

President's Annual Lunch at the Mansion House

21 March 2014

Address by Denis Kessler, Chairman and CEO of SCOR

Lord Mayor, Lords, President, ladies and gentlemen,

Let me start by extending my warmest thanks to Graham, as President of the Insurance Institute of London, for his invitation to speak at this prestigious event.

I feel all the more honoured since I am the only Frenchman to have ever been awarded this privilege. Graham, this is definitely a bold initiative on your part. But insurance is all about risk taking, isn't it? Of course, being a seasoned professional, you took the trouble to come to Paris in order to brief me on the protocol. I have to confess that I was quite intimidated. But I assume that, thanks to the fortuitous absence of the Sheriff today, I will be able to walk out of Mansion House free of handcuffs, even if I do miss a toast!

I have been asked to share with you a few thoughts about our industry.

The insurance sector is sometimes depicted by outsiders or disagreeable observers as being rather dull and broadly impervious to change. I am convinced that this judgment is misguided.

Instead, I believe that the insurance industry is experiencing a major, albeit silent, revolution resulting from the introduction and dissemination of modern technologies. The ways and means of producing and distributing insurance and reinsurance services have been profoundly affected by the widespread use of technological tools that were not available just ten years ago. I have also noticed that this digital transformation of our industry seems to be gathering speed. The production side of insurance and reinsurance services is evolving rapidly, modifying our organizations, changing competitive forces, creating new business opportunities, and so on. In a nutshell, the micro-foundations of the insurance and reinsurance industry are currently going through an unprecedented series of technology-driven changes.

Let me illustrate these sweeping transformations with a few examples.

First, technology is significantly reducing the information asymmetry between insurers and insureds. This is a profound change because this asymmetry lies at the heart of all insurance

contracts. It's quite remarkable to note that it is currently being reduced on both sides. Previously, insureds were unaware of the fair price of risk. They now have easy access to a wide range of statistics. Moreover, the rise of price comparison websites clearly creates challenges for insurers. Conversely, insurers, who used to suffer from information asymmetry in terms of the individual risk factors of insureds, leading to adverse selection, now have access to new tools enhancing their client knowledge and facilitating risk assessment that is far more granular. Access to huge databases and telematics is pushing this even further. We are entering an "era of sensors" that allows us to monitor risk factors in real time. The implications in terms of prevention, fraud detection and claims handling are far-reaching, for both life and P&C insurance.

Second, technology, by reducing costs, is changing the scope of insurability. Being able to automatically underwrite individual life risks in a couple of minutes by tapping into databases considerably reduces the cost, time and hassle of underwriting a life insurance policy. The use of satellites in agro insurance brings similar benefits by eliminating the cost of "on the ground" loss adjustment.

Third, technology is changing the way in which insurers assess and model risks. The tools available today have powers that were previously unattainable. We are entering a world of sophisticated

internal models based on a multidimensional stochastic approach. This improves our understanding of the risk portfolio, and it paves the way for the optimization of capital allocation. The fact that Solvency 2 embraces this approach is certainly a positive development. Nevertheless, the advances in risk modelling are also having a disruptive impact on our industry via the so-called “alternative capital” phenomenon. Models have fuelled the ILS phenomenon (cat bonds, ILW, mortality bonds, etc.), by transforming capital investors into underwriters who can assess risks and probabilities by themselves, without needing to be part of an insurance or reinsurance company in order to do so. This brings new capacity, unsettling traditional reinsurance markets and affecting prices in certain geographies and for certain lines of business. The share of traditional reinsurance that is subject to competition from alternative capital will very much depend on the progress made by models. In response, insurers and reinsurers will need to outsmart those models and prove the added value of the industry’s human capital.

Having said this, technology will help new entrants with new tools to penetrate our industry: ultimately, technology is going to lower barriers to entry.

Fourth, technology is also contracting time. We are trending towards real-time adaptation of underwriting policies, reallocation

of resources, and adjustment of capacities. Take the alternative capital phenomenon again. It's not just interesting in the sense that it leads to an overall increase in the supply of capital in the industry. It's also interesting because it can potentially lead to a much faster adjustment between supply and demand. When supply is able to adjust faster to demand, economics teaches us that cycles tend to get shorter or even disappear. With less stickiness, we move from one spot equilibrium to another, following a random path.

My fifth and last point is that technology abolishes the notion of distance. We live in a world full of clouds, of global networks, of multi-centred organizations spread over several continents, of sophisticated supply chains with links everywhere. Yes, the globe appears more and more flat.

In such a world, which is largely based on technology, is there a future for "physical" marketplaces such as London EC3? That is the question. Some observers argue that they are bound to disappear under the pressure of the modern, high-tech Amazons, slayed by digital progress rather than the bow and arrow of an ancient Greek female warrior. Other observers argue that traditional market places will be reinforced by the digital transformation of our industry. This could seem like a paradox.

But I actually believe in this second hypothesis. Technology has made clusters such as Silicon Valley, Route 128 and the Silicon Roundabout here in the City more relevant than before, not less. Neither Oxford nor Cambridge is suffering from the accelerated development of “MOOCs” and e-learning. Why? Because when you are in a knowledge-based industry you need an “ecosystem” of talent where people can share ideas and emulate each other. The human capital dimension of our industry will be reinforced by its digital transformation. Ladies and gentlemen, the reinsurance industry is definitely a knowledge-based industry. It’s also an industry where relationships matter a great deal. It’s an industry based on a deep and extensive culture of risks. It’s an industry that rests on best practices drawn up over centuries. It’s an industry based on trust and loyalty, true prerequisites for carrying a business in which we often share fortunes over decades. Trust and loyalty are the foundations of our industry. In order to trust someone, you need to know that person, to drink a beer, to share a meal (and I must say, my impression of British cuisine has been greatly enhanced today). And all the parties involved in the production and distribution of insurance services need to share this vision and respect those values: brokers, insurers, reinsurers, loss adjusters, investors, analysts, and so on. Marketplaces such as the City of London offer this, and the Insurance institute is playing a key role in terms of building the new generations of human capital that will

master the development of technology towards better social and individual risk management.

These are not just empty words. At SCOR we are committed to the London marketplace, whether through our local operations here (we have 228 people working at 10 Lime Street) or through our operations at Lloyd's. We're proud to be the largest third-party capital provider at Lloyd's, and we have strong ambitions for our own Channel 2015 Syndicate, which should have its own managing agency from the second quarter of this year.

I'm even starting to worry about us becoming too English.

Only last week, I was reading an "initiation of coverage" report from a sell-side analyst based in London, and here is what I found.

This report (which makes a "Buy" recommendation of course) is entitled "SCOR: The Best of both worlds". It reads as follows:

"The philosophy according to which the business is run resembles a London Market company in some ways more than a European reinsurer". Which I interpret as follows: according to this sell-side analyst, London is not in Europe!

Then it continues:

“SCOR’s model is differentiated compared to that of its immediate peers. SCOR is more like a London Market company at heart.”

Reading this statement, I almost fainted!

Ladies and gentlemen, it is my great honour to propose a toast to the Insurance Institute of London.