



WHAT'S THE GAP? BASIS CHANGE IN THE AGE OF PARAMETRIC INSURANCE

Dr Henri Winand

Webinar

Tuesday, 12 January 2021, 11:00 GMT

A WORD FROM TODAY'S CHAIRMAN



Professor Michael Mainelli

Executive Chairman

Z/Yen Group



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TODAY'S AGENDA



- 11:00 – 11:05 Chairman's Introduction
- 11:05 – 11:30 Keynote Address – Dr Henri Winand
- 11:30 – 11:45 Questions & Answers

TODAY'S SPEAKER



Dr Henri Winand

Co-founder & CEO

AkinovA

AKINOVA

the independent electronic marketplace for
the transfer and trading of insurance risk



Reactions

LONDON
MARKET
AWARDS

WINNER

Insurtech Company of
the Year
2019
and
2020



2019 Industry
Contributor
Award



2020 Top 10
InsurTech
Leaders

What's The Gap? Basis Chance In The Age Of Parametric Insurance



Prepared for:

FS Club

Tuesday, 12th January 2021

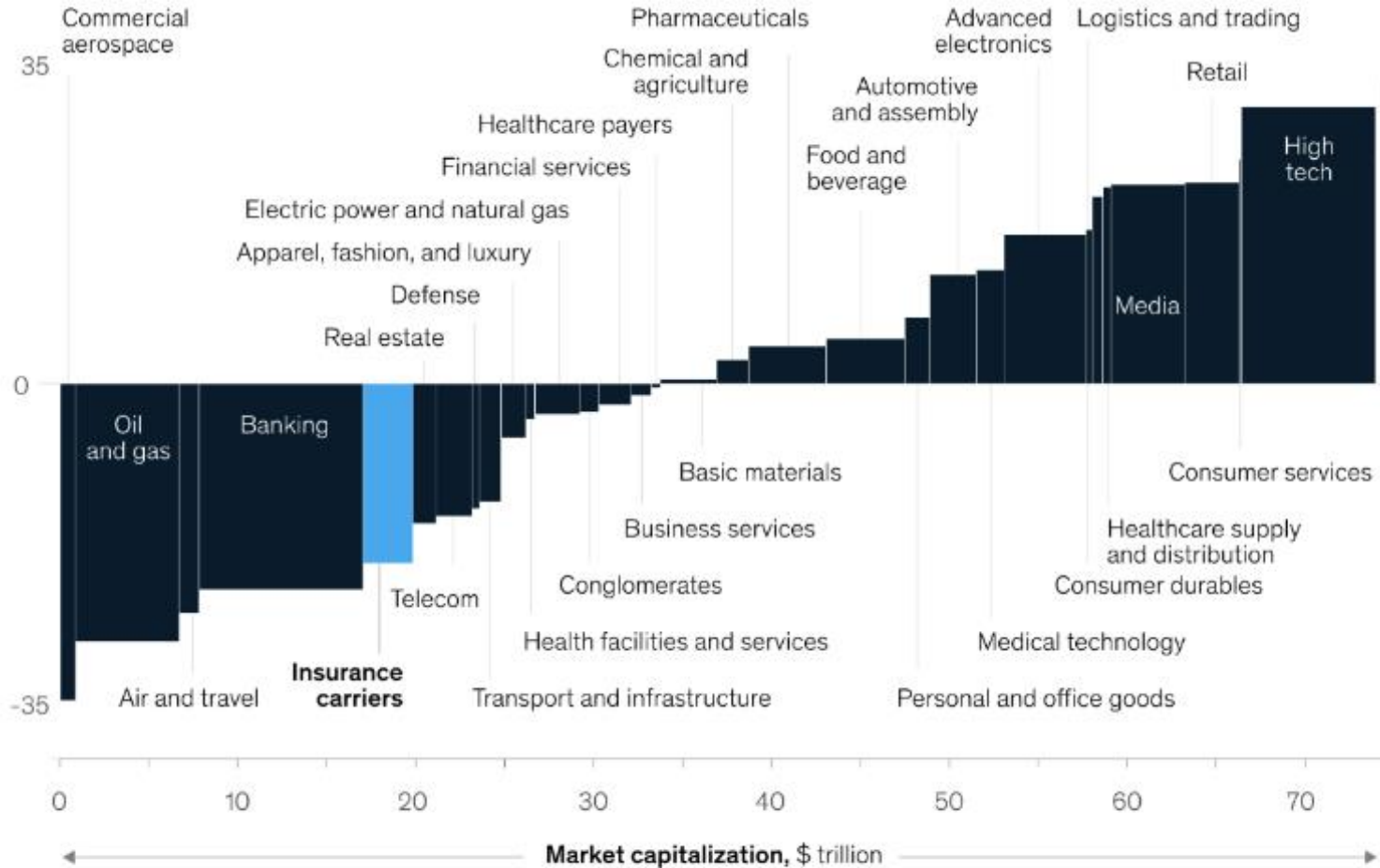
Dr Henri Winand

CEO and co-founder, AkinovA



Market capitalization has declined across sectors in 2020, with significant variation in the extent of the declines.

Shareholder returns in 2020 by industry,¹ % (Jan–Oct 2020)



¹Weighted average; shareholder returns calculated in local currency; width of bars is starting market capitalization in US dollars; data set includes global top 5,000 companies by market capitalization in 2019, excluding some subsidiaries, holding companies, and companies that have since delisted.
Source: S&P Capital Insights; McKinsey analysis

From A unique time for chief risk officers in insurance, McKinsey & Company, December 17, 2020

Poll

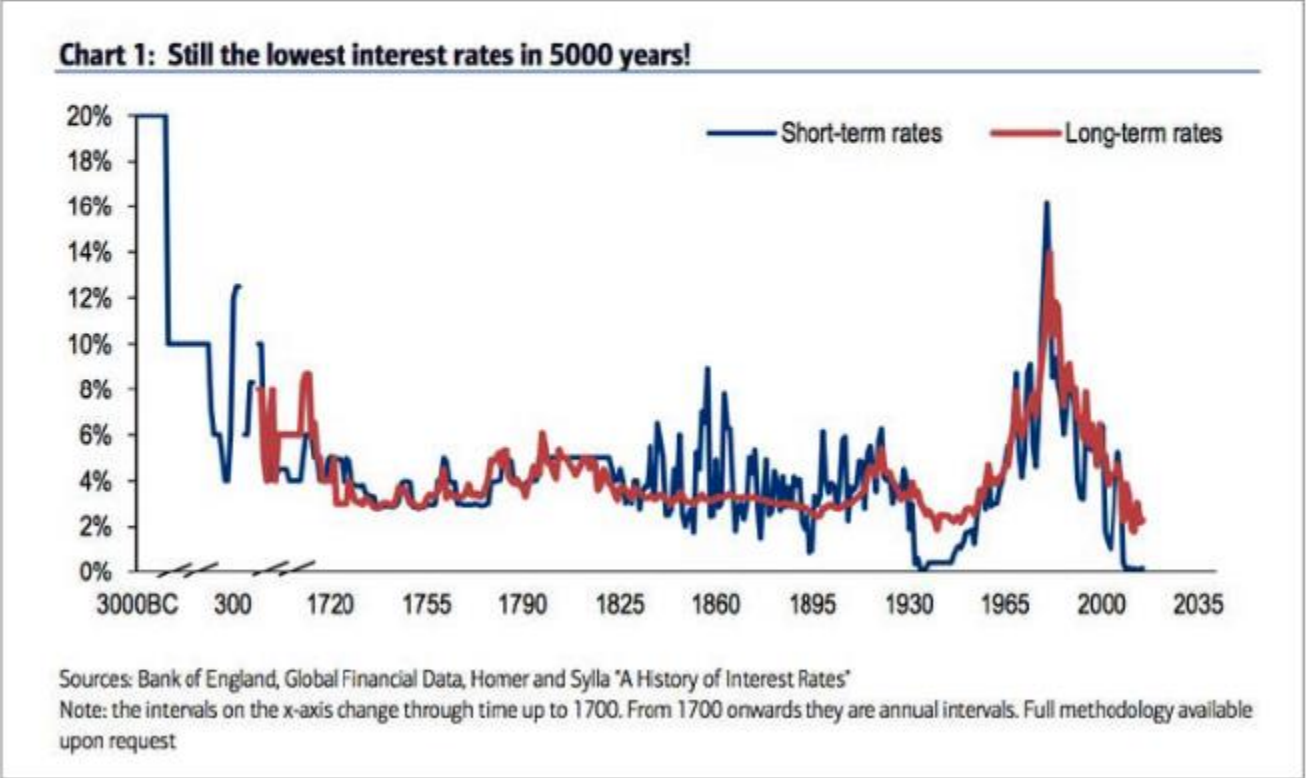
What do you think is the key issue in re/insurance?

- Interest rates?
- Low profitability/low growth/tough to make a margin with high Loss Adjustment Expenses (LAE)?
- Low perceived product value proposition?
- Different risks accelerating growing re/insurance gap (risks which are not, today, insured or deemed to be uninsurable)?
- No common business dictionaries between re/insurance and capital markets?

Risk takers, insurers and reinsurers make money in two ways

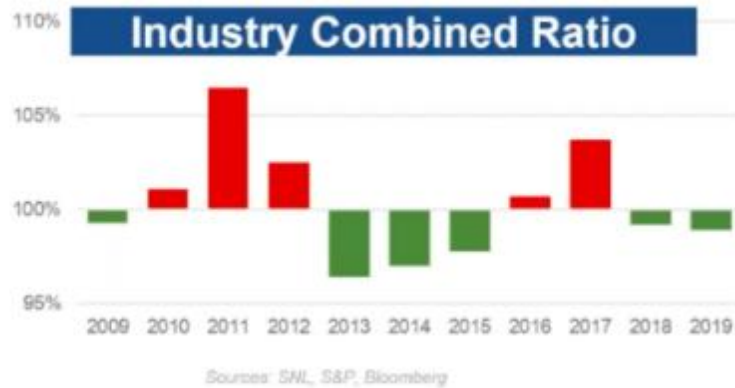
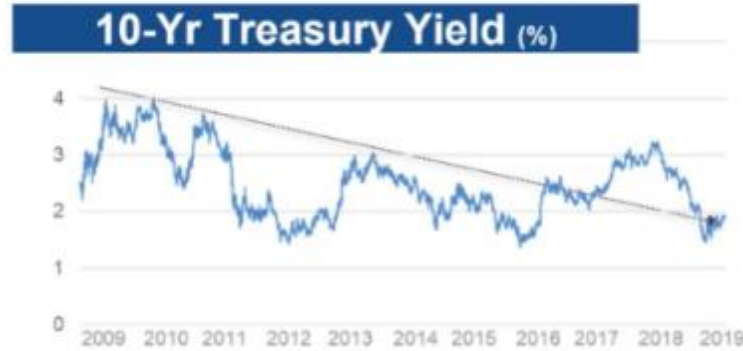
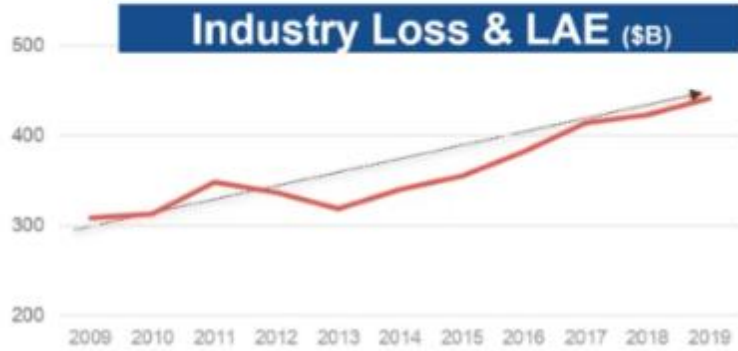
- 1. Premiums exceed claims
- 2. Investment income

The 5,000 year history of interest rates shows just how historically low US rates are right now

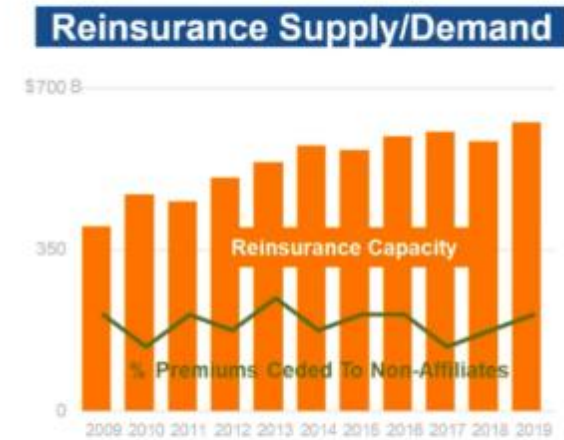
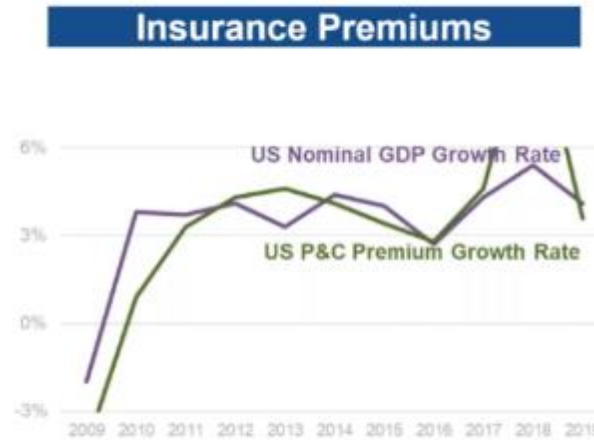


From a presentation to the FT and PwC by Dennis Mahoney, 'Carriers and brokers: Parasitic or symbiotic relationship?', 2020

Tough To Make A Margin



Low Growth



**Follows Overall Economy
(Absent Major Loss (or Tax) Event(s))**

Reduced Demand, Increased Supply

From a presentation by Mike Sapnar, TransRe, Parametrics – the future of (re)insurance, New Paradigm Global Parametric Insurance and Reinsurance conference, November 2020.



Risks are
more
dynamic
than
ever

The Four Horsemen of the Apocalypse

95 AD: Pestilence/War/Famine/Death

2020 AD: Pandemic/Cyber War/Natural Disasters/Death

- ➔ **More** frequent and rapid dislocations fundamentally transform the risk environment
- ➔ >80% of most major companies' value arises from intangible assets **which are largely** not covered **by the current re/insurance industry**
- ➔ **Risk transfer needs to** respond swiftly to clients' **needs**
- ➔ **Clients dissatisfaction with** complex contracts, lack of scalable Business Interruption (BI) and Intangible Assets (IA) cover, lack of scalable cyber cover, lack of scalable and rapidly settled climate resilience products
- ➔ **All compounded by COVID-19 pandemic bringing issues into sharp focus with steep premium increases across multiple lines of business and a giant jump into digitisation**



MORE SYSTEMIC FAILURE MODES



**737 MAX 8
ANYONE?**

Growth of Intangible Assets

80% of the value of mid to large sized corporates is made up of intangible assets which are typically not insured or uninsurable

That's 26Tn of assets

INCREASED INTRA DAY RISK VOLATILITY



CYBER RISK – A HIGHLY DYNAMIC AND RAPIDLY EVOLVING THREAT

No mechanism for dynamically laying off cyber exposure, yet cyber-related risks transcend all lines of business (>\$160Tn+ insured exposure worldwide) and companies absorb the annual \$1Tn global (\$6Tn by 2025) losses for this!

INCREASED INTRA YEAR RISK VOLATILITY



PROPERTY CATASTROPHE RISK USD100-400BN AND GROWING

Risks of mega-catastrophes and overall volatility are growing due to climate related uncertainty and need to be covered with larger movements of capital than ever before

Buyer and seller **information gap**

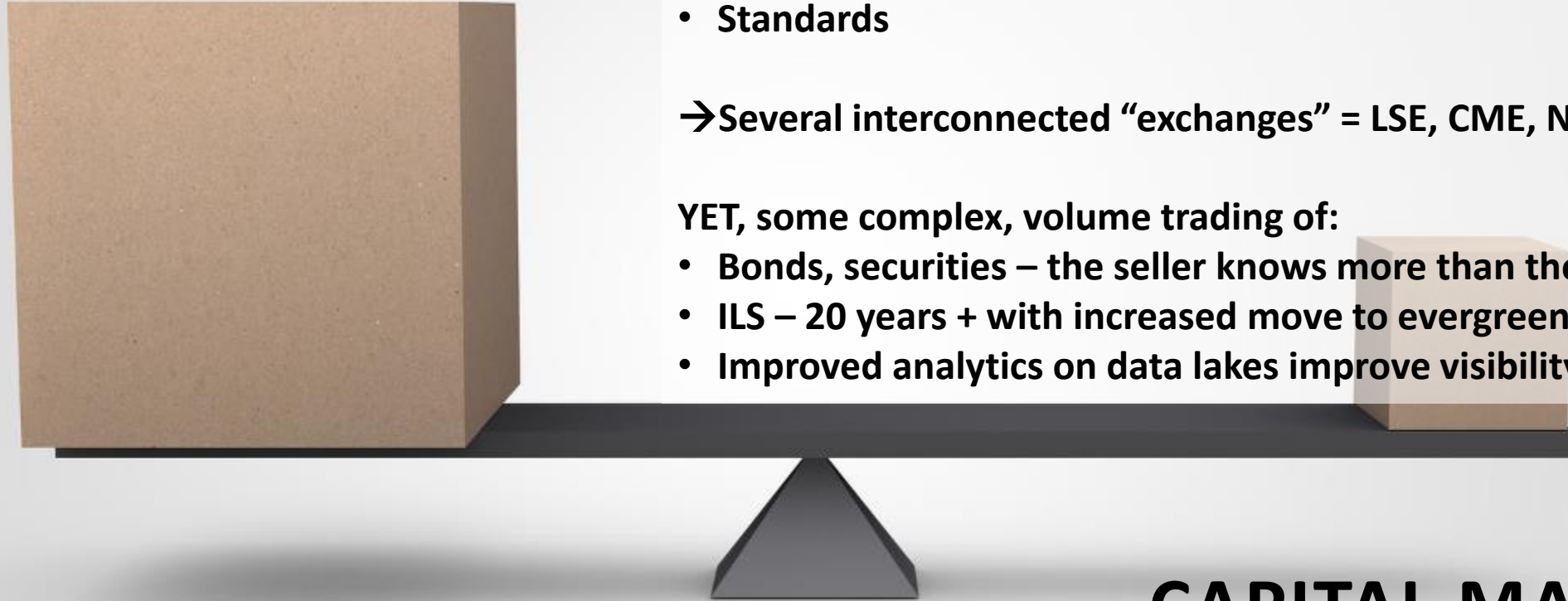
INSURED
(Protection Buyer)

PERCEPTION or FACTS

- **Knows more about the risk they sell**
- **Frictional costs limit liquidity**
- **Bespoke Policy Wording increase analysis costs**
- **Annual cycle**

YET, some standardisation:

- **Berkshire's 3 pages SMB policy – 2019**
- **ILS – 20 years + with increased move to evergreen structures**
- **Improved analytics on data lakes improve visibility**



PERCEPTION or FACTS

- Low frictional costs, MiFID
- Indices to price rapidly moving assets
- Cash to cash, multi asset class diversification
- Pricing signals: research, indices, third party models
- Standards

→ Several interconnected “exchanges” = LSE, CME, NYSE, ...

YET, some complex, volume trading of:

- Bonds, securities – the seller knows more than the buyer
- ILS – 20 years + with increased move to evergreen structures
- Improved analytics on data lakes improve visibility

CAPITAL MARKETS Protection Seller

Low 'Value' Proposition

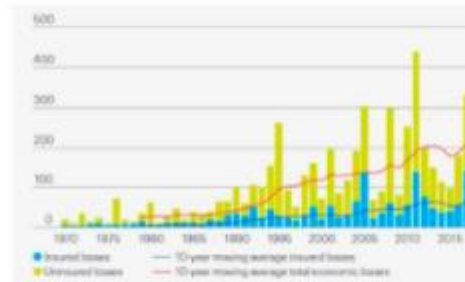


Sources: SML Data, D&P Analysis Of 127 (most commercial lines) groups, 2000-2014

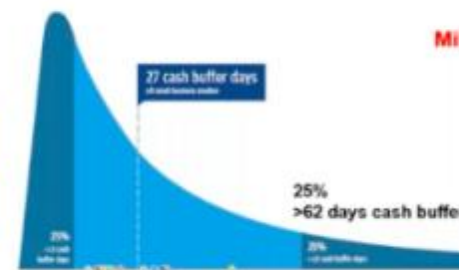
Traditional Insurance – “Challenged”

Protection Gap	Product Features	Customer Experience
<p>Widens with exclusions</p> <p>Underinsured emerging markets</p> <p>EQ exposure gap widest</p>	<p>Many Exclusions</p> <p>High deductibles</p> <p>Liquidity management rather than risk transfer tool</p>	<p>(Dis)satisfaction Surveys</p> <p>Trend is not improving</p>

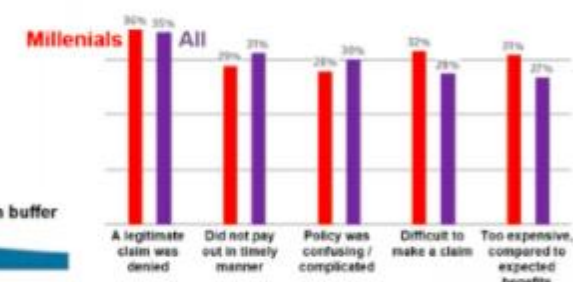
Insured & Uninsured Losses 1970-2018



US Small Business Cash Buffers Days



Millennial Expectations %



Sources: Swiss Re Institute, JP Morgan, Geneva Association

From a presentation by Mike Sapnar, TransRe, Parametrics – the future of (re)insurance, New Paradigm Global Parametric Insurance and Reinsurance conference, November 2020.

Where is the capital to underwrite at scale?

The cyber sharks are here and as Greg Case, CEO, AON noted...

“The industry has \$3bn of premium written in cyber at a time when clients in the US have \$450bn in reported loss. That’s not response, that’s not relevant.”

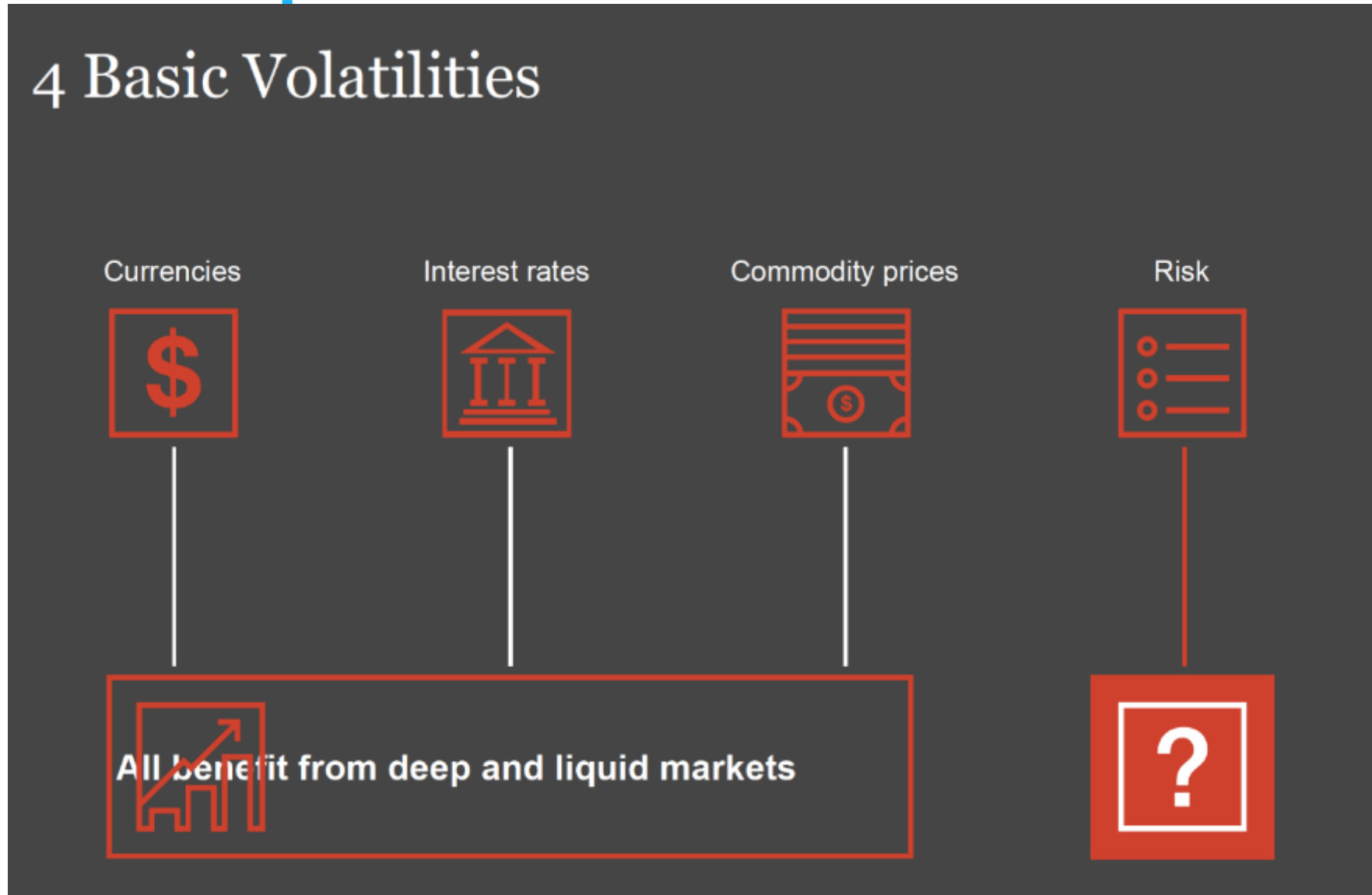
April 2018

Poll

What do you think is the key solution to these issues?

- Hire better public relations?
- Release more reserves?
- Do nothing, it works every year so why fix it if it's not broken?
- Deepen the access to capital?
- Create new insurance products?

Where is the **deep market**?



From a presentation to the FT and PwC by Dennis Mahoney, 'Carriers and brokers: Parasitic or symbiotic relationship?', 2020

Simpler **traditional** policies?



Are there any gaps or overlaps?

Simplify!

✓ Replace with a novel corporate policy

- **one policy**
- no gaps, no overlaps
- protects the **insured**

From a presentation to the FT and PwC by Dennis Mahoney, 'Carriers and brokers: Parasitic or symbiotic relationship?', 2020

Parametric insurance?

Traditional insurance and parametric insurance

- **Indemnity insurance:** indemnifying for the actual loss incurred. Traditional insurance contracts with detailed wording developed over time to **cover the exposure of the re/insurers**
- **Parametric insurance:** covers the probability of a predefined event happening (e.g., a major hurricane and earthquake), and pays out according to a predefined structure. Events may refer to an index-based trigger



	Traditional insurance	Parametric solutions
Trigger	Loss or damage to physical asset	Event occurrence exceeding parametric threshold
Recovery	Reimbursement of actual loss	Pre-arranged payment structure
Basis/risk	Policy conditions, deductibles and exclusions	Modelling accuracy; correlation of index with loss exposure
Claims process	Complex; based on loss adjuster; can be slow	Transparent; based on an index; quick settlement
Term	Usually annual; some multi-year	Single or multi-year; up to 5 years
Structure	Standard products and contract wordings; some customisation	Customized product with high flexibility (single trigger, multi-trigger)
Form	Insurance contract	Insurance or derivative

From <https://www.insurancejournal.com/news/international/2020/01/09/553850.htm> and https://corporatesolutions.swissre.com/insights/knowledge/10_myths_about_parametric_insurance.html

Parametric vs Indemnity

	Traditional Indemnity Based	Parametric
Payment Trigger	Actual Loss or Damage	Event Exceeding Index Threshold
Claims Management	Loss Adjustment (Can Be Complex, Expensive & Time Consuming)	No need for Loss Adjustment: Quick & Transparent
Settlement	May Take Time	Fast Payment Potential
Moral Hazard	Medium To High	Low
Regulatory Compliance	Generally Tested & Compliant	Local regulation may not be tested yet. Different Interpretations May Exist
Basis Risk	Policies, Deductibles & Exclusions	Imperfect Correlation Between Triggered Event And Actual Losses Suffered

From a presentation by Mike Sapnar, TransRe, Parametrics – the future of (re)insurance, New Paradigm Global Parametric Insurance and Reinsurance conference, November 2020.

Parametric in practice



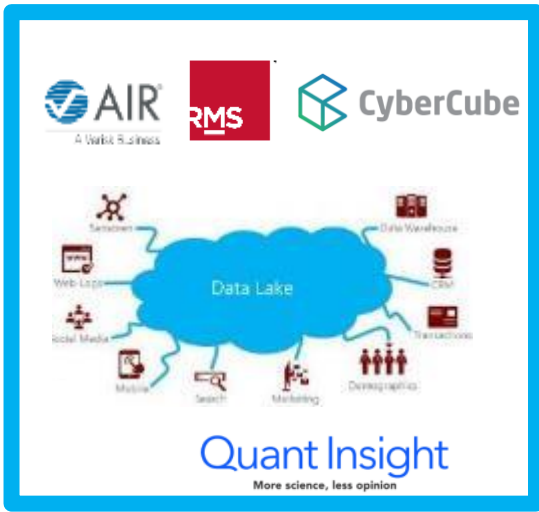
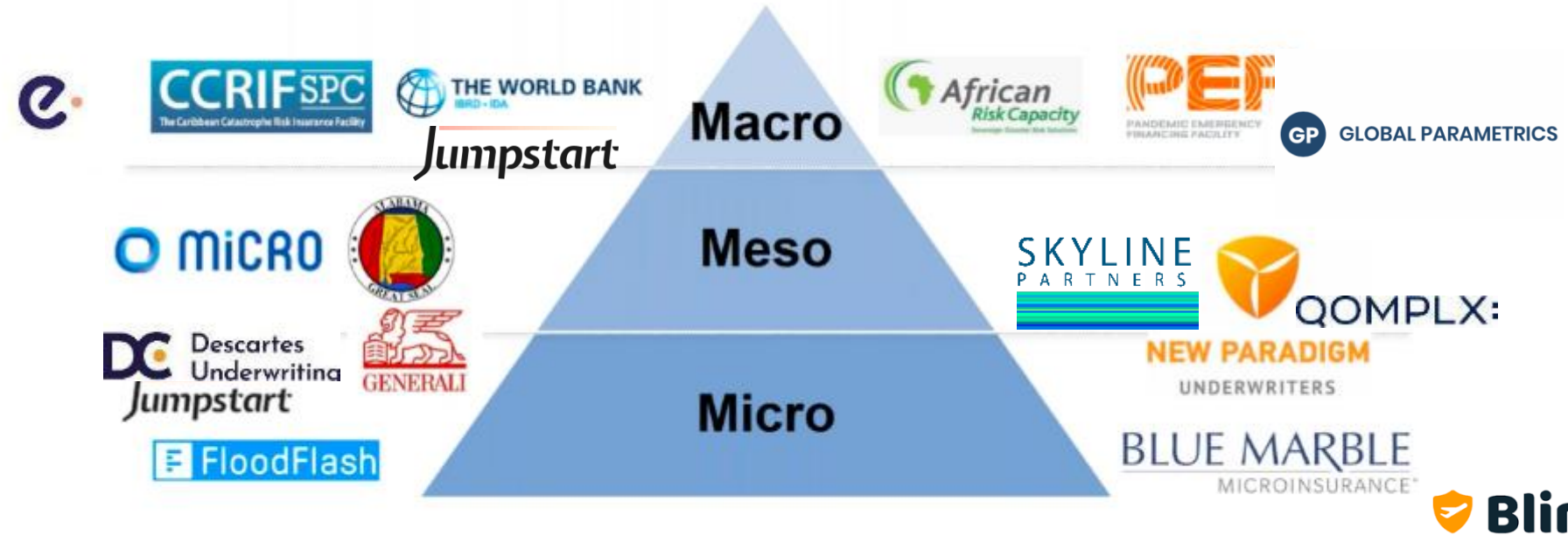
Sector	Risk factor	Consequences
Energy	Rainfall, Temperature, Wind, Sunshine	Energy demand by consumers Production capacity
Agriculture	Rainfall, Temperature	Impact on yields
Construction	Temperature, Wind	Work interruption Extra costs and late penalties
Sports, Events	Rainfall	Cancellations
Retail	Rainfall, Temperature	Decrease of sales
Transportation	Ice, Snow	Access, Cancellations
Travel, Leisure	Rainfall, Snowfall, Temperature	Customer satisfaction
Public Authorities	Rainfall/Snowfall, Temperature	Costs of snow removal, salting

After SCOR

Parametric – across all segments

Segments

Models and data



Tailored To Customer Needs



After a presentation by Mike Sapnar, TransRe, Parametrics – the future of (re)insurance, New Paradigm Global Parametric Insurance and Reinsurance conference, November 2020.

What we have learnt so far?

- It's still **early**, but the impact looks **promising**
- **Models** are necessary, but **not yet sufficient** for purpose
- **Basis risk** can be managed, but not eliminated
- **Experimentation** is essential (New Paradigm/Blue Marble)
- **Demand** is growing
 - Commercial/industrial/municipalities
 - Regional/national schemes
- **Hybrid** programs – from nat cats to CBI
- **Short term** single risk (fac) peak exposures
- **Long Term** global interest / **Live Trading**

1. Basis Risk

Awareness

Customer Selection

2. Modeling & Pricing

Addition Research

Metric Selection

Validation

3. Regulation/Legislation

Engage

Educate

Resolve

4. Underwriting

Less subjective...still required

Diversify from peak zones

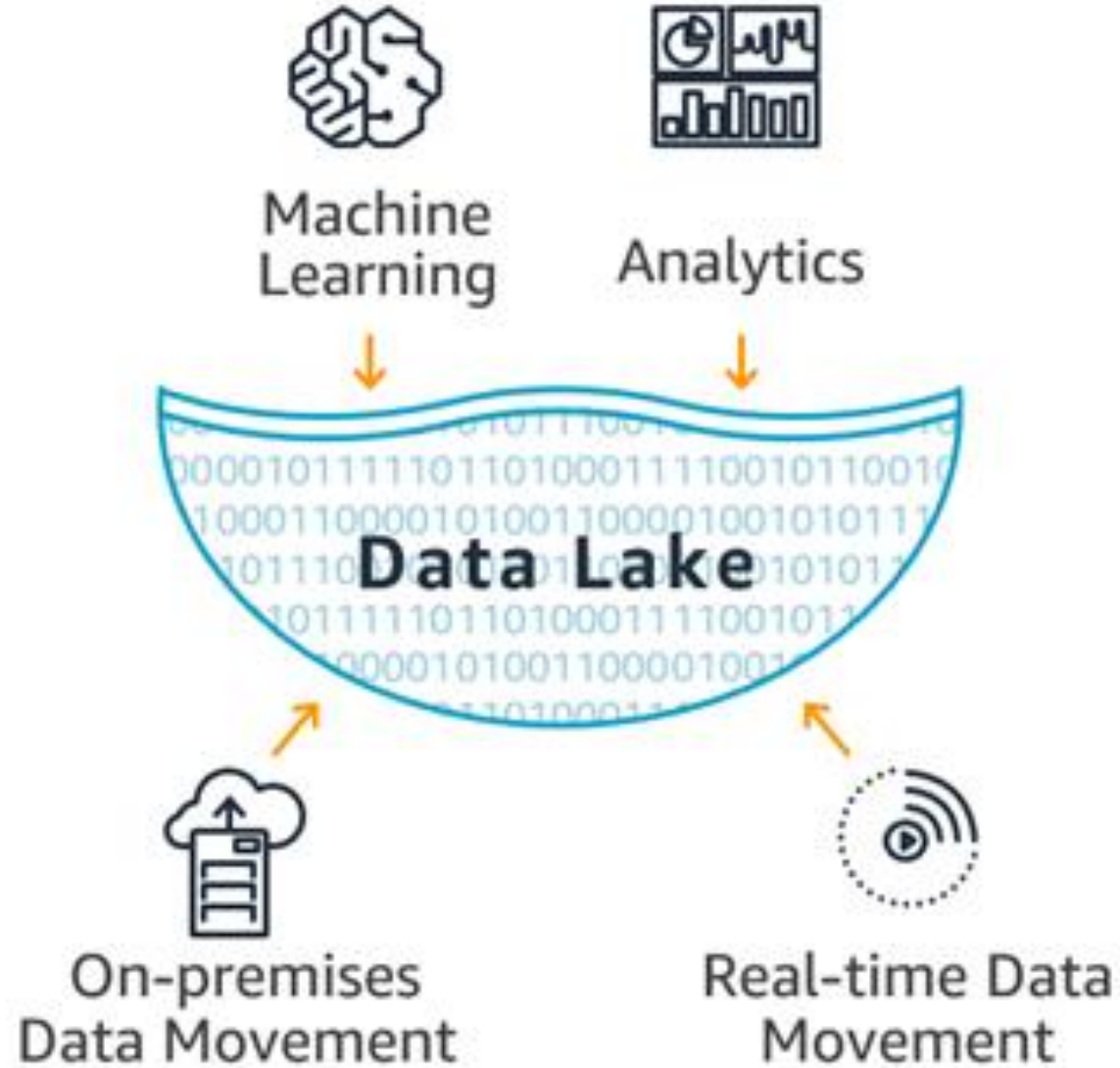
From a presentation by Mike Sapnar, TransRe, Parametrics – the future of (re)insurance, New Paradigm Global Parametric Insurance and Reinsurance conference, November 2020.

Poll

What do you think is the best way to accelerate parametric insurance as well as closing basis risk?

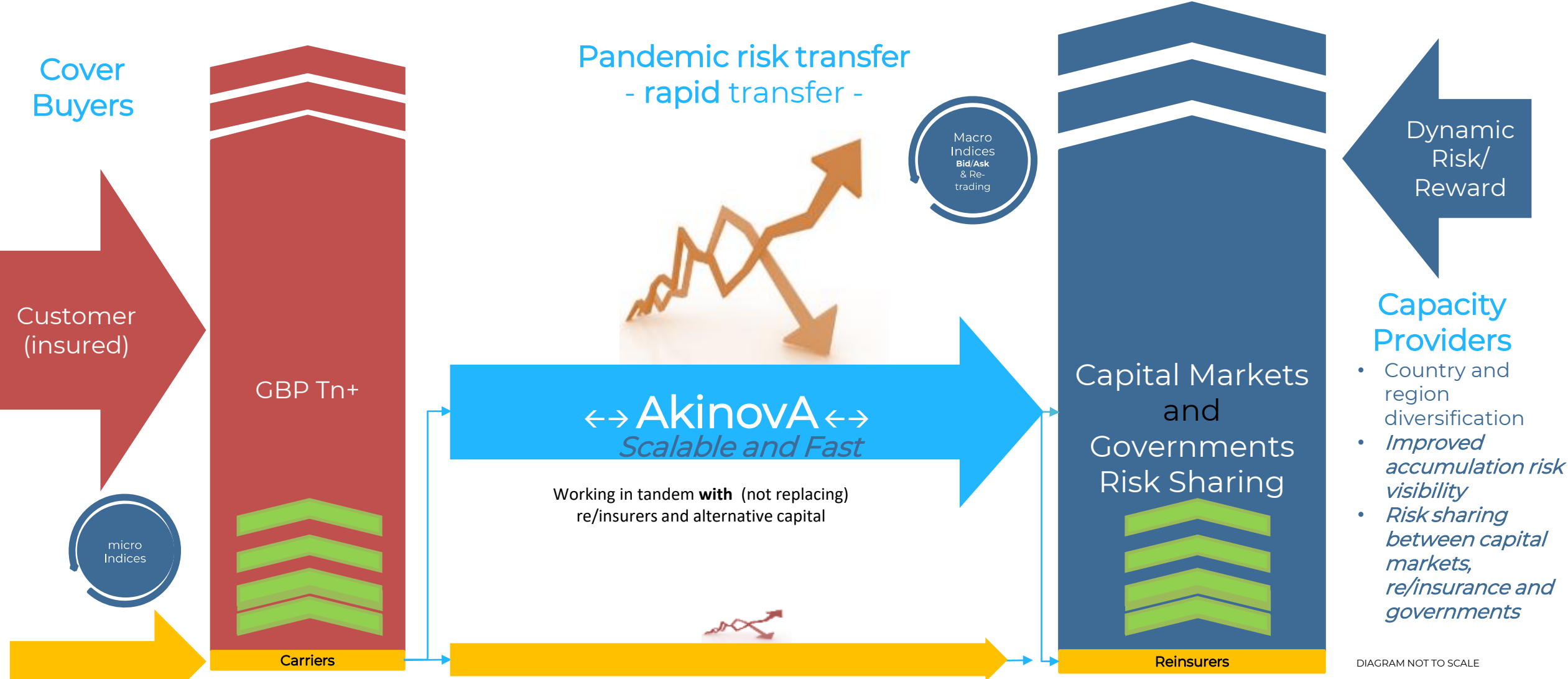
- Close the information asymmetry?
- Get better models?
- Get better data?
- Basis risk is not an issue, isn't it all about getting the right products?
- Something else?

Historical (actuarial) ... vs 'near' real time data lakes



After AWS

Risk Transfer Diversification requires **Depth**

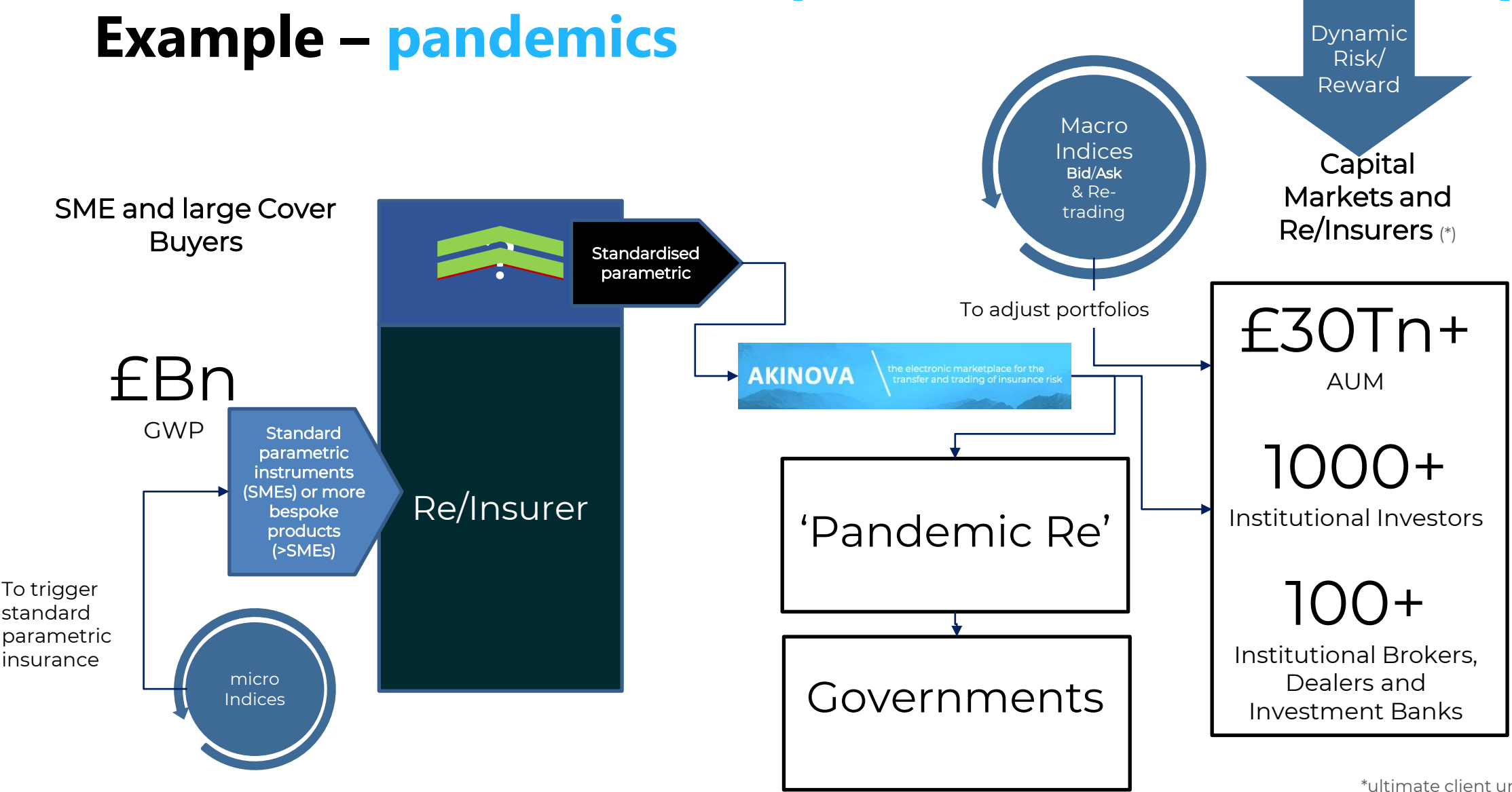


- Capacity Providers**
- Country and region diversification
 - *Improved accumulation risk visibility*
 - *Risk sharing between capital markets, reinsurance and governments*

DIAGRAM NOT TO SCALE

Risk transfer with new data, parametric and market depth

Example – pandemics



*ultimate client universe

Want to know more?

Contact AkinovA

Enquiries@AkinovA.com

+44 (0)20 8012 8172

or find out more at

www.AkinovA.com



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AKINOVTM

> Appendix

> Introduction to AkinovA

The background of the slide is a dark, atmospheric illustration of the Four Horsemen of the Apocalypse. The figures are depicted in various poses, some on horseback and some on foot, set against a backdrop of a stormy, dark sky. The overall tone is somber and dramatic.

Risks are
more
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The Four Horsemen of the Apocalypse

95 AD: Pestilence/War/Famine/Death

2020 AD: Pandemic/Cyber War/Natural Disasters/Death

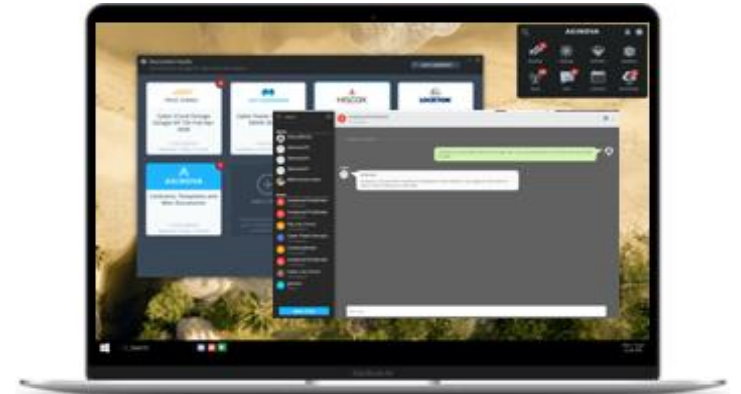
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Introduction – AkinovA

- AkinovA's goal is to **grow the size of the re/insurance market**
 - provide the necessary tools, clearing and regulated operational infrastructure to transfer and trade risks electronically, to increase capital velocity and efficiency across the industry
- AkinovA is a **regulated (insurance, reinsurance and ILS), independent, one-stop-shop electronic marketplace** operating at the intersection between re/insurance and capital markets
 - **Authorised/vetted global insurer, reinsurer, ILS and alternative capital (KYC/AML/Sanction Checked) meets re/insurance risks, directly**
 - For corporates, captives, re/insurers, MGAs, and for brokers to serve their clients
 - Cost effective
 - Third party advice and data
 - Unlock **new growth** and sources of revenues for data/advice centric brokers, for MGAs and for data/analytics/news providers
 - **Unique marketplace ownership, governance structure delivers**
 - **Neutral** electronic environment underpinned by a **brand new and unique global regulatory framework**
 - **Neither anti-trust nor competition law concerns** for large industry competitors operating on one marketplace
 - Unlock new **global sources of capital** to meet re/insurance risks

Introduction – Ctd

- AkinovA is a UK headquartered company
- Through its wholly owned Bermudian regulated entity, AkinovA has permission to provide broad services including a marketplace, clearing services and access to third-party data, news and analytics as well access to a diverse set of corporate, re/insurance and funds
- AkinovA enables smooth price discovery, trading and record keeping
- Data and Modelling: we partner with third party data, analytics and modelling companies to bring those to our users to close insured/investor knowledge asymmetry, insured basis risk whilst offering big enough baskets of tradable total insurable value, and avoiding moral hazard to attract broader set of capacity providers and investors
- **Note** – AkinovA is neither an MGA nor providing its own paper, it matches risks to capital



AkinovA Credentials: Our People

An Outstanding Management Team with Unique Advisory Board

Management team



Dr. Henri Winand
CEO & Co-founder

- › Grew technology firm globally from 40 people to USD 1bn IPO
- › \$200m+ capital raised
- › JV with Japanese OEM
- › Co-founder Emerald Automotive Design Ltd Board and Treasurer
- › €1.3bn PPP



Dr. Jean-Michel Paul
Co-Founder & Chief Scientific Advisor

- › Founder of Acheron Capital
- › Raised USD 100m+ funds for catastrophe bonds, ILS and life settlement
- › Co-founder of an InsurTech backed by KKR and Willis



Alexander Pike
Sales & Marketing

- › Oxford Capital, Manager of Co-Investment Circle
- › Morgan Stanley, Prime Brokerage
- › British Army, Captain in the Light Dragoons
- › Commissioned from Royal Military Academy Sandhurst



Dr. Marcus Marr
CTO

- › 20 years leading global technology teams in Investment Banking
- › Credit Risk Technology
- › Counterparty Credit Risk Trading
- › Fixed Income Derivative Technology



Erik van Kaathoven
CFO & COO

- › 20 years venture acceleration in VC/PE-backed technology
- › CXO roles in InsureTech, CleanTech, Biotech, partner in VC firms, exec/non-exec in VC portfolio companies



Sanjay Pritam
General Counsel

- › RPC (insurance law firm), 15 year partner commercial/regulatory
- › London insurance market reform
- › Advising insurance market associations and international participants



Non-Executive Directors

Paul Jardine
(AkinovA UK Topco)

Former XL Catlin CXO and former Deputy Chairman, Lloyd's of London



Thomas C Heise (AkinovA Bermuda subsidiary)

Insurance Income Strategies Ltd., CEO



Advisory Board

Charles N. Bralver

Oliver Wyman, Co-Founder and Vice Chairman Emeritus



Pierre Francotte

Euroclear, former group CEO and Chairman of Euroclear Bank



Susan Estes

OpenDoor (bond trading platform), Founder, President and CEO



Erik Jansen

ULTRA Capital LLC (impact investing), Co-founder and former Chairman



Jonny Creagh-Coen

Fidelis, Head of Strategic Relationships



Daljitt Barn

Tokio Marine Group, Global Head of Cyber Risk



Takeshi Doi

MS&AD InterRisk Research & Consulting, Chief of Cyber Risk Section



Tatsuhiko Hoshina

Tokio Millennium Re, Co-founder/former CEO



Ian Axe

Former Grp CEO of LCH.Clearnet, Global Head of Operation & EMEA COO Barcap, CEO of Panmure Gordon



Dennis Mahoney

NED Ironshore; former Chairman Aon Global, RFIB, Chairman World Insurance Network, Director ACORD



The Digital Risk Transfer Environment

AkinovA secures: New Third-Party Dynamic Data

Dynamic, rich data sets
New, simpler instruments for clients
Unlock new capacity

AkinovA Insights



AkinovA Clearing



AkinovA Marketplace



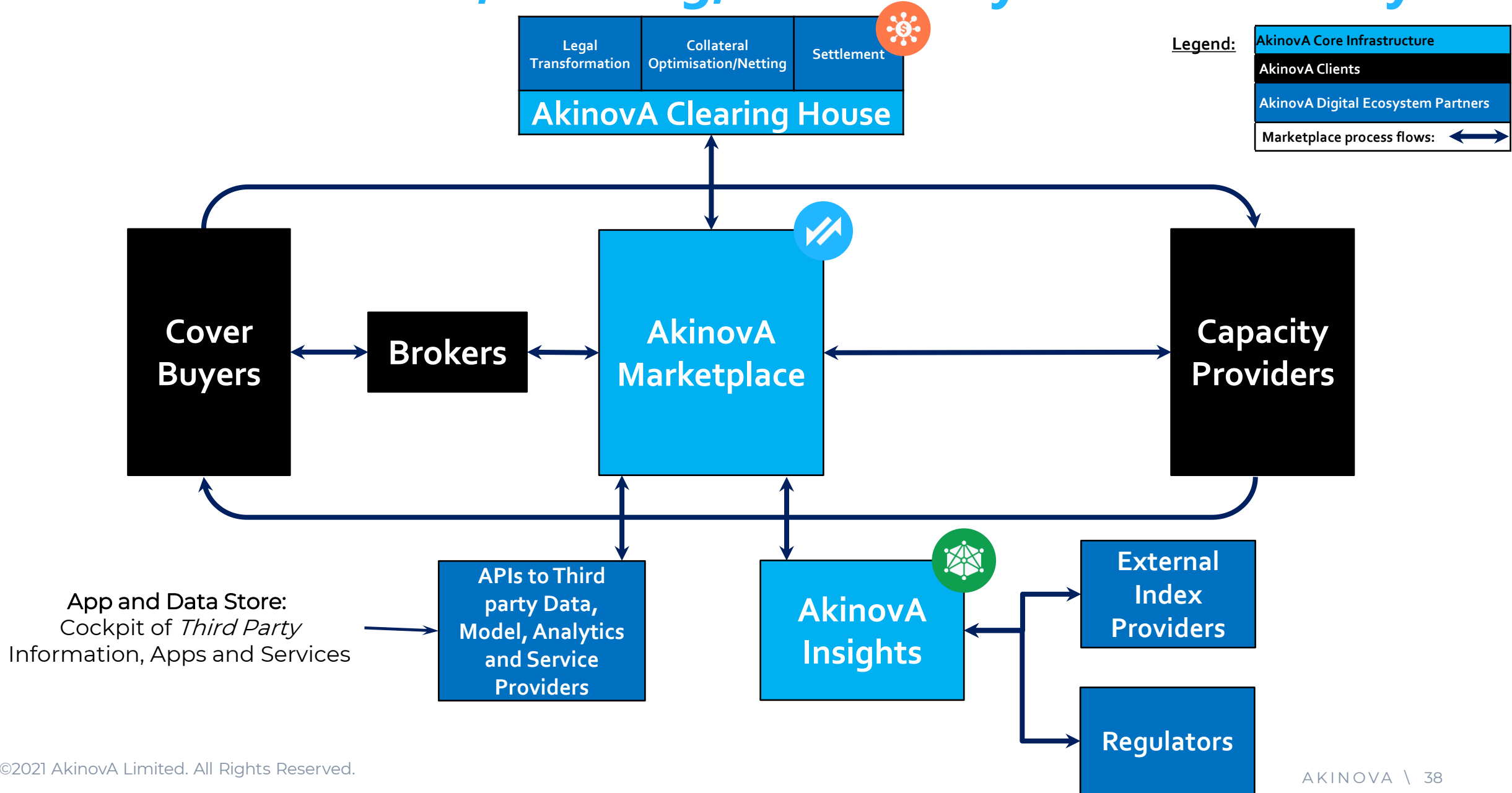
21st Century Marketplace and Data

AKINOVA

the independent electronic marketplace for the transfer and trading of insurance risk

Regulated and independent marketplace
Price discovery transparency
Risk management visibility

AKINOVA – Auction, Clearing, Third Party Data and Analytics



Regulated by **The Bermuda Monetary Authority**

Through a **brand-new regulatory framework** set up in partnership with the BMA, AkinovA is regulated as a **Marketplace*** but neither as Broker nor as Carrier of Insurance. As a result, **AkinovA remains neutral**, is already **multi-broker**, is **regulated** whilst it **does not compete with its clients and ecosystem** and is **global**

AkinovA is regulated to:

- Transfer Insurance and Reinsurance
- Operate a Clearing House
- Provide marketplace Data and Analytics
- Provide access to Third Party Data, News, and analytics
- Provide an integrated Communication System

Participant must fall within one of the following categories – Risk Transfers/Corporates/Brokers/Capital/Data/Analytics

- A. Bermuda licensed insurers**
- B. Members of groups that are listed on an appointed stock exchange**
- C. Members of groups that are rated A- or better by A.M. Best, A- or better by Standard & Poor's Financial Services LLC, A- or better by Fitch Ratings Inc. and/or rated A3 or better by Moody's Investors Service**
- D. Funds/collective investment schemes that are regulated by the applicable Authorities in Bermuda, Cayman Islands, Guernsey, Jersey, Switzerland, United Kingdom, Ireland, Singapore, Japan, Hong Kong South Korea and any State of the United States of America**
- E. Any Bermuda licensed Insurance Brokers or a participant authorised by Lloyd's of London to legally transact in Bermuda**
- F. Where the Participant does not fall within any of the above categories, the Participant has advised AkinovA of the fact to enable it to obtain prior written approval from the Bermuda Monetary Authority**



krakenimages on Unsplash

*currently subject to Sandbox Conditions

QUESTIONS AND ANSWERS





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Forthcoming Events

- Wednesday 13 Jan (11:00) ID, A Digital Identity Service By Mastercard – Your Digital Identity, Your Choice
- Thursday 14 Jan (10:00) Addressing Data Privacy: Managing The Risk Of Future Liability
- Friday 15 Jan (12:00) 2021: The Road to Net-Zero Finance
- Monday 18 Jan (10:00) Patient Capital: The Key To Rebalancing Financial Markets?
- Tuesday 19 Jan (09:00) Psychology Of Leading A Hybrid Workforce

Visit <https://fsclub.zyen.com/events/forthcoming-events/>