



# RISK FINANCE WORKSHOP

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Founder & CEO,  
Babel Cover

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“The insurance industry is a key component of the economy by virtue of the amount of premiums it collects, the scale of the investments and more fundamentally, the social and economic role it plays by covering personal and commercial risks”

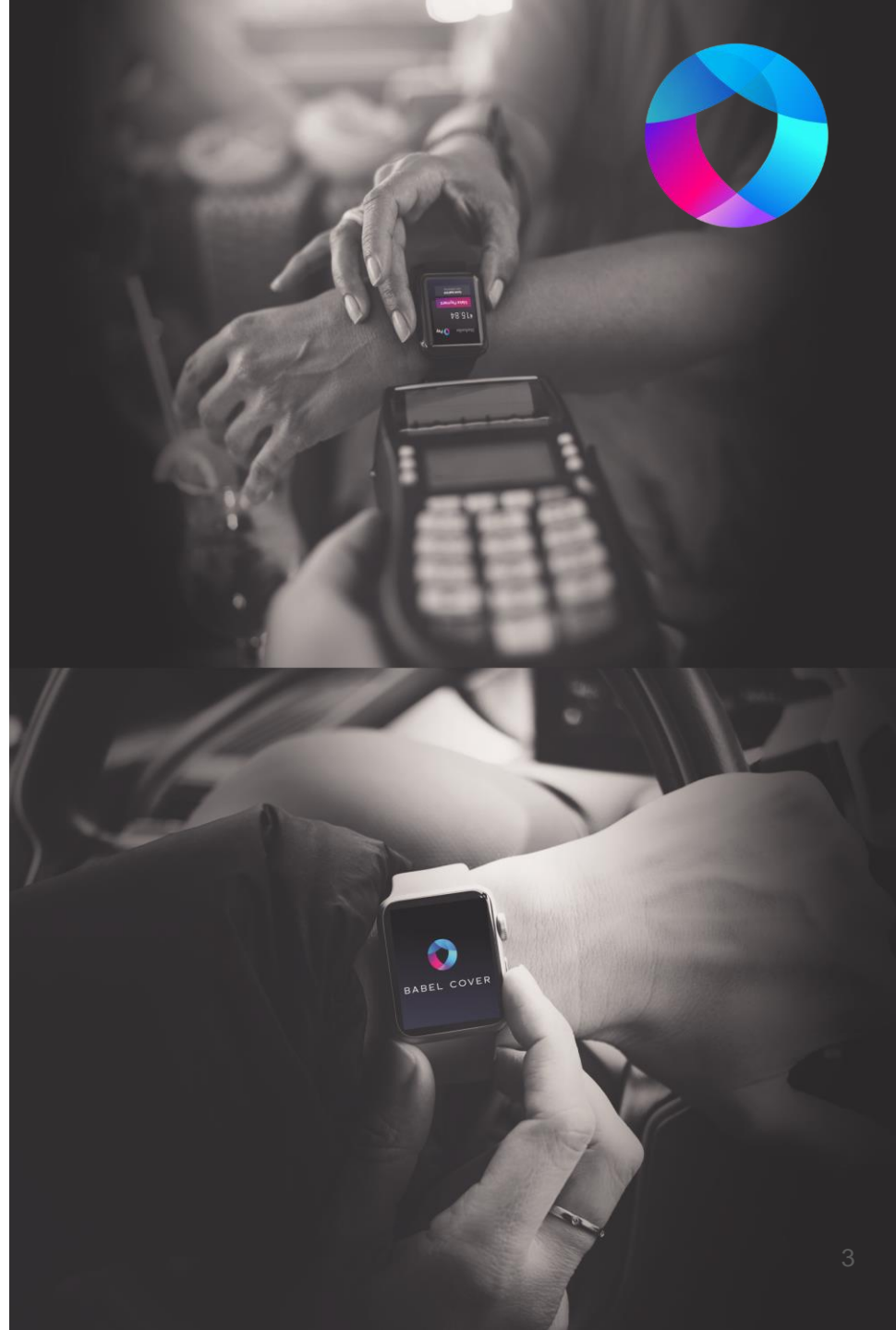


# Overview

- Historical Perspective
- Modern Day
- Facts & Figures
- Corporate Insurable Risk Finance
- Risk Finance Decision Making
- Futurist



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# Some perspective



# Historical Perspective

- As trade and industry developed so did insurance. Financiers of ships and cargoes protected their risk by what was termed as a contract of bottomry loan. Such practices were common to merchants of Babylon and also practiced by the Hindus as far back as 6000 B.C.
- Bottomry is more akin to catastrophe insurance than traditional insurance as you receive a loan up front and only pay it back with a premium if the event doesn't occur. Such techniques were useful where a ship needed urgent repairs on a voyage.
- Benevolent Societies emerged from Romans and Greeks which looked after bereaved family members and took care of funeral costs around 600 B.C.

Some say insurance is a synonym of human progress, prosperity and civilization but somehow, in my humble view, of late, it has lost its way...





# Modern Day Evolution

- Things became interesting during the Enlightenment era in Europe. In 1668 in a small coffee shop in the City of London popular with merchants and the go to place for shipping news, modern day insurance emanated. Leading to the formation shortly thereafter of the famous speciality insurance market Lloyd's of London.
- The Great Fire of London of 1666 that started in a small bakery on Pudding Lane in the City drove the concept of property insurance. It developed rapidly and spread to other cities. Sir Christopher Wren - founder of the Royal Society, prominent contributor in the Enlightenment movement and renowned scientist and architect - re-designed the City. A monument he designed now stands at the scene of the fire. Little do people know that the monument was developed as a secret telescope.

A number of natural and man made catastrophes since has shaped the industry to what it is today...

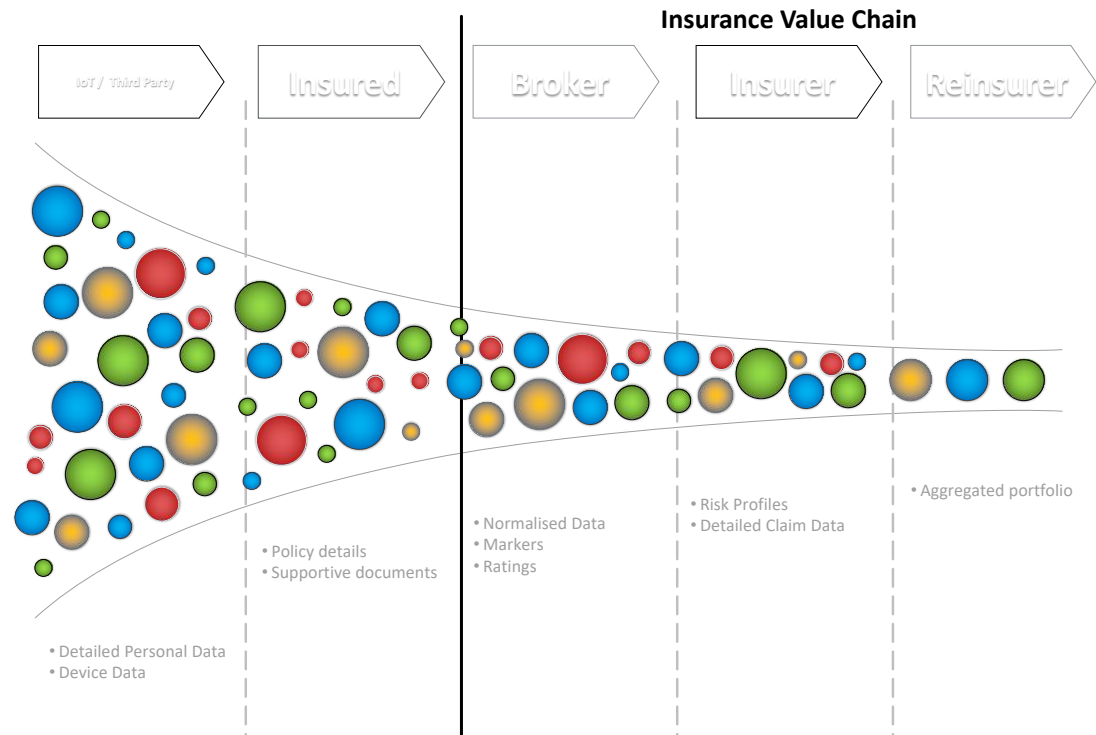




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# Insurance Market Construct

## INSURANCE DATA FUNNEL



Source: piprate.com

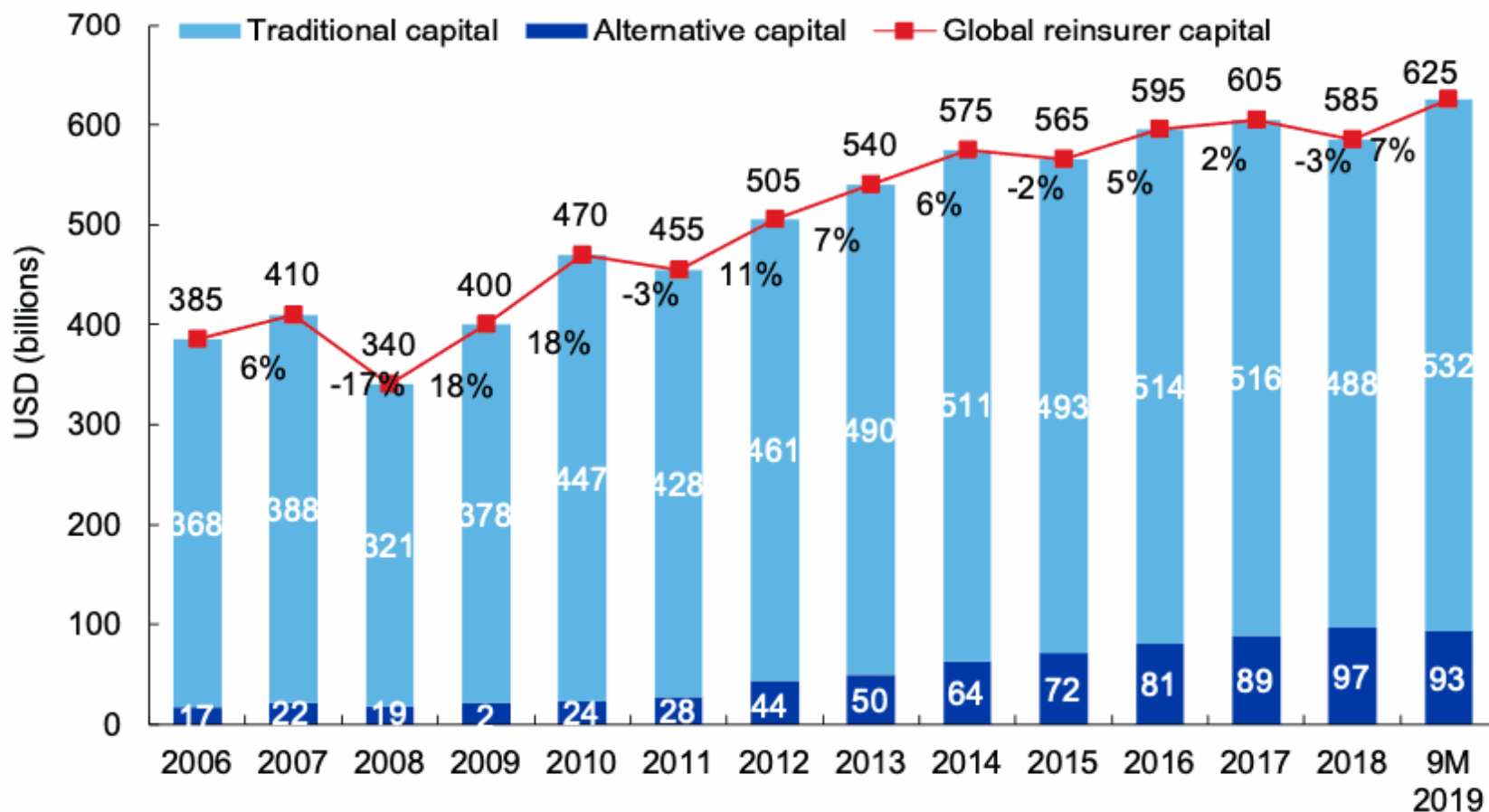


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# Facts & Figures - *Capital*



Sources: Company financial statements, Aon Business Intelligence, and Aon Securities Inc.

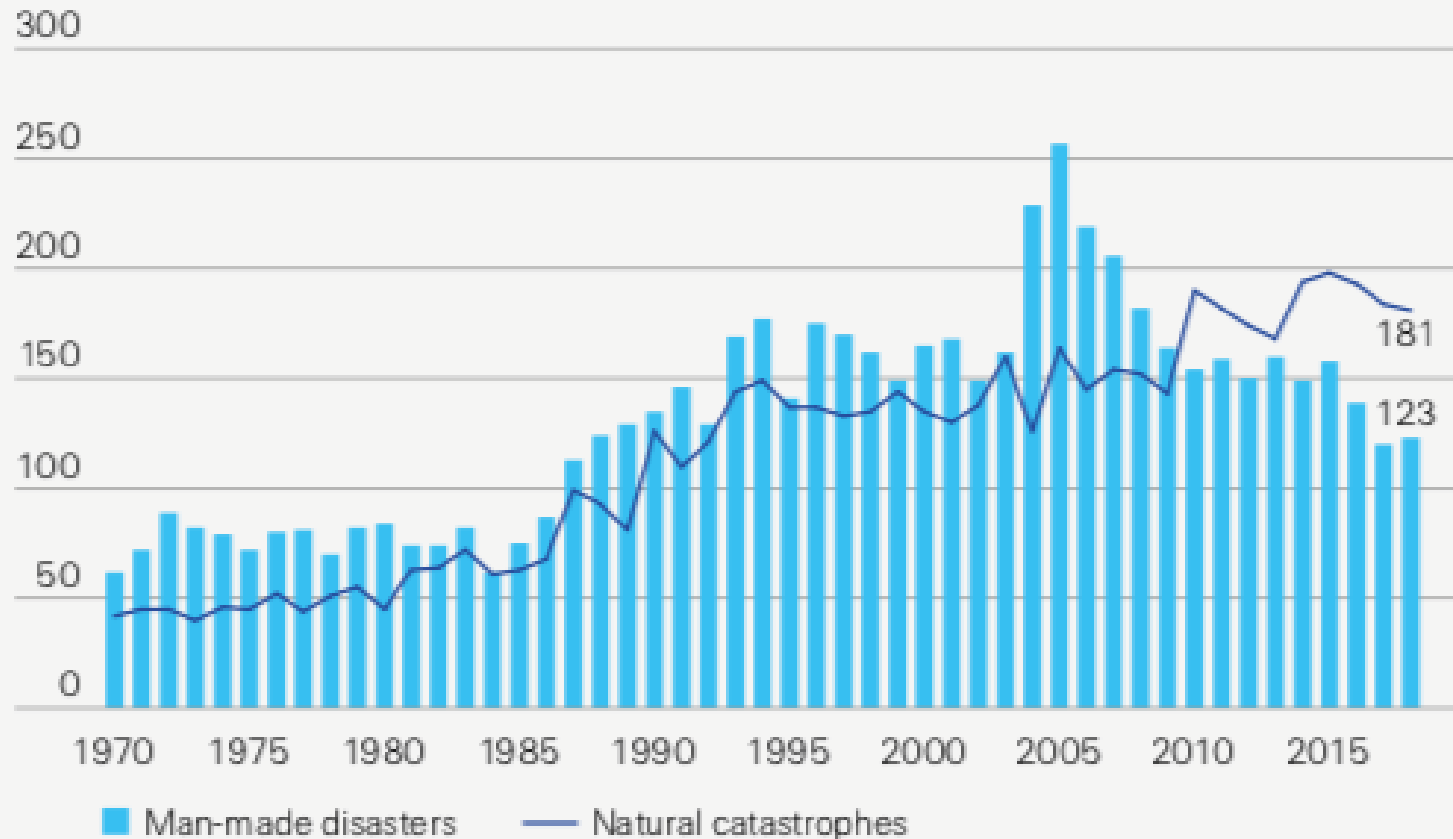


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# Facts & Figures – *Event Frequency*



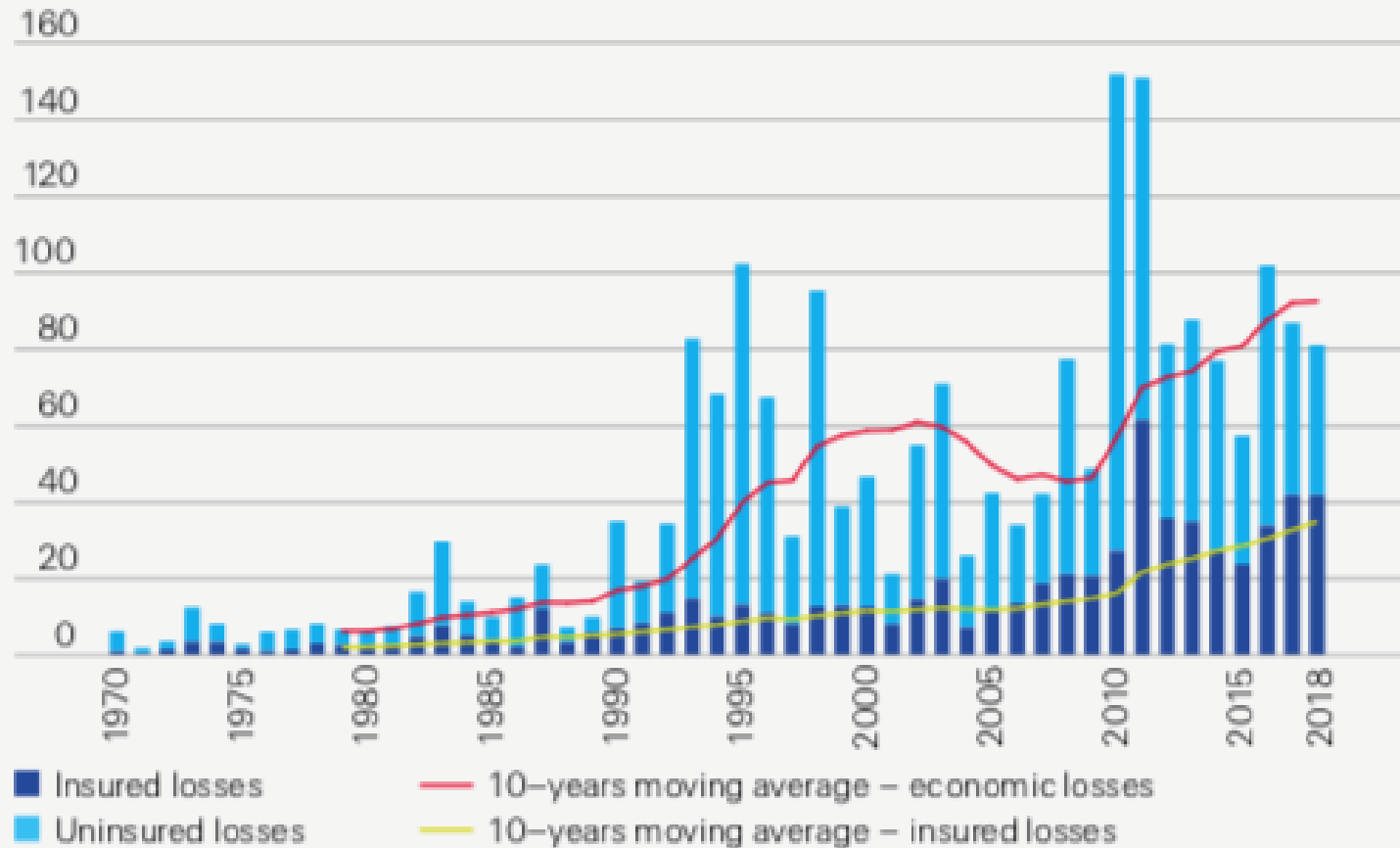
Source: Swiss Re Institute



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# Facts & Figures – *Protection Gap*



Source: Swiss Re Institute



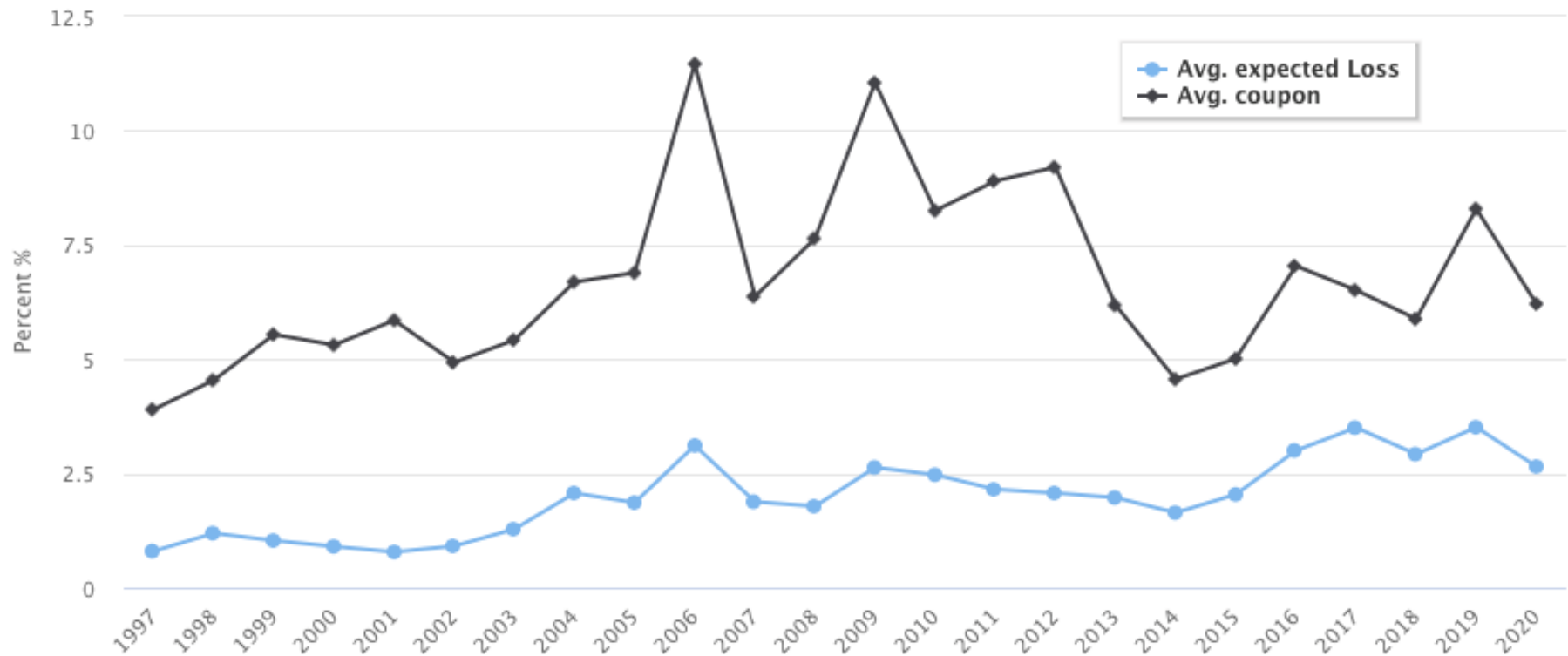
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# Facts & Figures – *Chasing Returns*



Catastrophe bonds & ILS issuance average expected loss and coupon by year



Source: [www.Artemis.bm](http://www.Artemis.bm) Deal Directory



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# Facts & Figures – *10 Year US Treasury*



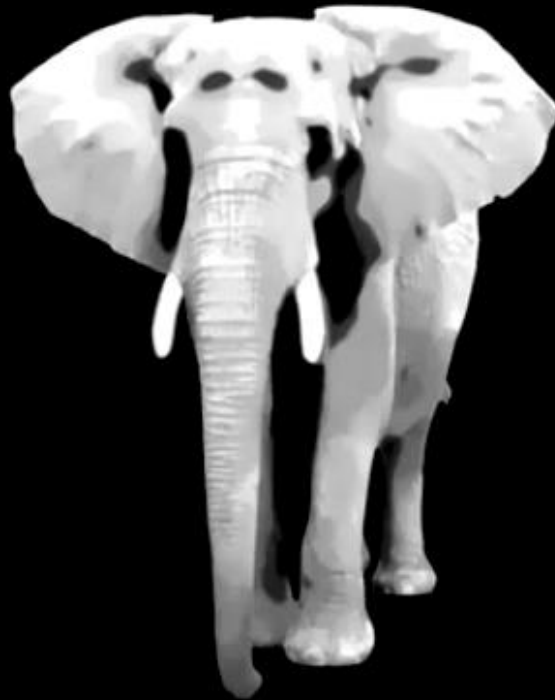


# “Alternative Risk Transfer; Part Art, Part Science”

Stuart King, Founder & CEO Babel Cover



# Everyone Looks At Risk Differently





# Enterprise Risk Management

Deals with risks and opportunities affecting value creation or preservation, defined as follows:

*"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives"*

*Committee of sponsoring organizations of the treadway commission (COSO)*

Retain risk, avoid risk, or, buy insurance??



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# Corporate Insurable Risk Finance

- Corporates spend approximately 1% of revenues on insurance
- The insurance market place works in cycles so called 'soft' and 'hard' market cycles
- When insurance capital reduces premium price increases but underlying corporate individual risk remains static
- Almost 90% of fortune 500 companies have formed internal regulated self-insurance companies called 'captives' to manage external market volatility and access more cost effective forms insurance capital
- There are over 6,000 regulated entities with total premiums in excess of US\$ 125bn
- Captives are an embedded risk finance technique of Enterprise Risk Management (ERM) programs at large multinationals to finance risk across their operations



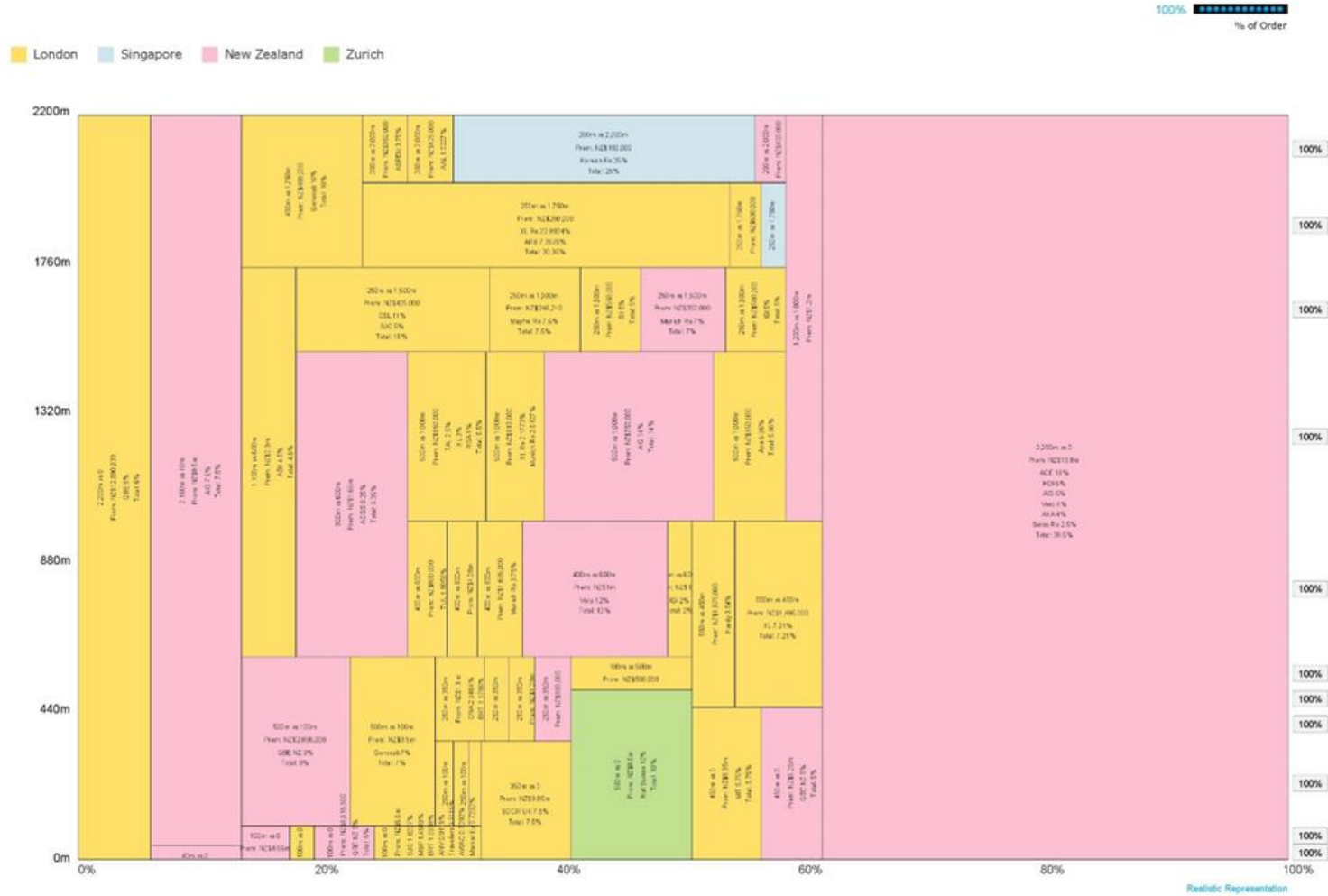


# Risk Finance Decision Making

- Evaluating the organisations risk appetite and risk taking vs. risk averse behaviours
- Mapping corporate risks to understand insurable vs. uninsurable risks and insured and uninsured risks
- Establishing the total cost of insurable risk (TCOiR)
- Calculating financial risk tolerance and deciding to retain and self-finance risk vs. transfer externally
- How to get the right balance between centralised risk management and decentralised risk management and financing risk across many geographies
- Most FT500 form internal insurance companies to consolidate risk finance and achieve economies of scale and to reward better risk behaviours at local levels

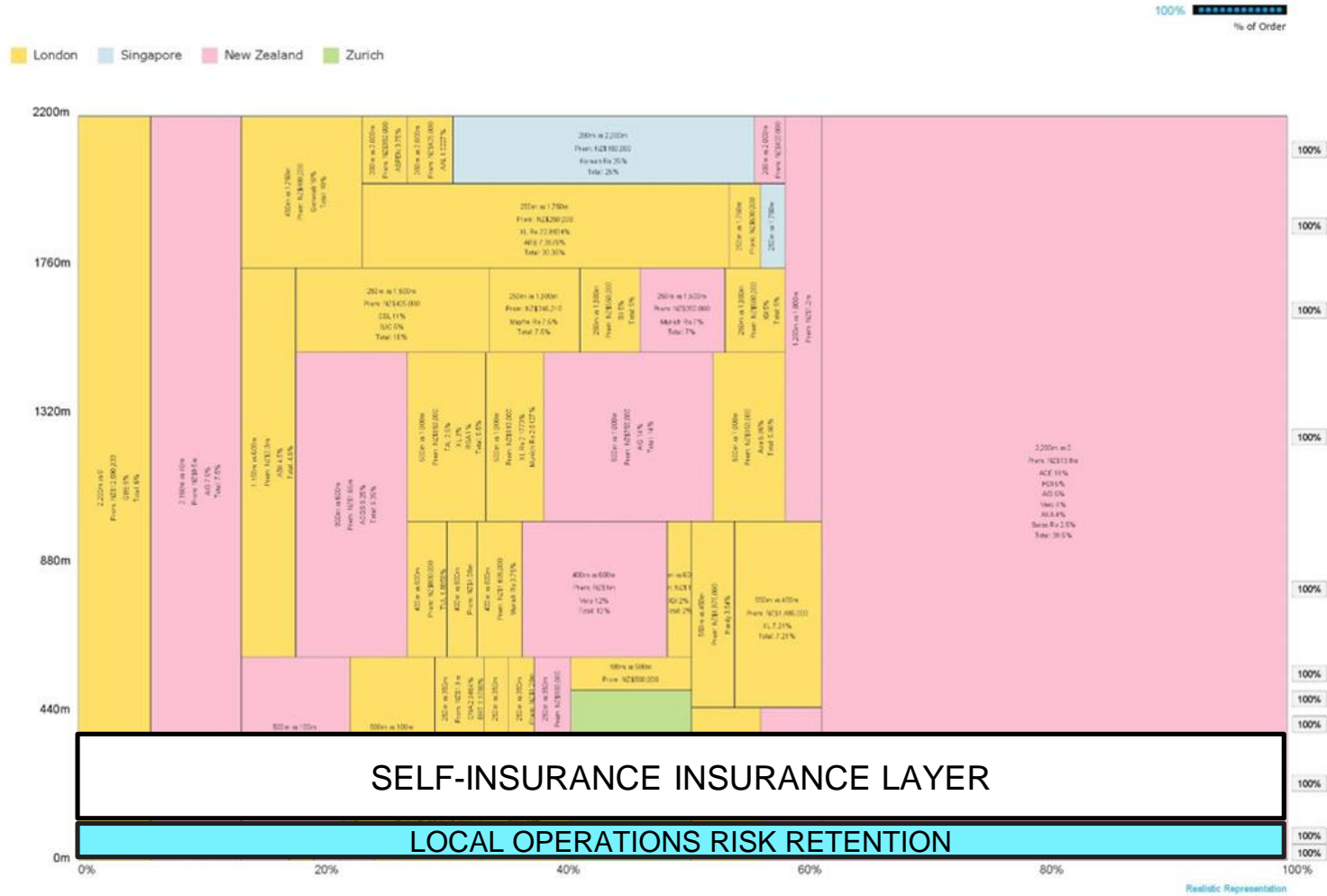


# Insurance Placement – As Is



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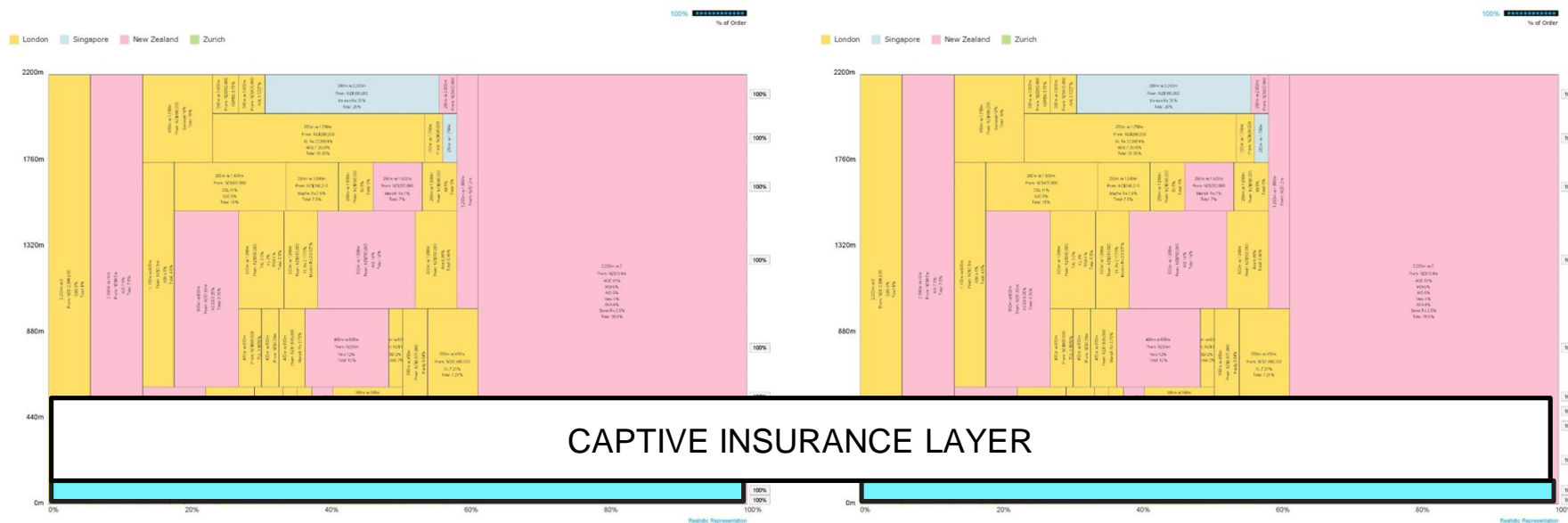
# Insurance Placement – ARF



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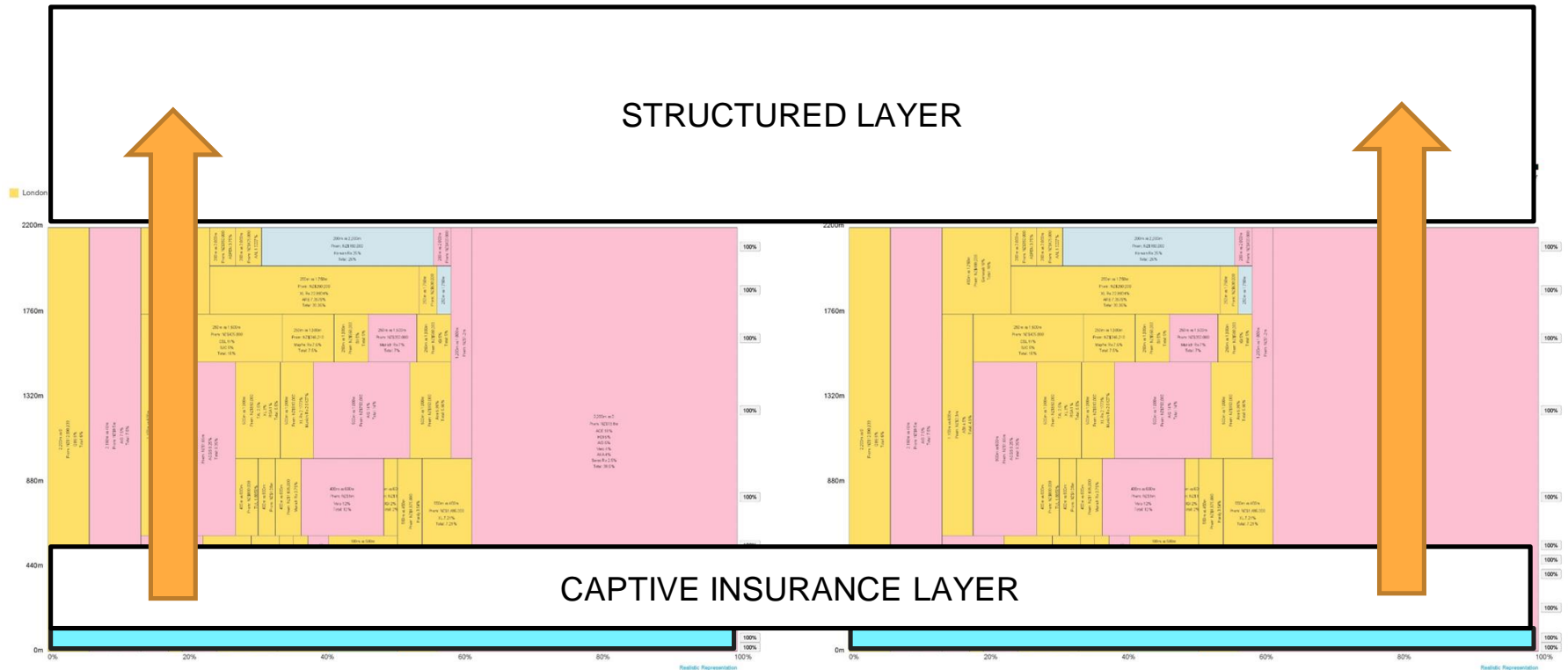


# Insurance Placement – ART





# Insurance Placement – ART





# Future (Re)volution

- The removal of go-between non added value parties from the insurance process in order to create a new, open, accurate and transparent system
- Inter-connectedness and collection of more risk data to create individualized products
- Claims settlement greatly reduced as the route from insurance capital to customers becomes more direct
- Rapid capital deployment improving economic repair following catastrophic events
- Mutualisation of risk beyond geographic and political boundaries







“Freedom, democracy and reason as the primary values of society”

“Free from ignorance, from superstition and from the arbitrary powers of the state”



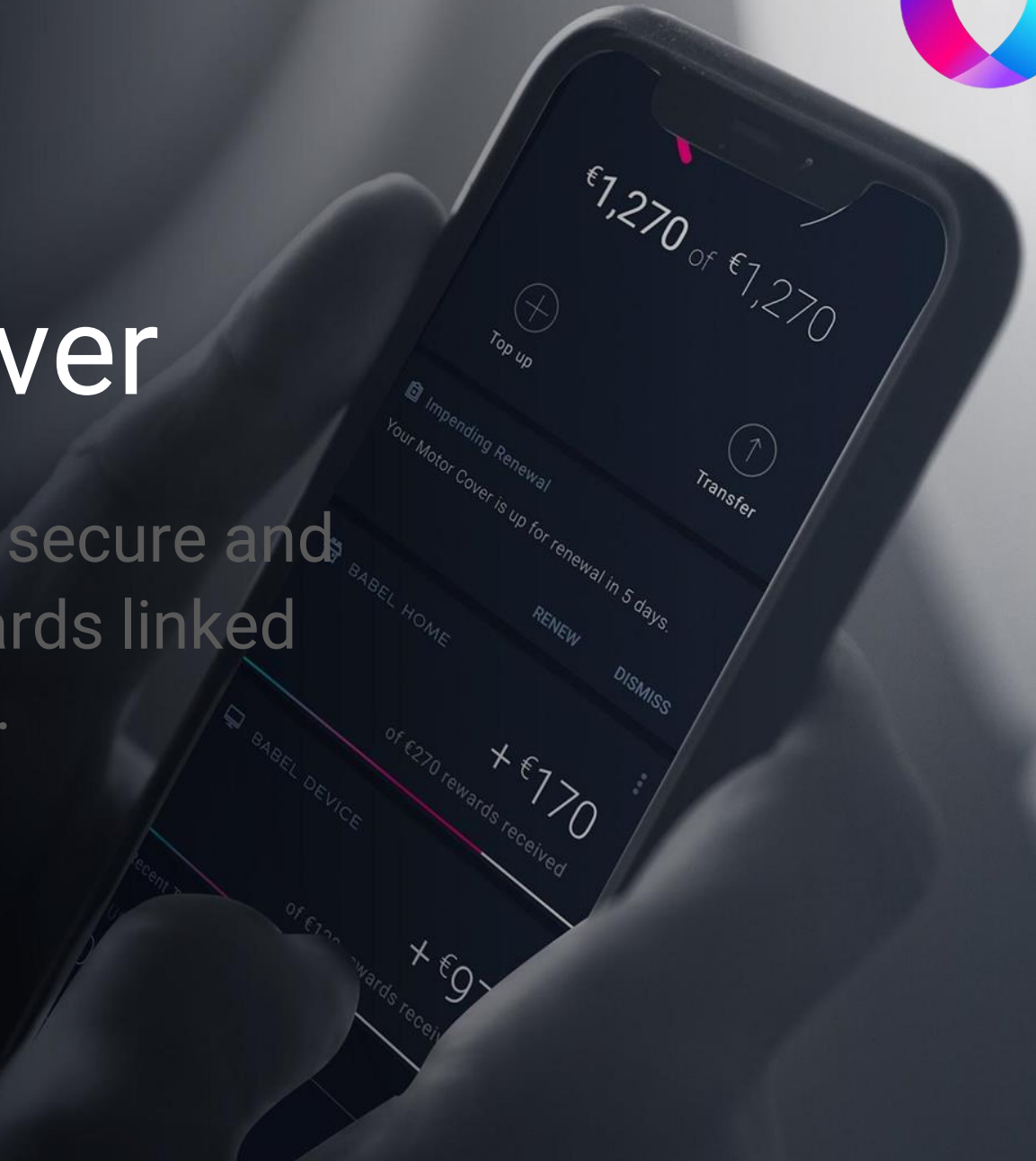
Through the use of  
**Blockchain Technologies**  
the insurance system can  
be radically redesigned for  
the betterment of all





# Babel Cover

**Sustainable**, secure and transparent rewards linked digital insurance.





# Digitize, Democratize, Decentralize



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# Thank You

## Let's Make Things Clearer

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