

Autumn Edition 2016

Talking Talbot

The quarterly newsletter from Talbot Underwriting Australia

Underwriting

Welcome

Welcome to the Autumn edition of "Talking Talbot." The first quarter of 2016 was another busy quarter for the team at Talbot Australia.

Nat Cats continue to be a pressing issue for the Australian landscape and this year we have seen unrelenting activity around the country, particularly bush fires. Talbot Australia has created the most extensive list of commercial property losses in the country and we are making this available publically. An article on this effort is included in the newsletter.

Talbot Australia continues to grow and we have recently appointed a very experienced Financial Lines team. Please welcome David Jones and David McKenzie, who add product depth to our offering covering the full financial lines product suite. They are enthusiastic, professional and look forward to working with you very closely in this specialist space.

We are very excited to announce that we have recently moved into new offices co-locating with Lloyd's Australia and two other Lloyd's Managing Agents in Sydney. We are proud to be an anchor tenant in this major development to the Lloyd's platform in Australia, and we have included some pictures to give you a glimpse of our new offices. We look forward to welcoming you there and to the day when the phrase "Meet you at Lloyd's" will be part of our local language.

As always, thank you for your support...Enjoy the read!

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Local Office

2015 Commercial Property Loss History

Local Office

We've Moved!

After much anticipation, we have finally moved into the new Lloyd's office with the prestigious address of Level 9, 1 O'Connell Street Sydney NSW 2000.

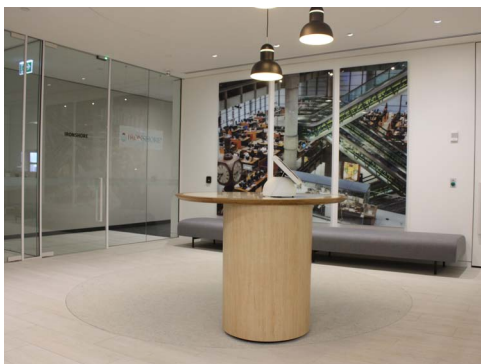
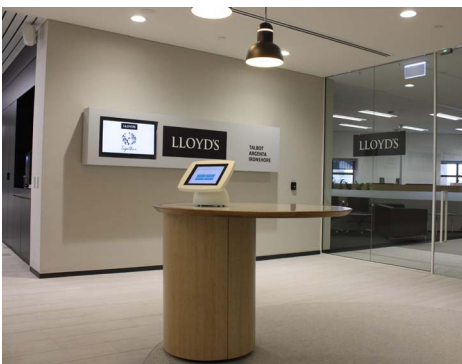
Please come and visit us - Our doors are always open!

Talbot Australia has compiled the most extensive list of cat losses and non-cat fires in Australia during 2015, and we are making this publically available. Our basic reasoning for embarking on this research effort is the fact that "history" tells the story on property losses in Australia. Catastrophe losses happen in areas where it is a known risk, and the large fires have similar inception themes.

The best risk management and underwriting decisions come from those who have the historical narrative.

You will find an introduction to our 2016 large fire compilation on the link below, and we invite you to speak to us to access this information so that you can interrogate the data and add new content.

Please access [here](#)



Underwriting

Talbot Australia Hires Local FinPro Team

Talbot Australia is thrilled to announce the appointment of David Jones and David McKenzie to drive our Australasian FinPro strategy.

Talbot already has a strong reputation in the FinPro market in Australia via our London platform, and this new local representation will add greater depth and diversification in the region.

David McKenzie brings more than 25 years of experience in insurance, alternative insurance products and financial markets to Talbot. He most recently served as Queensland Manager for Axis Specialty Australia. David's background includes roles with Aon and Willis, and the founding and management of a proprietary trading firm that invested in varied financial products.

David Jones has more than 20 years of experience in the insurance and banking markets and most recently served as Victorian Manager at Axis Specialty Australia. David has also worked in financial institutions, most recently at Chubb Insurance. He's also held previous roles across alternative products in financial markets and group treasury at the Commonwealth Bank of Australia.

The duo will initially focus on Professional Indemnity, Directors' & Officers', and Crime cover for Banks, Investment Managers, Securities Brokers, Super Trustees, Corporate Advisers, Private Equity & Venture Capital firms, and Hedge Funds whilst also having a commercial financial lines capability.

With the addition of both the David's comes the opening of Brisbane and Melbourne marketing offices, further enhancing our service capabilities to clients in these regions.



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Claims

Claims Update

As part of our entry into the Australian market, we offer best practice claim handling capacity and capability, aligning to our product offerings and risk appetite. Talbot prides itself on providing an excellent claims handling service in London, and we wanted to ensure we could offer exactly the same level of service locally.

We elected to partner with Australia's largest multi-disciplinary Third Party Administrator (TPA) in Gallagher Basset to have a delegated settlement authority for our Property portfolio overseen by our global claims leadership in London. This has had the benefit of providing local expertise and infrastructure, allowing us to focus on building our core business to support partners, but also fast access to proven scalability in a Catastrophe scenario.

One of the market challenges facing European Union insurers, including Lloyd's Underwriters, with regards to Solvency II and Conduct supervision came into effect from 1 January 2016. The changes affect both TPAs and Coverholders who hold a delegated authority to manage claims for Lloyd's Managing Agents. Specifically, there are new minimum standards around the provision of increased management information and conduct risk assessment.

In simplifying the changes, TPAs and Coverholders alike are now required to report monthly to Managing Agents in agreed standard formats as issued by the Lloyd's Market Association. Reporting includes standard portfolio data by bordereau, complaints and feedback registers, catastrophe provisioning and specific service metrics and performance monitoring indicators.

We have been working closely with Gallagher Basset to ensure we are able to provide an efficient and seamless claims handling service that our partners expect.

Local Office

Crisis Management

PRODUCT RECALL INSURANCE – How much is enough?

One of the major issues Underwriters in the Crisis Management space continue to see is under-insurance. Given the lack of available data around the severity of past incidents, which would enable companies to benchmark their exposure, clients are often left open to significant balance sheet impact in the event of an accidental contamination, defect, malicious tamper or extortion.

While costs such as those involved in recalling, destroying and replacing affected products can often be contained, it is the future loss of sales and/or contracts that can run into the millions, and often tens of millions of dollars.

We see year-on-year increases in the limits being purchased, but typical purchases are for policy limits of between AUD \$2m and \$10m by companies with turnovers ranging from several million to several hundred million dollars. Increasingly, in the event of a recall, companies are finding themselves with a large under-insured loss on their hands, having a significant impact on their annual results and even on their balance sheets.

A prime example of this was the Hepatitis A contamination of frozen berries that occurred early last year. The contamination was highly publicised, causing sickness amongst many consumers, leading to products being recalled nationwide. The impact on the company's financial result for the 2014/15 period was significant, with net profit dropping by AUD \$14.6m to \$2.1m. To this day, more than 12 months later, some of the affected product lines are still not back on supermarket shelves, which will no doubt impact the company's 2015/16 results.

Another recent large recall involved defective electrical cabling that had been installed in over 40,000 homes in Australia. The rectification work is still being carried out and estimates currently range from AUD \$80m - \$120m. However, although the dollar value of the sold cabling was relatively small (several million dollars), it is the rectification work that has the potential to run into the tens of millions of dollars.

Unfortunately, there is not a one-size-fits-all formula for determining the level of cover required, given the many variables that should be taken into consideration. These include annual turnover, number of brands / products, number of production facilities, profit margins, distribution spread, batch sizes, frequency of product testing, installation / reinstallation costs and position in the supply chain.

For more information or if you wish to discuss your client's product recall requirements, please contact Talbot Australia's Crisis Management team below.



Steve Ward
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Local Office

Our Work With Bond University & QLD University of Technology

As part of Talbot Australia's on-going commitment to support underwriting research, we have teamed up with two Universities on some ground breaking projects.

Talbot Australia has been successful in a submission with the QLD University of Technology for a 3 year Australian Research Council Linkage Grant to explore the use of digital technologies to assist commercial underwriting.

We are very excited about the potential benefits that technology can bring to underwriting, and around the world we have all seen the way technological innovation can change markets and lead to new opportunities for companies like Talbot and Validus. Our initial proof of concept points the way to substantial benefits which we intend to share with our partners.

We have also teamed up with the Journalism school at Bond University, to explore how journalistic techniques can be used in commercial underwriting. In many ways, underwriters and journalists share similar traits in terms of seeking and making use of information to understand the world around us. Our aim is to examine some of the advanced journalistic traits and techniques, and to then deploy those that will provide us with a much-improved understanding of risk. We intend to share the benefits of this new expertise and understanding with our partners.

These two projects continue to display how Talbot and the Validus group are at the forefront of innovation in research and development both locally and internationally.

Underwriting

Talbot Assists The Development of A Broker

In April 2016, Bronte Neville of Queenscorp Brokers spent 2 weeks in London. The first week was at the Lloyd's Global development centre, with likeminded insurance professionals from around the world. The second week was within Talbot's London office, focusing on specialist lines of business.

We are thrilled to facilitate this opportunity.



Local Office

What We Have Written in Q1

So far in Q1 we have written risks in Property lineslips, Property Binders, Property retail schemes, PA, Terrorism, Product recall and Marine. This has been a great start to the year and we continue to expand our offering, including Talbot's full 22 product lines with global expertise in all areas.

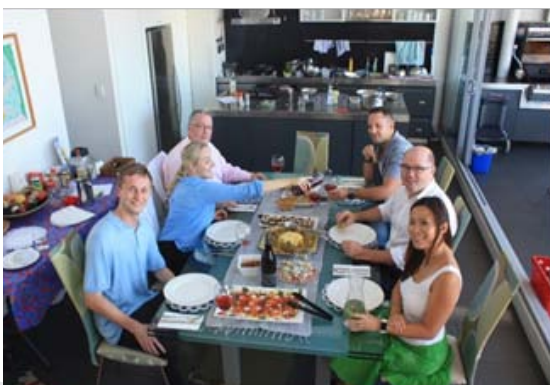
We look forward to working with you.

Local

Our Away Day

In February, we hosted our first Away Day with the theme of "Setting the Scene". The idea was to combine the knowledge we each have from our different backgrounds and walks of life to provide us with the micro and macro landscape of Talbot Australia. We continued with a discussion around drawing talent into the insurance market from the under 35's category which we all know to be an industry-wide challenge.

We ended our day with a team bonding session doing our not too secondary talent – Cooking!



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For further information about Talbot please contact us directly or visit our website www.validusholdings.com

Talbot Underwriting Australia is a wholly owned subsidiary of Talbot Underwriting Ltd (Talbot) and a branch of Talbot Risk Services Pte Ltd Singapore. Talbot operates in the Lloyd's insurance market through Syndicate 1183.

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