in the JV?
5 Are you comfortable bringing other JVPs onto your own policy?
6 Are any JVPs from a country where professional indemnity is not mandatory?
7 Are you comfortable providing multiple insurance programmes to your customer?
8 Have you and your JVPs' insurers agreed a claims handling protocol?

find out more

A forthcoming JLT white paper explores these issues. To find out more contact Lakhvir Lelly on 020 7528 4676 or Lakhvir_Lelly@jltgroup.com

Driving benefits through technology

Smart in-car satellite and cellular tracking devices, known as telematics, are becoming progressively more popular. Better use of this technology can help fleet motor operators reduce claims and insurance costs. By Stuart Collins

Telematics can influence driver behaviour – especially in commercial fleets – and ultimately bring down the cost of insurance, says Steve Vachre, Motor Specialist at JLT Specialty.

Commercial considerations, such as productivity, fuel efficiency and tracking, have so far been the main drivers of telematics adoption. Risk management is now becoming increasingly important, says Mark Keavney of Aviva, one of the leading providers of fleet motor insurance and an early supporter of telematics devices.

Important development

Telematics is an important part of fleet risk management but many fleet managers and brokers are unaware of the potential extent of their benefits, says Vachre. Changes in driver behaviour will affect claims and, thus, future premiums. Indeed, if a fleet meets the criteria and claims experience performs to an agreed level, some insurance clients can already receive significant rebates.

Keavney says that Aviva takes a flexible view and does not require clients to use specific technology. "We do not ask to see clients' telematic data, but the technology has to be capable of recording certain information – such as the percentage of time spent over the speed limit, abnormal braking, acceleration or cornering – and be able to differentiate between drivers."

quick facts!

- ✓ Insurers do not automatically reflect telematics technology in premiums but are willing to work towards it.
- ✓ Telematic devices broadly fit into three main camps: hardwired black boxes, satellite navigation systems and smartphone applications.
- ✓ Take-up of telematics is still limited by the high expenses involved but costs are coming down.
- ✓ Currently, around 20 per cent of haulage fleets and 5 per cent of car fleets are estimated to be using telematic technology.

However, insurers will not automatically give discounts simply because an insured uses telematics – they must demonstrate that they are using it to improve driver behaviour.

"We can help clients demonstrate that their risk is more attractive to the insurers," Vachre adds. "We can show that improvements are down to good risk management and not just good luck, and show changes to driver behaviour through analysis, incentives and penalties based on the back of telematics data. The risk can be presented to insurers so that they are confident of the risk management procedures put in place and therefore comfortable to ask for lower premiums for the risk."

Changing habits

Telematics can also help defend against spurious claims, explains Keavney, and could play a role in controlling the cost of personal injury claims, for example by reducing the time taken to report an accident to insurers, or by proving the speed of a vehicle involved in a whiplash injury claim.

But once companies are aware of the information available through telematics, they have a duty of care to employees. "Telematics can help identify issues before accidents happen, so if companies don't do anything with the information then they are open to reproach," says Vachre. "The worst thing to do is to have the data, but do nothing with it. Clients have both a corporate and social responsibility."

> "Telematics can help identify issues before accidents happen."
>
> Steve Vachre, Motor Specialist, JLT Specialty

In any case, good risk management is a valuable preparation for the vagaries of the insurance market. Commercial motor insurance rates have been increasing and the market is slowly moving towards a harder rating environment, where risk management comes into play.

And as telematics become more advanced, including cameras that detect changes in eye movement and assess alertness, the links between technology and insurance are likely to become ever closer.

"It is good practice to have these systems in place as the clients that are best prepared are impacted the least," says Vachre. As many fleets run large deductibles, better risk management will pay off, he adds. "Every pound saved should positively impact the bottom line." ■

find out more

To discuss any of the issues raised in this article contact Steve Vachre on 0161 957 8034 or Steve_Vachre@jltgroup.com

Focus on Retail

The retail sector is under pressure – spending has tailed off in the wake of the economic downturn and multichannel e-commerce is driving a shift away from the high street. Retailers are striving to cut insurance costs, but at the same time secure protection from complex and unpredictable risks. By Liz Morrell

Squeezed between price-conscious consumers and ever-fiercer competition, retailers are scrambling to cut costs, whether by reducing store portfolios, shortening supply chains or simply improving efficiency and eliminating unnecessary spending.

Reducing insurance costs, both in terms of premiums and claims, is thus a priority. "There is continual pressure from boards to reduce costs," explains Simon King, head of JLT's Retail Practice and host of the regular JLT Retail Forums, where JLT brings leading retailers together to discuss issues currently affecting their businesses.

Cutting costs

The potential uplift in claims during the recession hasn't materialised, according to King, but legal costs have continued to increase dramatically. "The total settlements are increasing because of third-party solicitor costs," says King. As a result, he adds, retailers are reviewing their loss management procedures to try to more effectively manage the process and control costs. "Retailers are paying closer attention to the management of incidents, and looking at intervention strategies such as improving onsite support to genuine incidents, 24-hour 'customer call' follow-up – including the offer of compensation such as vouchers – and then reference to physio services to aid recovery," he adds.

Retailers are looking at all angles to cut costs. "The insurance market has been fairly soft so there have been savings available. But the market is bottoming out now and instead retailers are looking at buying insurance in a more effective way. They might consider limiting cover for some smaller unprofitable retail outlets, business interruption cover if often over insured and they should look at how they purchase terrorism cover, if at all," says King.

A hard lesson

Retailers' reviews of their insurance requirements and current cover are uncovering some worrying gaps. Cyber exposure is one of their biggest concerns: many retailers now do much of their business through websites but standard business interruption policies do not cover losses associated with a website collapse, a privacy breach or hacking. "Understanding the impact such events would have is a problem for retailers," says King. He notes that, while retailers insure stores and warehouses against the risk of damage – even though such sites are also physically protected – many simply have to accept the word of their IT managers that the protection they have is good enough. In fact, businesses need to engage third-party specialists to test their robustness and assess business impact.

Particular consideration is also needed for unpredictable events. The past few years have seen an unusually high incidence of these, from Iceland's volcanic ash grounding flights, to severe weather and the Arab Spring, all causing disruption to supply lines.

While larger retailers will mostly have taken such challenges in their stride (through flexing their multi-product offering), many of the smaller retailers have keenly felt the effects of these losses, learning the hard way that these types of non-damage losses are not covered under standard property and business interruption policies.

> "Retailers are learning to think laterally about risks that may affect business"
>
> Simon King, Head of JLT's Retail Practice

Retailers are learning to think more laterally about risks that may affect their business and how they are impacted by these, such as fuel shortages, according to King. "A fuel shortage can have big implications for retailers, as stock is their lifeline. Again, it is not covered."

Some retailers see such possibilities as commercial risks they have to live with. But as cyber exposures have shown, losses could prove increasingly common and expensive to deal with. JLT currently has in development a Non Damage Business Interruption insurance package specifically for the retail sector most vulnerable to such risks. "We have developed the product in liaison with retailers to respond to 'modern day' risks and are currently testing it," says King. ■

quick facts!

- ✓ False claims have not risen as expected – but legal costs have.
- ✓ Retailers must avoid accepting the word of IT managers on web security.
- ✓ Cyber exposures could prove extremely expensive for retailers who fail to insure against related losses.

find out more

For more information contact Ian Scott on 0113 203 5832 or Ian_Scott@jltgroup.com

About JLT

JLT Specialty Limited (JLT) is the largest member of Jardine Lloyd Thompson Group plc, a company listed on the FTSE 250 index of the London Stock Exchange. The Jardine Lloyd Thompson Group is a risk management adviser, insurance and reinsurance broker and provider of employee benefit administration services and consultancy advice.

JLT provides market-leading industry knowledge and expertise in specialist fields to some of the world's largest companies. What sets us apart is the quality of our people and the environment we have created. It allows individuals to work together as a cohesive and focused team without internal boundaries, promoting personal accountability and responsibility for the benefit of our clients and other stakeholders.

Our Risk Practice division provides risk and insurance services to corporate clients. Clients benefit from a blend of deep sector knowledge and technical expertise, coupled with the ability to translate options and recommendations into a language that is clear and easy for all to understand.

JLT Specialty employs over 250 people and has offices in Birmingham, Leeds, London, Maidenhead, Manchester, Nottingham, Reading and Southampton. This means we have an in-depth understanding of regional issues and our clients benefit from informed advice and support on their doorstep. This local service is backed up by additional expertise at the centre – a unique combination that guarantees best-in-class solutions.

JLT Specialty Limited
Global specialty insurance broking and risk management services

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Retail Operations
- Sweden
- Norway
- Ireland

Lavaretus Underwriting

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- Cyber Risks
- Managerial Liability
- Credit, Political & Security Risks
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Risk Practice
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- Life Science
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- Regional Practice
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and finally...

Editor's letter

Practice makes perfect

Warren Downey: sees a seamless future practice

As you can read in this issue we recently reorganised our business by merging our regional business with our London specialist global client offering to form Risk Practice. We have reflected on many years of successful collaboration, working across the boundaries of these two businesses to add real value to clients in specialist industries focusing increasingly in the areas of Communications, Technology & Media, Life Science, Major Risks, Food & Drink, Transport, Professional Services, Retail, Engineering, Utilities and Complex Risks.

However, as we have considered our next steps as a business it would seem logical that the best way to work across boundaries is to remove them altogether. We have created Risk Practice with a mission to deliver seamless specialist knowledge at a local level to our clients and we are able to do this thanks to our team, now numbering 250 in eight locations and growing, including the newly launched Nottingham and Reading offices.

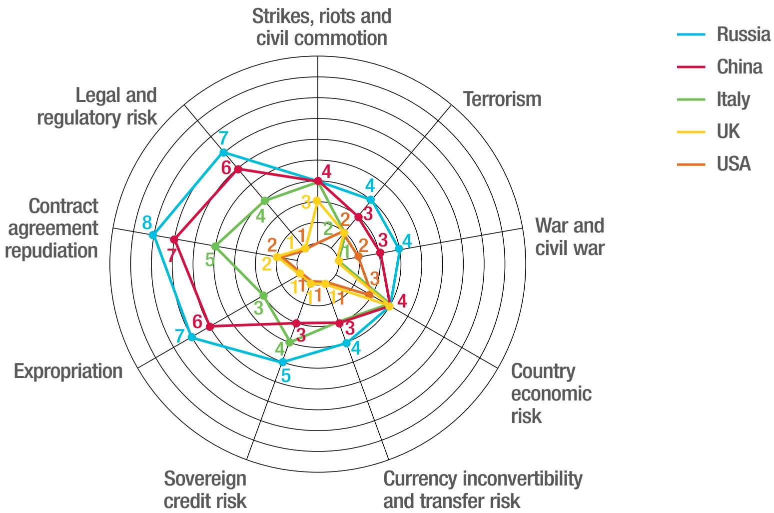
We are already considering launching in more new locations, working on industry-specific insurance products and becoming more joined up in our work with insurers, all for the benefit of our current and prospective clients, and there is a real buzz about the place. So, if you are a client of ours, look forward to more of the same in terms of quality of service, innovation and delivery of excellent results.

If you are not yet a client but are considering JLT, then let us tell you about the deep industry and complex risk knowledge we have within our expanded team, which we can bring to bear for you, and the risk solutions we have pioneered to support you in achieving your business goals. The JLT Specialty Risk Practice is here to serve you.

Warren Downey
Managing Director, Risk Practice

Capitalising on the UK's competitive advantage

Dr Elizabeth Stephens, Head of Credit & Political Risk Analysis, JLT Specialty



Excessive sovereign debts, credit shortages, rising interest rates and the general mood of uncertainty are just some of the economic challenges UK business leaders are confronted with as the euro crisis continues. As the credit ratings agencies place the UK's long-standing triple A rating on 'negative' watch amid fears the economy will slide into recession towards the end of the year, business executives would do well to remember the competitive advantages the UK – and indeed Western Europe – has over the developing world.

Firstly, the rule of law protects the rights of individuals. Everyone, regardless of their position or wealth, is subject to the law and not the arbitrary behaviour of authorities.

Complete confidence

This may seem obvious but its importance cannot be underestimated. Russian oligarchs choose London to settle their disputes because they have complete confidence in the impartiality of the legal system. China may be the world's second largest economy but it will take generations for businesses to place the same faith in the laws of China as they do in the laws of England and Wales. Until this time the UK will retain a tremendous competitive advantage over other countries.

Secondly, trade and investment needs an effective framework of rules to function, which the UK provides. Industries are monitored by an independent regulator and disputes are subject to impartial arbitration. This creates a real incentive for foreign companies to do business with British businesses and is one that UK firms should capitalise on.

Thirdly, protectionism thwarts international business and the UK offers one of the most open trading environments in the world, smoothing the way for British companies to trade with overseas entities.

UK businesses may feel their competitive advantage is under attack from developing markets that produce goods cheaply and enjoy low operating costs. Yet the UK remains a preferred trading partner and investment destination for many overseas companies because the robustness of its legal, regulatory and business framework is still second to none. ■

find out more

JLT's World Risk Review offers short- to medium-term assessment of the level of risk associated with a range of political and economic perils that could cause financial loss and is the most comprehensive risk assessment tool of its type. For further country analysis please visit www.worldriskreview.com