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WEDNESDAY 20 AUGUST 2014

ISSUE 4,172

insuranceday

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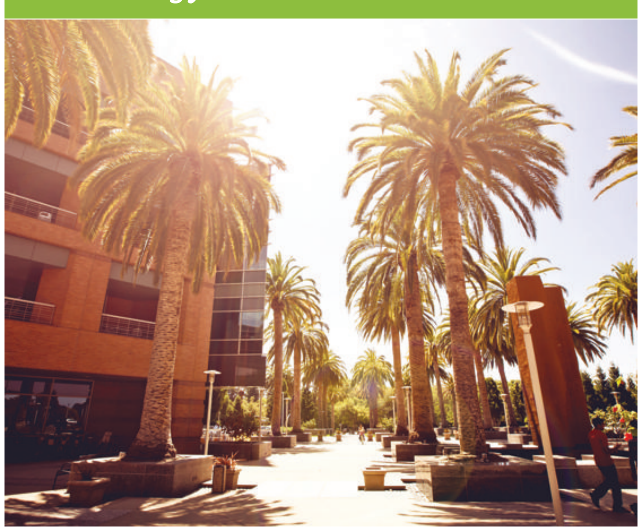

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Market news, data and insight all day, everyday
Insurance Day is the world's only daily newspaper for the international insurance and reinsurance and risk industries. Its primary focus is on the London market and what affects it, concentrating on the key areas of catastrophe, property and marine, aviation and transportation. It is available in print, PDF, mobile and online versions and is read by more than 10,000 people in more than 70 countries worldwide.

First published in 1995, *Insurance Day* has become the favourite publication for the London market, which relies on its mix of news, analysis and data to keep in touch with this fast-moving and vitally important sector. Its experienced and highly skilled insurance writers are well known and respected in the market and their insight is both compelling and valuable.

Insurance Day also produces a number of must-attend annual events to complement its daily output. The London and Bermuda summits are exclusive networking conferences for senior executives; meanwhile, the London Market Awards recognise and celebrate the very best in the industry. The new Insurance Technology Congress provides a unique focus on how IT is helping to transform the London market.

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ISSN 1461-5541. Registered as a newspaper at the Post Office. Published in London by Informa UK Ltd, Mortimer House, 37/41 Mortimer Street, London, W1T 3JH

Printed by St Clement's Press, Unit 16, Bow Industrial Park, Carpenters Road, London E15 2DZ

Political events in Ukraine and ensuing sanctions on Russia have put the political risk and trade credit insurance market under enormous pressure

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Russia exposure likely to lead to more diversified political risk market

Rasaad Jamie
Global markets editor

Political risk underwriters and brokers, for whom Russia has been a significant source of income over the past five years, will have to look at new territories and sectors to replace that income, an industry expert has said.

While speaking to *Insurance Day*, James Esdaile, a director at political risk and specialist credit insurance broker BPL Global (BPL), said political events in Ukraine and the subsequent imposition of economic sanctions on Russia have put the political risk and trade credit insurance market under enormous pressure.

"Of course, it is far too early to take a firm view on this eventuality, but it's fair to say underwriters with existing exposure are not taking on new exposure, while new players are unlikely to want to put Russia exposure on their books at the present time," Esdaile said.

"Of perhaps more immediate concern is the fact many players in the market – both underwriters and brokers – have made significant amounts of income from Russia-related business over the past five years.

"As such, a potential combination of clients reducing activity there and underwriters remaining cautious in taking on new exposure would force the market to look elsewhere to replace lost income," he continued.

Although the private political risk market has been cautious in extending cover to Russia in recent months, the exposure remains considerable as the vast bulk of the market's existing commitment to the country is through medium- to long-term contracts.

However, the length of those contracts – uncomfortable as they may be for the market at the moment – is also a sign of its growing sense of confidence and the expansion of its underwriting capacity after its highly successful negotiation of the global financial crisis.

Over the past five years, according to the most conservative estimates, the private political risk and export credit market (which has been profitable for all but one of those years) has increased its overall underwriting capacity by slightly more than 50%.

Esdaile expects the market to double or treble over the next few years. There are two reasons for this he explained:

"Firstly, within the context of the current soft general insurance market, our class of business is growing by virtue of an inflow of capital into it as a specialist area of the market with higher returns," he said.

"The second thing to say is that the range of activities and sectors currently covered by our market – such as the banks, the capital goods exporters and the commodity traders – is actually a very tiny proportion of overall global trade and investment activity."

He continued: "As a result, there is a huge opportunity for other industrial or service sectors to become comfortable with our products."

A changing of the guard at BPL: Big Interview, p6-7

IAG reports 59% increase in net profit after tax

Insurance Australia Group (IAG) has announced a net profit after tax of A\$1.2bn (\$1.1bn) for the financial year ended on June 30, *writes Scott Vincent*.

This represents a 59% year-on-year increase compared with a profit of \$776m for the corresponding period in the 2012/13 financial year. IAG said it had been boosted by an improved investment performance, which saw investment income grow 14% to A\$396m.

The Australian insurer was also assisted by a lack of a drag on its performance from the Equity Red Star business it sold in April 2013. In the previous financial year, this had contributed a loss of A\$287m.

Gross written premium was up 3% to A\$9.8bn, while net earned premium rose by 3.9% to A\$8.6bn.

NEWS

Marine insurers wary of Arctic shipping routes: Marsh

Alexis Burris
Reporter

As Arctic shipping routes become more commercially viable, marine insurers are concerned about the lack of viable information regarding the associated risks these routes present, according to a new report from Marsh.

The Arctic routes present a number of opportunities for the marine and energy sectors as Arctic ice continues to recede.

However, an absence of historical loss information, inaccurate surveys and reduced coverage available by navigation aids such as global positioning system (GPS) and the Galileo global navigation satellite system, among other things, has meant insurers are having a difficult time in underwriting the potential high risks in this region, the report, entitled *Arctic Shipping: Navigating the Risks and Opportunities*, has found.

"While marine insurers are largely supportive of the development of Arctic shipping routes, they are extremely wary about incurring large, high-profile losses while the market is still in its infancy," Marcus Baker, the chairman of Marsh's global marine practice, said.

"Currently, the majority of ships and their crews lack adequate experience, are unprepared and the support facilities are not yet in place for full-scale commercial voyages through the Northern Sea Route and the North-west Passage.

"In the absence of hard facts, it is extremely difficult for marine insurers to price an insurable risk, or even to agree to cover a voyage in the first place," he continued.

The Arctic shipping routes, which are considerably shorter than some of the more traditional routes, present high risks that could lead to unprecedented marine losses, particularly for protection and indemnity (P&I) insurers in terms of wreck removal and pollution.

The remoteness and inhospitable environment presents significant challenges for salvage, due to the difficulty and danger of surveying damage and the functionality of salvage equipment, along with environmental issues.

In particular, pollution from oil spills is of considerable concern to P&I insurers, owing to the difficulty of locating and handling spills in this region. During a media briefing on the report, one Marsh representative observed it is not clear how oil will react in very cold water "and that potentially presents an enormous risk on the liability side of things".

After the skyrocketing costs of the removals of both *Costa Concordia* and *MV Rena* in more accessible but also environmentally sensitive areas, which are still fresh on the minds of marine underwriters, P&I insurers are approaching these classes with increased caution.

According to Baker, insurers are likely to require detailed planning documentation and an extensive survey of the vessel. It is also likely deductibles for ice-related damage are considerably increased.

"As the ice continues to recede the commercial viability of these routes will increase. Underwriters will remain cautious and require detailed evidence the vessel and its crew are prepared," Baker said during the media briefing.

As the soft market continues for marine classes, there is some appetite in the market to write these risks, and "entertain product development", particularly as a means of diversification.

Baker added: "The London market will be critical in moving this forward. I don't doubt it will take the lead on how these risks are underwritten and establish premium rates."

HDI-Gerling opens underwriting unit in São Paolo

Talanx subsidiary HDI-Gerling has expanded its sales office in São Paolo to include an underwriting unit serving Brazil, *writes Scott Vincent*.

HDI-Gerling Seguros Industriais SA has been launched as a subsidiary company to offer business lines including property, liability, marine and engineering in the country.

Guillermo León has been appointed managing director of the unit, which will work closely with Talanx's existing offices in Brazil: Hannover Re (reinsurance) and Seguros SA (retail).

Christian Hinsch, deputy chairman of the Talanx board of management and chairman of the board of management of HDI-Gerling, said: "Brazil's economy has undergone significant growth over the past decade. Many up-and-coming companies in this country have a big requirement for high-quality industrial insurance.

"There is therefore a very sound rationale for us to be represented by our own subsidiary company in this very important market in Latin America."

HDI-Gerling Seguros Industriais has received a licence to operate in the country from Brazil's regulator, the Superintendência de Seguros Privados.

"Many up-and-coming companies in [Brazil] have a big requirement for high-quality industrial insurance"

Christian Hinsch
HDI-Gerling

QBE to raise $750m equity and sell off non-core assets

QBE has announced a number of initiatives aimed at boosting its capital strength, including raising more than $750m of equity and selling off certain assets, *writes Scott Vincent*.

The Australian insurer reported net profit of $392m during the first half of the year, compared with $477m during the opening six months of 2013.

The results included pre-announced reserve strengthening of $169m in the company's Latin American operations, described by chief executive, John Neal, as "frustrating". "However, we acted decisively to put this issue behind us. Our results show tangible signs of returning to levels more consistent with shareholders' expectations, absent the Latin American reserve development and the impact of lower risk-free rates," he said.

"We are pleased our underlying business is demonstrating the solid progress QBE is making towards delivering improved performance. When combined with the capital measures announced today, we are confident we have turned the corner on performance consistency with enhanced financial transparency and flexibility."

Neal said QBE had also reinsured the risk of any further adverse development with its Italian and Spanish medical malpractice claims reserves. The transaction is expected to have a broadly neutral impact on QBE's underwriting result, reducing both net earned premium and net incurred claims by around $390m.

"Medical malpractice is one of the most complex and long-tail classes of business to appropriately reserve for and we are delighted to have been able to reinsure these liabilities with clear benefits for our balance sheet," Neal said.

The equity raise will primarily be used to repurchase and cancel existing debt, while capital will also be boosted by planned divestments of QBE's US agency businesses, the sale of its central and eastern European operations and the creation of a joint venture structure for two of its Australian agency businesses.

Gross written premium was down 10% to $8.4bn during the first half, mainly attributed to Europe and North America. QBE said the reduction in Europe was a reflection of its exit of a number of non-core and poorly performing businesses, while in North America the reduction was due to a further significant cut in its lender-placed portfolio.

TECHNOLOGY FOCUS

in association with ACORD

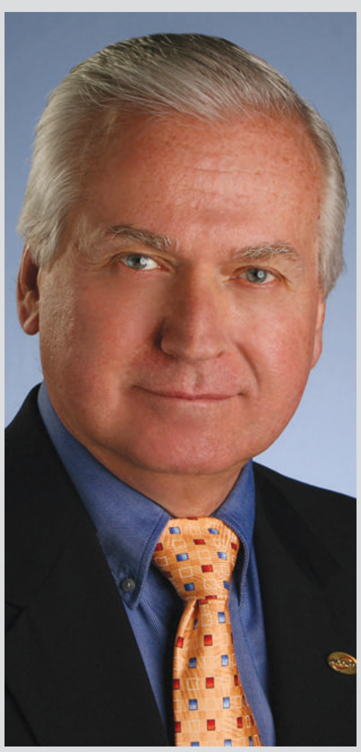
The world gets smart

I like to bring you something a little different on this page – ideas that will strike a chord or give a new viewpoint. This time Steve Adler offers a fascinating new way into a really big idea. It is the idea that, pretty soon, all the things around us are going to be collecting and communicating data, via the net.

There is a lot of hype about the so-called "internet of things". But it is a topic insurance professionals ignore at their peril. Relevant data is the lifeblood of the industry and as smart devices proliferate in the world around us, there is more and more data we can use to create new products and services. We are on the threshold of a period that will make complaints about "information overload" look quaint.

The great news is the industry is better prepared than ever for this vast influx of valuable and potentially game-changing data. The ACORD standards process is mature and global – ready to adapt to any new information sets that become relevant to the insurance community. Information professionals across the industry are focused on data as a business resource, while business leaders know information truly is power. ■

Gregory Maciag is president and chief executive of ACORD. He can be reached at gmaciag@acord.org.



Trees in Palo Alto, California: mapping trees and giving them URIs can help save the planet – but how?

Andrey Bayta/Shutterstock.com

The internet of trees

An internet of trees is no less ridiculous than an 'internet of things'

Steve Adler
IBM

I recently hosted a webinar with the chief information officer of Palo Alto, California, about an open data project in which the city was mapping and tagging all of its trees. By recording location latitude and longitude, genus, age, width, height, fruit and seed, the city is creating an asset inventory of its foliage. One of the call-in participants asked if the city was also assigning universal resource indicators (URIs) to the trees, which solicited a long silence and the question: "What is a URI?"

URIs are web links for data and they allow any data element to have a universal identifier that any web browser can resolve to a thing. Now, why would anyone want to put trees on the internet?

Humans are in the middle of a natural gas bonanza, as new drilling methods and fractured wells are reaching vast new reserves of gas to warm our homes, power our televisions and even run our vehicles. But every day, all over the world, natural gas leaks from underground pipes and valves and collects under manholes or escapes into the atmosphere.

A leading cause of gas leaks is trees, whose green leaves soak up CO_2 and release oxygen but whose tangling roots wrap around underground pipes and cause fissures and ruptures. In every city in the world, trees beautify the environment while corrupting pavements, streets and underground pipes.

Some trees have deep roots; others have shallow and wide roots. Some build complex subterranean networks under our lawns, spreading to adjacent buildings and empty lots. With so many trees in so many municipalities, significant sums of money are spent on planting and preserving them. People take their role for granted without ever considering their real net present value.

Populating the 'internet of things'

Whether or not you have heard of the "internet of things", many in the media use this term to tell stories about how toasters can talk to refrigerators, which is the kind of media nonsense that irritates IT professionals endlessly. But is an internet of trees any less ridiculous? Not in the least.

In fact, an arboreal internet of things can be a fundamental enabler for global sustainability. Because a tree with a URI is not just a thing: it is a living entity that changes every year with the environment. It welcomes children who climb its boughs, birds that live in its branches and people who experience events beside it. Open data and URIs enable people to add details to trees and streets and lamp posts and guardrails and buildings and parks. These details are in a bi-directional relationship of data publishing and use that describes the attributes of people's lives in a complex web, which defines exactly what a city is: life and events, past, present and future.

Not far from my home is a street named Middle Neck Road. Halfway up that street is a signpost dedicated to Alicia Patterson, who died in a car crash on that spot in 1981. She was just 19 years old at the time. All across the world, people mark spots where loved ones died in automobile accidents with ribbons and flowers and crosses and stars, which last for a while before being buried under snow, washed away by rain or forgotten in time. But with a global map of trees and streets, guardrails and intersections all given URIs, anyone can record these tragic events in open data that persists long past the organic life of flowers.

We all have seen old photographs of how our towns and cities looked 100 years ago. But those photos do not capture all the people who lived in those cities and the houses they built, the lives they led, the people they knew, the trees they planted and the things they did. URI mapping and open data, however, offer the possibility for every human being to leave digital records of the lives they led in the towns where they lived. As a result, we will be able to look back and understand the histories of our communities in rich narratives about real people.

And when trees are mapped with URIs, documenting the extent of their roots and the impact of those roots on gas lines can empower cities to hold utilities accountable for cleaning up nasty methane leaks before they destroy the planet. This new kind of root cause analysis can benefit all living creatures.

This kind of analysis also represents my vision for open data and the internet of things. It illustrates a rich world described in data, accessible to all, that gives us new insights into our world that we can use to achieve enhanced understanding, communication and history, as well as a better future. ■

Steve Adler is IBM's information strategist. He founded the IBM data governance council in 2004, created the data governance maturity model in 2006, was listed among the top 100 most influential people in financial services by Treasury & Risk Magazine in 2008 and created the information governance community in 2010.

RISK FORESIGHT

Foreign military intervention presents complications in Iraq

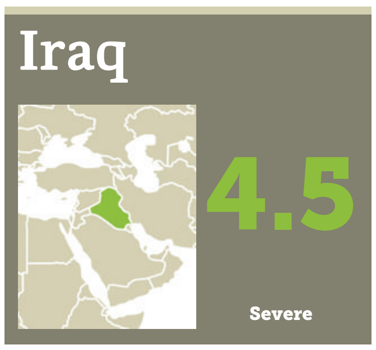
IHS Country Risk

The office of Iraq's commander-in-chief released a statement on August 17 saying the Iraqi government had not granted foreign military aircraft the right to operate within Iraqi airspace. The delivery of weapons to Kurdish Peshmerga forces also violated Iraq's sovereignty, he added.

Although Iraq's prime minister, Nouri al-Maliki, agreed to step aside on August 15, he is only set to hand over the premiership to Haidar al-Abadi after a new government is formed.

The statement is probably aimed at highlighting the implications of transforming the Peshmerga into a conventional force and their gaining the option to defend their claim to disputed Arab-Kurd territory, contested by Sunni and Shia politicians, militarily.

Abadi will probably also be required to clarify the Iraqi government's position on foreign military action when he takes over. Until then, US and UK action in Iraq is unlikely to subside.



The US authorised the use of airstrikes in Iraq on August 7 and has been delivering arms to the Peshmerga in Erbil.

In addition to targeting Islamic State convoys, US airstrikes are supporting the Peshmerga's offensive, launched on August 18, to retake Iraq's largest but still contested dam at Mosul.

On August 18 UK secretary of state for defence, Michael Fallon, said the UK's mission in Iraq could last months and confirmed Royal Air Force (RAF) surveillance aircraft were already operating there.

Given the federal government's growing dependence on remobilised Shia militias and untrained volunteer forces, military action that does not involve local Sunni support and has the potential significantly to weaken the Islamic State in Iraq now depends on Kurdish ground troops, supported by foreign special forces, military advisors, intelligence and air support.

Kurdish Peshmerga forces are being supported by US airstrikes

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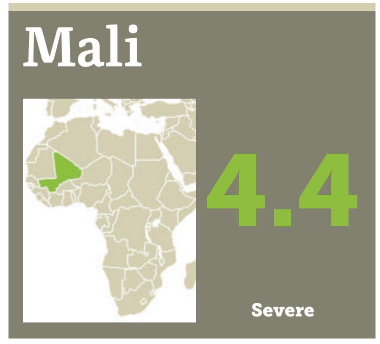
There is a high risk of Abadi's government opposing greater armament of Kurdish forces and autonomy, which would probably limit the scope of military aid for the Peshmerga and delay delivery of pledged aid.

It would also raise the risk of a unilateral Kurdish declaration of independence. If Abadi supports the Kurds, this will increase the likelihood of his administration making political concessions to turn Sunni communities against the insurgency, consequently enabling the government to recapture population centres from the Islamic State.



Mali – Increased likelihood of campaign to target international personnel

On August 16, a suspected Islamist militant drove into the UN multidimensional integrated stabilisation mission in Mali (Minusma) base in Ber, in the Timbuktu circle, 50 km east of Timbuktu, and detonated explosives inside his vehicle. The attack is one of several successful suicide attacks in the past year.

The frequency of successful vehicle-borne improvised explosive device (VBIED) attacks in the northern provinces of Kidal, Timbuktu, and Gao is likely to increase in the wake of stalling peace negotiations with northern armed groups.

Members of these groups, including the National Movement for the Liberation of Azawad and the High Council for the Unity of Azawad, are likely to be targeted for collaboration by Islamist affiliates who support efforts to drive out international forces.

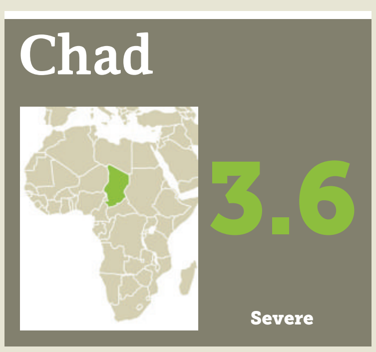
Islamist leader Iyad Ag Ghaly announced plans to step up attacks when he returned to northern Mali on August 8 after an 18-month hiatus. Bases, including airstrips, and patrols in and around Abeïbara, Boghassa, In Khalil, Taghlit, Tessalit, and Tinzaouaten face severe risk of VBIED attacks.

Chad/Nigeria – Rising risk of Boko Haram expansion

The Chadian army intercepted a convoy of Nigerians abducted by Boko Haram on the Lake Chad border, according to a report by the Jeune Afrique news website on August 17.

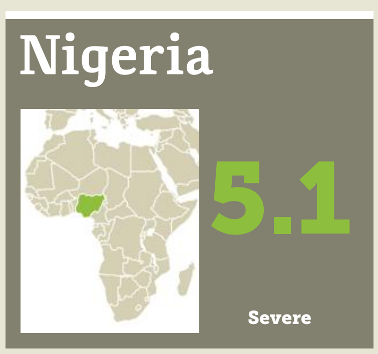
Over the past two months, the Islamist insurgent group Boko Haram has escalated and expanded its attacks in north-eastern states in Nigeria under emergency rule (Adamawa, Borno, and Yobe) and the Lake Chad Basin border areas shared by Cameroon, Chad, and Niger.

On August 13 Boko Haram launched an attack on the border town of Bonderi, in Mayo-Sava



department in Cameroon. Given Boko Haram's escalating attacks Chadian president, Paul Biya, has recently signed a decree to create a fourth military zone to better co-ordinate the fight against the group.

Boko Haram's success in contin-



uing to hold large swathes of land in north-eastern Nigeria is providing the group the time, location and resources needed to plan and expand its operations.

In early August, it also attacked communities along the Bama-Gwoza road in Borno state and Buni Yadi, Buni Gari, Goniri, and Katarko towns in Yobe State.

In Maiduguri, following the burial of 60 troops killed in Gwoza and Bama, wives of soldiers protested on August 11 against the deployment of their spouses to Bama, citing a lack of adequate weaponry. Two days after the incident, ministry of defence spokesman Chris Olukolad cautioned troops against mutiny.

Nigerian security forces deployed to fight Boko Haram in the three north-eastern states under emergency rule are poorly motivated. The rising death rate among security forces raises the risk of desertion or dereliction of duty.

Meanwhile, the expansion and escalation of Boko Haram's operations in the northeast and Lake Chad Basin area pose a high risk of attacks on public places, banks, and cash in transit.

It also heightens the risk of abduction of foreign nationals and political and tribal leaders in exchange for ransom or detained Boko Haram militants.

States such as Adamawa, Bauchi, Borno, Gombe, Kaduna, Kano, and Yobe, as well as northern Cameroon are at risk of such attacks. ■

IHS Country Risk leverages the company's detailed qualitative and quantitative analysis of 204 countries, covering political, economic, legal, tax and security risks.

BIG INTERVIEW

A changing of the guard

As the political risk and trade credit market is being radically reshaped, a number of changes are taking place at BPL Global, the oldest independent political risk broker in the London market, including a shift in ownership to a new generation of partners

Rasaad Jamie
Global markets editor

These are promising but tumultuous times for the political risk and export credit insurance market, currently under pressure as a result of the market's exposure to political events in Ukraine and the subsequent imposition of economic sanctions on Russia.

The country, as a recent report on the region points out, is one of the largest capacity markets for political risk and export credit underwriters, which are potentially exposed to significant losses if the US and EU sanctions are further extended and severely weaken the Russian economy.

Such a weakening could result in the corporate and state-owned entities, which are the subjects of political risk and trade credit insurance, coming under financial strain to the extent that they default on their obligations towards the market's clients, according to James Esdaile, a director at political risk and specialist credit insurance broker BPL Global, which celebrated its 30th anniversary in June last year.

"Of course, it is far too early to take a firm view on this eventuality but it's fair to say underwriters with existing exposure are not taking on new exposure, while new players are unlikely to want to put Russia exposure on their books at the present time," Esdaile says.

"Of perhaps more immediate concern, therefore, is the fact many players in the market – both underwriters and brokers – have made significant amounts of income from Russia-related business over the past five years.

"As such, a potential combination of clients reducing activity there and underwriters remaining cautious in taking on new exposure would force the market to look elsewhere to replace lost income. However, if this turns out to be the case, there may arguably be a positive outcome, in the sense underwriters will have to look at new territories and sectors in order to sustain and grow their premium income."

Although the private political risk market has been cautious in extending cover to Russia in recent months, the exposure remains considerable, as the vast bulk of the market's existing commitment to the country is through medium- to long-term contracts.

But the length of those contracts, uncomfortable as they may be for the market at the moment, is also a sign of its growing sense of confidence and the expansion of its underwriting capacity after its highly successful negotiation of the global financial crisis.

Indeed, over the past five years, according to the most conservative estimates, the private political risk and export credit market (which has been profitable for all but one of those years) has increased its overall underwriting capacity by slightly more than 50%.

The size of the market will most likely double or treble over the next few years. There are two reasons for this, Esdaile says. "First, within the context of the current soft general insurance market, our class of business is growing by virtue of an inflow of capital into it as a specialist area of the market with higher returns. In this regard, we very much expect our market to continue growing," he says.

"The second thing to say is that the range of activities and sectors currently covered by our market – such as the banks, the capital goods exporters and the commodity traders – is actually a very tiny proportion of overall global trade and investment activity. So there is a huge opportunity for other industrial or service sectors to become comfortable with our products.

"So we see nothing but an opportunity for enormous growth in this class of business. And that view is shared by almost all of the insurers with which we deal.

"We anticipate the private political risk and export credit market will, over the next few years, achieve a significance and a profile that will allow it not only to work alongside the state-owned export credit agencies [ECAs], but also to offer an alternative to the ECAs for medium- to long-term political and credit risk insurance."

Meaningful capacity

A number of developments in the aftermath of the financial crisis served to bring about this situation, including the decline in the credit risk ratings of a number of European ECAs, some of which, Esdaile says, are lower than the ratings of players in the private market.

Indeed, some private market

Esdaile on...

Russia-related business

"A potential combination of clients reducing activity there and underwriters remaining cautious in taking on new exposure would force the market to look elsewhere to replace lost income."

Role of Lloyd's

"In the political risk arena, there is now less of a distinction between Lloyd's and the London companies market in terms of capacity... There are now 42 players, of which more than half are Lloyd's syndicates. So Lloyd's is a very important player in the market."

Aspinall on...

PRI market changes

"The [private] market is now providing credit insurance cover on a seven- to 10-year basis and political risk cover for up to 15 years. There is now a meaningful volume of capacity in the market."

Heading into banking territory

"Recently there has been increased demand for our products from commodity traders that have been heading into traditional banking territory and taking the lead in large structured trade finance deals."

Esdaile and Aspinall CVs

James Esdaile joined BPL Global in 1997 as a graduate trainee. Since then, he has built up a wealth of experience across the firm dealing with a wide range of clients. He was appointed to the limited board in 2004, and to the group goard in 2006.

Sian Aspinall started out as a political risk broker in the early 1990s. After a few years, she left broking to join AIG as an underwriter. She subsequently spent 13 years in underwriting, including from 2000 to 2007 as a senior vice-president at Zurich Financial Services, establishing and heading the company's trade credit and political risk division in London. She left Zurich to set up her own political risk consultancy, SA Risk Services Ltd.

insurers are now actively targeting areas of the market formerly regarded as the exclusive preserve of the ECAs. "We believe the private market is now effectively on a par with certain ECAs," Esdaile says.

"And while it might take time culturally for clients to differentiate between the two, it is an increasing possibility and a massive opportunity for the private market."

ECAs, he says, typically deal directly with clients, rather than through brokers like BPL. "We're not suggesting that we work with the ECAs. What we are saying is that users of ECAs should work with us to look at what they are aiming to achieve and let us help them to co-ordinate how they go about protecting themselves – whether that be through the private market, through the ECAs, or through a combination of the two."

Another development regards the changes 18 months ago in the market protocols for credit and political risks at Lloyd's, a move that greatly increased the underwriting capacity in that market for political and credit risk by easing previous restrictions on how capacity is allocated among the various categories that make up this line of business.

Commenting on the transformation of the PRI market over the past five years, Sian Aspinall, development and technical director at BPL, says the new rules introduced by Lloyd's enable a wider number of players in the market to participate on some of the longer-term transactions and enables the market to be much more responsive to the demand from both longstanding and new clients that is currently out there.

"Previously, our market used to be a very short-term market, with a maximum policy period of three years," she says. "But we have seen enormous changes. The market is now providing credit insurance cover on a seven- to 10-year basis and political risk cover for up to 15 years. There is now a meaningful volume of capacity in the market."

These changes build on the original Lloyd's regulations, allowing syndicates to issue contract frustration and trade credit insurance cover to financial institutions, which allowed these institutions to improve their credit risk rating and claim capital relief under international banking rules for the trade and export finance transactions for which they have purchased insurance cover.

Esdaile says the changes also allowed Lloyd's to bridge the gap between what the large corporate insurers are able to offer in terms of underwriting capacity and what Lloyd's is now able to offer.

"In the political risk arena, there is now less of a distinction between Lloyd's and the London companies market in terms of capacity," he says. "Fifteen years ago, there were maybe a dozen players in the market. There are now 42 players, of which more than half are Lloyd's syndicates. So Lloyd's is a very important player in the market. The ability to syndicate among our market is getting easier all the time. So, in aggregate, the private market really can compete with ECAs in terms of capacity and tenure."

BPL, which employs around 70 people, has offices in London, Paris, Singapore and Hong Kong, but the firm is also part of the Global Network, a group of independent firms that specialise in risk-transfer solutions for exporters, traders, investors, banks and finance houses.

According to Esdaile, this gives BPL the ability to service clients in other key export trade credit markets, such as Brazil, Italy and the US. Esdaile describes the foundation of the network in 2000 (with BPL as one of its two founder members) as an important transition in BPL's transformation from an essentially wholesale broker into a retail broker.

Financial crisis

Due to the large number of claims paid by insurers, the global financial crisis really helped to validate the value of credit insurance as a product, according to Esdaile.

"And since the crisis, through word of mouth, through brokers retailing to new clients, our ability to reference the crisis helps enormously. Certainly, the clients that had helped us to build the market stuck with it because they could see that it worked," he says.

Aspinall refers to the big shrinkage in liquidity in the banking sector during the crisis that the insurance sector, to a certain extent, was able to supplement and enhance with its product offerings.

"There was a huge demand from banks because they had their own client relationships they were trying to maintain," she says. "And it was not just banks. Recently there has been increased demand for our products from commodity traders that have been heading into traditional banking territory and taking the lead in large structured trade finance deals.

"The banks now have so many regulatory hurdles to meet, it takes a lot longer for them to make the finance available to obligors and therefore the traders can muscle in as both financier and off-taker.

"Those traders are now looking to the insurance market to provide the guarantee through credit insurance on the structured deals, rather than to provide funding directly because the traders have access to huge quantities of funds themselves, leveraged off the back of their balance sheets, in the form of revolving credit facilities," she says.

Indeed, even large corporate clients are now increasingly looking to the insurance market as an alternative to what banks offered them in the past, albeit without the funding element. "But many of these larger corporates are cash-rich and don't have a problem with funding," Aspinall adds. ■

New generation of partners

At the same time as the market is being transformed, a number of important changes are taking place at BPL, including the appointment of Aspinall in March this year.

This represents something of a departure for the firm, which, until very recently, rarely hired externally. It mainly relied on its graduate scheme for recruitment (Esdaile, for example, joined as a graduate trainee in 1997) and on its in-house training programmes for staff development to nurture a culture that the firm regards as appropriate for an independent, specialist broker focused on establishing long-term relationships with clients and underwriters.

However, Aspinall was no stranger to BPL. She started her life as a political risk broker in the early 1990s and worked for the firm for two years before she left to join AIG as an underwriter.

She subsequently spent 13 years in underwriting, latterly as a senior vice-president at Zurich Financial Services, establishing and heading the company's trade credit and political risk division in London. This was followed by a seven-year career as a political risk consultant.

It is BPL's proudest boast that it very rarely loses people to the competition; the few who left, like Aspinall, went into underwriting. BPL's two other external hires this year were Margaret Ho from JLT Hong Kong and Lucia Petry from Aon in France.

Esdaile says this is not necessarily the start of external hiring at BPL. Aspinall, Ho and Petry were highly exceptional cases.

"In the case of [Aspinall], we were halfway there because she has already worked for the firm and later consulted for us. Her appointment was about timing and opportunity. It was clear [Aspinall] would be happy to rejoin the company and a deal could be struck," he says.

"We don't have a lot of people within the firm that used to be underwriters. So the experience she brings with her is hugely valuable. Ho was hired to enhance our capabilities in Asia and Petry to strengthen our important platform in Paris. The demand in Asia is growing and we needed to increase our staff count there quickly, and France has always been a core market for the company."

Personality driven

But in many ways, the emergence of a new generation of partners such as Esdaile and Aspinall represents an even more radical departure for the firm, which is not only the oldest and by far the best known independent political risk broker, but also widely regarded as one of the most personality-driven broking firms in the market.

This is largely due to the high profiles of the two principal and founding partners, Charles Berry and Anthony Palmer. The reputations of Berry and Palmer in the market are based partly on BPL's crucial role in the reintroduction of credit insurance into Lloyd's in the early 1990s, but probably more importantly, on the part the firm played in the development of products for use by banks, which these days constitute more than half of the entire market's client base.

Esdaile acknowledges Berry and Palmer still very much represent the public face of BPL but, he says, behind the scenes, a number of things have changed over the past few years. And, dating back to the speech Berry made to a big gathering of clients and underwriters at the firm's 30th anniversary celebrations last year, there have been several public signals, including this interview, about the way BPL intends to move forward.

The speech, Esdaile explains, "made a clear statement about the company being 30 years old. The plan is that in another 30 years' time, we will still be employee-owned and independent. It was a deliberate message to the market we have always been and will always be an employee-owned company. The reality is that for some time now, we have had a process in place to redistribute the equity holding from the older partners down to the younger partners and out among the firm's employees more generally."

For BPL, it is about accepting Berry and Palmer will not want to work for another 30 years. "So, the situation as it stands now, is that while they still have sizeable stakes in the firm, collectively, the new generation of partners have a bigger stake in aggregate," Esdaile says.

"So the control of the company is gradually moving from one generation to another. And, just to be clear, this is not something that's easy to do. But we, including [Berry and Palmer], have worked very hard at it and we are now definitely on track to establish a well-balanced equity base for the firm. It is not a new strategy. It has been going on for some time."

Esdaile points out the changes are not about Berry and Palmer retiring or taking a back seat. Indeed, Berry is still very active in all areas of the firm's business and Palmer currently serves as chief executive of the Singapore office which he set up in 2012.

But for Esdaile, it is also about reassuring the market. "So it is not about [Berry and Palmer] stepping back. It is about the fact that we now employ 70 people and we are not just restricted to those two individuals," he says.

"And we also like think both our clients and the underwriting market value our expertise and see our independence as key to the health of the market and, therefore, would like to see us continue as we are."