MINI-ROUNDTABLE

INNOVATION IN THE INSURANCE INDUSTRY
Ty R. Sagalow is President of Innovation Insurance Group, LLC. Mr Sagalow is a 30-year veteran in the insurance industry having senior executive positions in underwriting, legal and product development for major insurance companies. In addition to product development, Mr Sagalow is considered an expert in new product development, cyber insurance as well as directors and officers liability insurance, professional liability insurance, employment practices liability insurance and reputation insurance. Mr Sagalow spent 25 years as a senior executive with AIG. His major positions included, from 1989-1999, Chief Underwriting Officer and General Counsel for AIG Executive Liability (f/k/a/ National Union).

Kevin H. Kelley is Chief Executive Officer of Ironshore Inc. Mr Kelley joined Ironshore in 2008 following his professional tenure at AIG’s Lexington Insurance Company, where he is credited with building it into a leading excess and surplus lines insurance company. Under his leadership, Mr Kelley has expanded Ironshore’s international presence with a network of offices offering diverse, specialty insurance coverages around the world. He was elected President and Chief Executive Officer in 1987, after having held a variety of leadership roles within the company, including Executive Vice President of AIG Property Casualty Group and President of AIG Domestic Personal Lines.

Ben Walter is Chief Executive Officer for Hiscox USA. In this capacity, he is responsible for the Hiscox insurance business in the US. Mr Walter joined Hiscox in early 2011 as COO and served in that post until April 2012. He previously held the position of Managing Director in the San Francisco office of Blackrock, which he joined via its acquisition of Barclays Global Investors. Prior to that, he was a Director with Gap Inc. and a consultant for the Boston Consulting Group. Mr Walter has an MBA from Northwestern’s Kellogg School of Management and a BA from Washington University in St. Louis.

Vincent C. Tizzio has been President & CEO of Navigators Management Company, Inc., since July 2012. Prior thereto, Mr Tizzio was Executive Vice President of Zurich North America from 2008 to 2012, President of AIG Small Business at American International Group from 2002 to 2008, and served in various underwriting and management positions with American International Group. He is a graduate of Adelphi University (B.A., Finance & Sociology), is a member of the Freedom House Board of Trustees, Saint Peters College Board of Regents, and the Zurich Financial Services Global 100.
RC: Some would say that the insurance industry is not known for its innovative thinking. Do you agree? And what are the consequences for the industry if it stops (or doesn’t become) innovative?

Sagalow: In reality, we have no choice but to be innovative. Our fundamental obligation is to understand, even anticipate, the needs of our customers and effectively respond to those needs. Customers have available to them increasing numbers of choices regarding how to manage risk in their organisations; buying insurance from traditional insurance companies is only one such option. In a recent survey released by Accenture, 67 percent of respondents said they were prepared to purchase insurance or insurance substitutes from non-insurance companies, including Google and Amazon, if the traditional insurance industry continues not to meet their needs. Mike McGavick, CEO of XL group, said it best when he asserted that “if we, the insurance industry, do not innovate we will become irrelevant.” The insurance industry cannot continue to be known as a ‘smart follower’. Instead, we must be creative leaders. If the industry is to succeed, innovation must become ‘the new normal’.

Walter: It’s hard to argue with the statement that the industry isn’t known for innovative thinking. It isn’t. The real question is whether the reputation is justified, and I would say it is, but in a far too generalised way. The real issue is that judging the industry as a whole on innovation leads to the fallacious conclusion that it will fall behind somehow. But innovation is special in that it only needs to happen in pockets of excellence to drive broad scale change. ILS funds, direct distribution, predictive analytics, portals – these are all examples of innovation. What’s interesting is that some have embraced these types of innovations much more than others. Over time the bar will continue to be raised and those that successfully adopt disruptive change will bring the industry along by hook or by crook. That’s the beauty of a competitive market.

Kelley: Insurance companies and risk management entities are continually challenged with the test of developing innovative solutions to earn market share. Innovative solutions that respond to client coverage needs are absolutely essential for insurance players to remain competitive in today’s business environment, entrenched in a prolonged post-financial crisis mindset.

Tizzio: To my mind, innovation is the creation of products, the delivery of products and, finally, the process of underwriting itself. Given that, I don’t think it would be fair or accurate to say that the insurance industry has not been innovative. In fact, I’d say the insurance industry is required to be innovative by the very nature of its purpose. As new
laws and regulations are promulgated by Congress, local governments or states, or as new case law is created in our courts, it has been left up to the insurance industry to be creative and innovative in the development of products and services in insurance that can address this ever-evolving landscape. Directors & Officers (D&O) liability insurance, for example, took substantial form and shape following changes in securities laws in the 1960s, and resulting actions taken by the Securities and Exchange Commission, and continues to evolve on the same basis. The same thing happened with Employment Practices Liability Insurance (EPLI) in the mid-1990s as several laws addressing employees’ rights were enacted and tested in the courts. As with D&O coverage, EPLI coverage was developed following an emerging trend in corporate America, in turn helping corporate America stay a viable course. Today, there is a lot of innovation in cyber technology liability due to the rapidly changing landscape in that arena. Without the insurance industry’s ability to be innovative in how we cover these new exposures, commerce as we know it would have ceased to exist. So, while the industry may not be ‘known’ for its innovation, it is most certainly an integral component of the business. While we may be innovating in our product development, of course there is always room for continued improvement in service delivery. Today, some are forced to offshore the evaluation of policies for example. As a result, the accuracy and timeliness of the evaluation process may suffer. I think we could to do a better job at the delivery of products and services. To do that, the evaluation of the application and renewal process needs to be enhanced so we can find a way to shorten the cycle. Part of that solution is the use of data, how we assimilate the data accurately, and being able to innovate through pattern recognition so we can bring greater capability to such aspects of pricing certainty.

**RC: Is innovation a culture, a process, or both? Put another way, what makes a company ‘good’ at innovation?**

**Walter:** Innovation is definitely both culture and process – but culture leads the way. A company with an innovation-oriented culture will build the right processes around that culture, not the other way around. In my view, a culture of innovation comes from three ingredients: openness to challenge, tolerance for failure, and organisational flexibility. Openness to challenge speaks for itself: the frontline people who are closest to the day-to-day business must be able to challenge what they see, and that type of behaviour must be systematically rewarded. Tolerance for failure is critical because most innovation is an iterative learning process, and without the necessary tenacity the truly breakthrough ideas will never see the light of day. And organisation flexibility addresses the reality that many good ideas have been embraced but failed
because there was too much organisational inertia against their success. Put bluntly, too many had too much to lose.

**Tizzio:** Innovation should be a constant, built into the culture. A good balance is to act upon opportunities with limited bureaucracy and ready access to decision makers, while providing meaningful capacity, a global reach and a strong balance sheet. A key part of this is to identify emerging client problems and offer anticipatory solutions on a daily basis. A ‘flat’ organisation should seek to ingrain innovation into its culture seamlessly and respond to clients’ needs more readily. If each underwriter views himself as a mini CEO, or owner, of his own business, he will be committed to analysing and understanding clients’ needs on a continuous basis in order to identify the suitability of his products and services, and to be aware of emerging exposures to loss. Is it a culture or a process? I’d say it’s both.

**Sagalow:** Innovation must start from the top down. A company creates then builds a culture of innovation; it must hire, then, only people who believe in that culture and can nurture it over the decades. Finally, a process must be created consistent with that culture that will produce customer focused new products and services that solve real needs. Notice I said ‘needs’ not ‘wants’. Henry Ford once remarked that if he listened to his customers’ ‘wants’, he would have built a smaller, faster horse.

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**Kelley:** Tackling market realities demands an entrepreneurial culture devoted to creating innovative solutions that move beyond the status quo. Companies will be called upon to recognise and deploy skill sets throughout the organisation to anticipate, adjust and adapt. Leadership must embrace a longer view of the growth trajectory and adhere to a disciplined approach that will be required for an organisation to succeed. A corporate culture that encourages and rewards newly-honed characteristics can define how insurance entities chart a path from surviving to thriving.
RC: What are some of the insurance industry’s greatest successes, and greatest failures, when it comes to innovation?

Kelley: I believe probably one of the greatest industry successes has been the development and increasing sophistication of Directors & Officers liability coverage. Nearly 50 years ago when the product was first introduced, it was viewed as a simple, young product with uncertain prospects as to whether its protectiveness for corporate leadership would stand the test of time. Innovation was the driver. Insurance companies have prudently responded to client demands and the D&O liability product has evolved to provide comprehensive, selective coverage options, offering a proven solution in today’s aggressively litigious society. Clients recognise that executives would not become directors if not for the coverage. Today, professional D&O is a mainstream insurance program for companies worldwide. A more recent industry innovation, of which its potential success is still being assessed, is Employment Practices Liability Insurance (EPLI). In recent years, the Equal Employment Opportunity Commission (EEOC) has reported an explosion in litigation by employees. The suite of EPLI products being offered is intended to help public entities and private employers secure coverage to manage litigation exposures in an environment of governmental regulation and enforcement of employee workplace issues.

Walter: I think the greatest successes are on the personal lines side, where the giants of the industry have bucked historical distribution models while simultaneously using the power of big data to drive enormous scale advantages. I think commercial insurance has yet to see the full impact of that type of transformation. There are certainly many failures, but one area where the jury is still out is with cyber and data breach insurance, and as the risks evolve it is unclear what portion of the market will be insurable. The products are good, but the landscape is changing so quickly that many products have not kept pace.

Tizzio: Some of the greatest innovations today in insurance are direct sales over the internet. As far as ‘failures’ go within the insurance industry, I think back on all of the issues with asbestos. We, as an industry, did not provide a good answer for that liability – we didn’t realise the scope of what new technologies brought into the workplace and could do to the insurance market, and I’d say that’s a failure.

Sagalow: Winston Churchill said that “Success results from going from failure to failure without loss of enthusiasm.” At our best, the insurance industry has embraced our failures as a necessary part of
our road to our successes. Over the years we have seen some of the industry’s greatest new product successes as well as some of its most interesting product failures. And there are some new products where the jury is still out. Industry successes have included new and better forms of directors and officers (D&O) insurance, employment practices liability insurance, environmental and cyber. Cyber, at a bit over $1bn in worldwide premium, is an example of a product for which the full future is still before us. In my opinion, Y2k Insurance was certainly one of the industry’s most interesting, albeit short-term, product ever developed by the industry. On a personal level, one of my most interesting product failures was Commodity Trading Insurance, which would insure the accuracy of the hand signals made by floor traders. Great product but not a single sale; we forgot that Commodity Traders only make a trade – or buy an insurance policy – where they know that the claims payoff is greater than the premium they are paying. New products that I believe will be great someday but perhaps just haven’t hit the right mark yet include Reputation or Crisis Management insurance. We all know that a company’s reputation is critical to its financial stability and long-term survival. As we strive to embrace what Clayton Christensen calls “smart failure”, we would be wise to bear in mind another saying of Winston Churchill, “Success is not final, failure is not fatal: it is the courage to continue that counts.”

RC: How important is it for insurers to bring products to market quickly? What steps can they take to achieve this objective?

Sagalow: This is a balancing act. I am a big believer in having a ‘first mover advantage’ and do not feel that carriers should practice ‘watchful waiting’ of the market. Looking for successful products launched by someone else and then jumping in afterwards will never lead to real success. On the other hand, a poorly thought out product quickly launched for the sake of quickly launching something harms your relationship with your customers and damages your reputation. Ultimately, of course, it also fails to generate sales. To achieve the right balance between quality and speed, you must combine a top down created company wide culture of innovation with an efficient product development process from idea validation to product creation and launch executed by people who share that culture of creativity. Success also requires he proper application of an internal reward system. A successful company will not make ‘the perfect’ the enemy of ‘the good’, and will accept the value of ‘smart failures’, to again use the words of Harvard Business School Professor Clayton Christensen. As Hank Greenberg recently remarked in an interview about the innovative culture at AIG when he was there, “We had great successes, not
always, sometimes we failed, and when we did we went back to the room, figured out what went wrong and tried again.”

**Tizzio:** Creativity is the ability to produce something new through imaginative skill, to see something in a new way and to see and solve problems no one else may know exist. Creativity is vital to successful and profitable growth. Responsible insurance companies feel the obligation to analyse emerging laws and trends and to develop solutions to help clients mitigate potential losses on their balance sheet as quickly as possible so there are no gaps in exposure. Specialists, insurance companies should seek to identify emerging trends and interpret new laws and statutes in a way that is a value-add to their client base. Developing complex niche insurance products requires technically skilled underwriters with a track record of accomplishment in those specific lines, who have the know-how and authority to develop a tailored solution. Is it most important to be out ‘first’? I think it’s most important to get it right.

**Walter:** I think people generally overstate the centrality of product development to innovation. New products are certainly an important part of the industry’s development, but in my view they are only a small part of the innovation conundrum. That said, the process could always be better. The biggest hurdles are regulatory and technology related, and the industry is trying hard to address these issues.

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**Kelley:** There are advantages and often disadvantages in a rush to introduce products quickly, based on the nature of the risk and the complexity in underwriting the coverage. Urgency of clients’ demands drives the speed of the innovation process. Last year’s Boston Marathon Bombings is a case in point. Clients expressed an outpouring of demand for a product that would respond to heightened risk exposure associated with high-profile events. The event raised awareness among organisers, associations and stadium owners, among others, to the potential gaps in coverage in
the aftermath of violent attacks at world-watching events. The Boston Marathon Bombings occurred on 15 April 2013. Event risk coverage programs starting becoming available to the market by late May, within less than eight weeks.

**RC: Is the interaction and cooperation between underwriters and brokers an important part of product innovation?**

**Walter:** Long gone are the days when insurance companies can go into a dark room, develop a product, and splash it on the market to great fanfare. A constant, dynamic conversation with your customers and distribution partners is critical, especially in an intermediated business. A brilliantly designed product that no one wants or values is pretty useless.

**Sagalow:** Brokers play a critical role in product development. They are the ones that many times are closest to the customer. A good broker will do a great deal more listening than speaking. The same can be said for a good underwriter. The purpose of any new product or service is to satisfy a customer need. Sometimes the insurance industry can anticipate what those needs are, even before the customer may be aware of them. But, more often, we have to listen. For a consultant, some of the most important clients are members of the brokerage community because the odds are they are going to be the first ones to hear about a new customer need.

**Kelley:** The added dimension to the insurance underwriters and brokers relationship is the client. The client has to realise the existence of an exposure that is not being covered in the existing commercial market. The client expresses concern to the broker, who then approaches the risk taker, the insurance company, to create a viable coverage solution. With these three entities working in tandem, there is a greater likelihood for solving a client’s coverage needs. Chances are that in most cases, once the insurance product moves through distribution, brokers discover that other clients have similar challenges.

**Tizzio:** The value and insight of intermediaries is critical to the ability to develop products and services that meet the needs of policyholders. In the past, clients came to insurance companies because they had to by statute or bank law. They wanted merely to transfer risk. Over the years, those same clients have assumed more risk and, with the introduction of US deductible programs, clients have gotten more intelligent about risk also. They have come to view insurance companies more as partners than as vendors. This relationship is critical to the entire concept of innovation and service. Expertise is essential in order to adequately evaluate risk and set appropriate pricing and terms.
RC: What are the biggest factors that lead to insurance innovation? Is it primarily new legal and regulatory developments, or are there other factors?

Tizzio: The business world is a dynamic environment influenced by global economic trends, the ebb and flow of capital, evolving regulatory requirements, redefined legislative decisions, and even natural catastrophes. A business insurer’s ability to provide relevant insurance solutions for the risks faced by global businesses stems from the art of anticipation. From constantly analysing the shifting landscape of risk that defines the scope of financial losses impacting customers, to understanding the supply of capital and demand for protection, it is important to make assessments of the emerging factors that give rise to threats and create opportunities. So, yes, some of the factors that lead to insurance innovation are legal and regulatory developments, but other factors include technical developments both in clients’ fields – for example, the introduction of deepwater drilling and the need on the insurance industry’s part to fully understand that business and hire in-house engineers – as well as internal processes – for example, the process of compiling data and delivering service.

Sagalow: Of course, there are countless examples of legal and regulatory developments leading to new insurance products. But it is not just legal and regulatory developments that lead to insurance innovation, case law, or court made law, changes in economic and technological environments, and geography and sociological changes, also prompt the development of new insurance products and services. With respect to legal changes, the modern form of D&O insurance was in large part the result of a particular subparagraph in a securities law created over 80 years ago. More recently, the Superfund law of 1980 prompted an entire industry of Environmental Insurance. ERISA, the Employee Retirement Income Security Act of 1974, created the concept of a pension plan fiduciary, thus prompting the creation of Fiduciary Liability Insurance within 90 days of its passage. The Civil Rights Act of 1991 prompted Employment Practices Insurance. Each of these products is a multi-billion dollar industry today. But it doesn’t have to be the legislature law. For example, in 1985 when the Delaware Chancery Court overruled hundreds of years of executive liability safeguards to create a new and more limited version of the Business Judgment Rule, there emerged the creation of the current form of shareholder derivative actions and, consequently, a need for better forms of D&O insurance. Beyond legal and regulatory, a change in the economic and technological environment can result in new insurance products, as was the case with Y2k.
Insurance and Cyber insurance. These changes can also result in innovations in distribution as we have seen with internet based insurance purchasing. Micro-insurance has grown out of changes in geography. Finally, sociological changes, such as greater life spans, continuously prompt new insurance products in the retirement and annuity space.

Kelley: Persistent regulatory scrutiny, legislative action at various levels, and legally-defined precedent have converged to spotlight potential gaps in coverage, exposing companies to excessive financial loss. Global business guidelines and forced reform of industry standards for operational efficiency are triggering the overall insurance industry to engage in a stringent analysis of emerging risks that require vigilance in seeking coverage solutions.

Walter: Technology is also a huge factor. This industry moves at a snail’s pace compared with our capital markets brethren, who now are competing for trade executions in literally nanoseconds. A huge portion of the volume in this industry is still handled manually, and that will have to change. I also think, specifically on the commercial side, that there is much more that can be done with regard to marketing innovation as well. The industry has not exactly shined on that side.

RC: To what extent can insurance be considered as an ‘engine of growth’ for many businesses?

Kelley: Insurance innovation helps growing companies focus on their business. Insurance takes the worry of unexpected risk off of their balance sheets. The last thing a growing business wants to confront is an unexpected liability, which raises the potential for costly, potentially damaging litigation. Further, companies forging new business frontiers may encounter potential areas of uncovered risk that can be brought to the attention of their broker or insurance carrier, thus reigniting the innovation development cycle. Insurance offers

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entrepreneurs peace of mind, allowing them to focus on their business and growth objectives. For growing companies, insurance can act as strategic, contingent capital.

Walter: Insurance is an engine for growth when it allows companies to take calculated, sensible business risks in circumstances where, without coverage, its shareholders or employees cannot tolerate the volatility of failure. I think of it as grease in the wheel that allows the system to turn. If the innards get gummed up, the machine creaks and eventually stops. At its best, insurance does this job well when it gets out in front of emerging risks and proactively develops products that allow risk taking where it otherwise might not be feasible.

Sagalow: If innovation, in any industry, is a necessary component for meeting your client’s needs better than your competition – certainly the key to profitable growth – then insurance is society’s safety net spreading the risk when innovation goes wrong. So both innovation and insurance is necessary for a company to grow. Looking at the insurance industry, innovation in product and service is absolutely necessary. In its 2014 ‘Insurance Industry Outlook’, EY warned that insurers must invest in innovation in both processes and products if they are to be successful in 2014 and beyond. In a recent PwC survey, 26 percent of senior executives stated that ‘innovation’ was their highest planned growth vehicle, beating out M&A and geographical expansion.

Tizzio: Businesses – legally recognised organisations that provide services and goods to consumers – are the drivers of global economy. When corporations struggle or fail, as we have all painfully experienced over the past few years, markets around the world are impacted and, ultimately, people everywhere suffer. Businesses have a fundamental need to grow. Yet they face a competitive landscape, a complex regulatory environment and oftentimes a legal system that puts profit and growth at risk. Businesses need protection from litigation filed by competitors alleging theft of intellectual property and from lawsuits filed by consumers claiming damage from their products. Corporations need talented directors and senior corporate executives who are willing to serve and make difficult decisions without fear of exposing their personal assets to the risk of securities class action litigation. Insurance companies are in the risk business, and utilise the expertise of underwriting and claims professionals to assess customer risks, to craft terms on which customers may transfer some of that risk, and to mitigate the assumed risk through risk management techniques. Financial markets and economies around the world are becoming more and more sophisticated, and increasingly the businesses on which these economies are based require expert underwriting and tailored products.
By transferring risks, corporations can go about their business of growing shareholder value, providing employee job security and expanding both the regional and the global economy.

**RC: What role do you expect insurance companies to play in helping businesses manage those risks – particularly new and emerging risks?**

**Tizzio:** The key to the success of any insurance company will always be founded on its ability to assess and communicate effective risk strategies to our customers. Assisted by outside specialists when needed, we continuously evaluate the risks faced by customers and prospects, helping them manage risks through good times and bad. So, whether looking at their existing risks or helping them understand newly emerging ones, insurance companies must take a lead position along with our colleagues in the brokerage and risk management community.

**Sagalow:** It is my hope that insurance companies will continue to play the lead role in helping companies discover, evaluate and manage risk, both existing and emerging. To do so, however, we must embrace the fundamentals of our job: listen to your customer, hear their need, respond quickly and intelligently, and then listen some more. We cannot be ‘fast followers’. We must be innovators, or we shall indeed become ‘irrelevant’.

**Kelley:** Going forward, insurance companies have to consider three key factors. First, legal changes and new regulations introduce risk exposures. In the last four to five years, significant global economic and event-driven new world realities have taken hold to reveal how the industry views real risk versus perceived risk. Implications of change can be evident at the outset, while others may not. Diligence and discipline in underwriting emerging sectors of risk should be commonplace. Secondly, insurance carriers must assess the complexity and severity of the risk when developing a new product so to avoid adverse exposure. Mandating coverage creates a different angle on intent that leads to greater innovation. The Affordable Care Act in the US has tended to reduce adverse selection by mandating coverage. Increasingly, when providing new or alternative coverage solutions, insurance companies must consider the necessity of having a mechanism in place to minimise adverse selection for the product. Finally, the policyholder must believe that the product offers a reasonable chance of recovery arising out of the risk. If this belief is ill-founded, the client will be less apt to buy protection of a new product. The client must have confidence that the underlying risk is covered to avoid financial loss to the entity and its stakeholders.
Walter: This all depends on how the industry responds from an innovation perspective. The challenge is that risk models are moving more and more toward actuarially sound, data-driven pricing. This is healthy for the industry in many respects, but it is precisely new and emerging risks that challenge the data models. Insurance companies need to think about how they segment their portfolios into mature, data-driven lines and emerging lines if they are going to stay out front and help companies with emerging risks. Not surprisingly, the areas that can add the most value to insureds are often those fraught with the most uncertainty for carriers.

RC: As we look ahead through 2014 and beyond, and consider the increasing risks companies face, could you outline some of the nascent types of insurance that are developing and evolving to meet companies’ needs? How do these products reflect recent changes in business risk dynamics?

Sagalow: There are many new products on both the near and long term horizon. Recent changes in business dynamics – for example, in the area of capital raising – have led to the creation of new insurance products. The percentage of company assets today that are so-called ‘soft’ assets, meaning patents, trademarks, domain names, brand, and so on, are far greater for many companies than their so-called ‘hard’ assets of inventory, factories and the like. Yet for middle market companies, there is no economical way to borrow against these soft assets. Lenders, generally speaking, do not put any value on them in their ‘asset based lending’ facilities. Intellectual Property Collateral Insurance, a new program that will insure lenders for any losses they suffer on these loans, will be announced later this year by a major insurance company to help solve this problem. With the draft SEC regulations now published, crowdfunding will take an important place in the ability of small companies to raise funds. The insurance industry will likely have to respond with new types of privately held D&O insurance as well as Crowd Funding Portal Errors and Omissions.

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insurance. We have already seen and will continue to see new and emerging versions of Reputation Insurance, as well as continued expansion of Cyber Insurance. Finally, looking toward 2015 and beyond, I see new insurance products for Climate Change, Supply Chain Risk and even Nanotechnology.

**Tizzio:** One example of an evolving insurance product is Environmental Liability. The standalone environmental liability market emerged following the broad utilisation of the ‘absolute pollution exclusion’ in 1986. Initially focused on hazardous waste sites and other blatant pollution exposures, over time environmental liability came to be a risk management issue for perceived lower hazard operations ranging from real estate owners to educational institutions. One proprietary solution combined the three P’s of Premises, Product and Pollution liability in an integrated policy. This is one example of a developing field within insurance.

**Walter:** With the exception of cyber, we haven’t seen the recent development of new broad categories of cover. The industry is relatively mature, so new types of cover tend to focus on amending existing products to cover evolving exposures. What was once highly specialised often becomes standard. What we are seeing is the rapid convergence of insurance with the capital markets – such as the astonishing growth of ILS funds and cat bonds of late – which is partially a reflection of natural synergies and partially a function of the current economic environment where too much money is chasing yield and searching for a home.

**Kelley:** Insurance company focus on innovative product development is driven by a keen understanding of client demand to address heightened risk exposures in designated business lines. Cyber liability risk, as an example, is generating greater attention in the rapid, ever-changing field of data protection. While the first cyber product was introduced more than 15 years ago, today’s privacy coverage enhancements are increasingly geared toward implementing loss prevention controls on a pre-incident basis, allowing for more efficient recovery in the event of a systematic data breach. Other areas of industry advancement address transactional protection. Satellite insurance, for example, is becoming more prevalent given the world’s dependence on satellites to support the global technological infrastructure. Satellite insurance offers breach of warranty coverage for satellite lenders engaged in the financing of new commercial space projects. The product removes the residual exposure inherent during the riskiest phase of the mission, which is the launch. This kind of industry innovation is not only forward-thinking, but exciting. **RC**