

**HARNESSING THE WINDS OF CHANGE
or
THE FUTURE OF MARINE INSURANCE
AND HOW TO WIN IT**

Address of the Chairman

Joseph E. M. Hughes

**to the Annual Meeting of the
Association of Average Adjusters
of the United States**

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Ladies and Gentlemen:

How time flies! It is hard to believe that fully a year has passed since I stood here to make my first address to the association's annual meeting.

Over the past twelve months much has happened. We stand on the threshold of a new era of the profession's service to the maritime industry in North America, marked by the merger of our US association with that of Canada. I had the pleasure some weeks ago of enjoying the hospitality of the Canadian association's chairman at a dinner in Toronto. The attentions of tropical storm Lee caused me to arrive late. My hosts were exceedingly gracious in waiting for me. And I did arrive in the end. The same cannot be said of the fulfillment of my duty to attend the British association's dinner in May, at which I didn't arrive at all. An awful conflict prevented me from attending, but I thank Jonathan Spencer for being there in my stead.

More generally, I must thank all the very talented, and personally delightful, people with whom I have had the pleasure of being associated during my chairmanship for their support of the association, and for their diligent engagement in its affairs, over the past year. I am not sure that I have added much to the association's activity during my tenure, being something of an absentee landlord most of the time. But the honor I have been privileged to carry in holding this office has been a particularly rich one for me. Even if undeserved, it is one which I have genuinely cherished, the more so since I have been able to make new friends, and refresh older friendships, by reason of it.

Indeed, I am delighted to welcome several of those friends here today, and, in particular, representatives of the Brazilian, British, Canadian and Japanese associations, and of course Sr. Galvan of the AMD. Your presence here is most warmly appreciated, and we are delighted that you have been able to join us.

Incidentally, to return to the subject of arriving, I must tell you that I arrived in Tokyo some ten days ago and had the pleasure of meeting Yamaoka-san at that time. I am delighted that we have been able to meet once again after such a brief interval.

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My address this morning concerns the future of marine insurance. I should make it clear that the views I express represent merely personal reflections derived from a career mainly in P&I. My observations contain nothing specific to average adjusting as such, it being obvious that I am not qualified to comment on its esoteric exactitudes!

However, as I said in my acceptance address last year, I have the highest regard for the adjusting profession and the copious skills which its practice requires. There is probably no other sector of our industry which can boast so rich a confluence of technical expertise, commercial insight and practical judgment from the many different streams which make up the practice of marine insurance at large. You may be certain that I regard average adjusting as an integral part of the bigger picture which I seek to paint today, and very much a part of the future which I see for our industry as a whole.

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It might be helpful for me to describe my personal perspective on this subject. If my period at the maritime commercial bar in London in the mid-1970s is included, I have been engaged in the business of marine insurance for just over 35 years.

I have worked, successively, for British and Norwegian marine insurers in the UK and in Norway, for the London-domiciled insurance broking subsidiary of a Hong Kong-based multinational and, for the past 16 years, as the Chairman and CEO of Shipowners Claims Bureau, Inc. (SCB), the managers of the American P&I Club.

In addition, SCB has sister companies which, variously, run a fixed premium P&I facility, perform claims correspondence work for a variety of overseas principals and, under the banner of Atlantic Marine Associates, have an average adjusting practice as well.

So ladies and gentlemen, I speak to you as one who has had experience of a variety of different markets, in a variety of different capacities over a reasonable span of years. I am anxious not to give too much emphasis to the latter point, owing to the negative connotations it has as to age and the failing faculties supposedly attendant thereon. So suffice it to say that I have been around for a while, and seen much change in my time.

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To speak of the winds of change is to employ a vivid metaphor describing the onset of a future very different from the past. The expression was first used by British Prime Minister Harold MacMillan in 1960 in an address to the South African Parliament. He used it to describe the growing demand for self-determination among Britain's colonies in Africa. The winds of change blew fast and furious during the remainder of that decade as the old regime was dismantled and former colonies in Africa and elsewhere were granted independence. Although they took longer to engender change in South Africa itself, the same winds proved inexorable in the end, even there.

The winds of change in the political world are readily discernible since they are the stuff of which current news and historical writing are made. The winds of change as they affect the world of commerce are perhaps less obvious, although looking back over only ten years, who

would have predicted that a company making hand-held communication devices would have a valuation on the stock market which for a while recently exceeded that of the world's largest energy conglomerate? I refer, of course, to Apple and Exxon Mobil respectively. And given the news overnight about Steve Jobs, it is a rather melancholy observation to make this morning.

In our comparatively small and somewhat cloistered world of marine insurance, the winds of change have blown more gently, I think, but change there has undeniably been. The nature of that change, however, has in many respects been different from that which has occurred in other areas of commerce.

The reason why change has been slower in our industry than in others is because, collectively, we occupy as risk carriers and service providers alike, a traditional, "upstream" section of the great river of global business.

This is a reflection of the maritime industry which we serve. Although there have been far-reaching changes in the way in which maritime transport is conducted, the introduction of the shipping container and the growth of multi-modal transport being notable examples, such change has been largely incremental. The shipping industry has not undergone the paradigm shift which, say, the information technology and communication sectors have seen over the past 50 years.

Because of its primary, "upstream" role in world commerce, the shipping industry, and the commercial and legal architecture supporting it, are largely the same now as they were several generations ago. This is not, incidentally, to devalue the role of shipping. It is of course a role of fundamental importance to the global economy, the more so since international trade as a proportion of global GDP continues to grow and, indeed, has risen from about 23% to 30% of that GDP over the past decade.

Of course, the players in world shipping have changed as the balance of global trade has shifted over recent decades from West to East. But the shipowners of today do essentially the same things, and in essentially the same way, as their counterparts did in the past.

The same is true of the marine insurance industry, I suggest. The core elements of what we do as marine insurers and related service providers are essentially the same as they were in the middle of the last century. In many respects, we do what we do differently these days. This is certainly true in the context of how we are structured, how we implement our business processes internally, and how we deliver value to the markets we serve. Moreover, the climate within which we operate is very different now. Nevertheless, the product we provide is, at its core, much the same as it has been for many years.

Accordingly, as I come to identify the winds of change as they affect marine insurance, you will see that they mainly bear on the external factors which are changing the way we do

things, rather than the essence of what we do itself. But, however they may be identified, they are no less important for our collective future, and harnessing them to better serve our markets – and in doing so winning that future – is of vital importance to all of us, and most particularly to the next generation of marine practitioners.

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Let me seek to identify the winds of change blowing across our industry by reference to a series of propositions which, I believe, collectively describe the evolving environment in which we practice our trade. I will not dwell to any length on any of these propositions in particular, but the mosaic leading to the larger picture which they are intended to create will, I hope, be clear.

I should add that my remarks are directed primarily at the international markets, and the observations and conclusions I draw are aimed chiefly at those who conduct business in the global arena. They have great relevance, of course, to those who operate solely in a domestic context, but the kernel of my argument is informed by changing international, rather than purely local, business conditions.

I suggest, therefore, that the following trends, or winds of change, are reshaping our business landscape.

First, we live in a relentlessly more interconnected and borderless world, culturally, socially, commercially, and especially in terms of the immediacy with which information can be accessed, transmitted and deployed. This is perhaps the most vibrant part of the larger phenomenon of modern “globalization”. The ability to acquire, share, analyze and act upon information has never been greater, nor ever had greater implications for competitive advantage.

Second, the product quality and service expectations of clients, and other business counterparties, have never been more acute. In satisfying those expectations, the need to be innovative, to respond to the market’s changing demands, to achieve a clear identity in product differentiation and above all to add value, and be seen to add value, has never been more compelling.

Third, the breadth and intrusiveness of regulation in the affairs of insurers has never been greater. Nor has the heavy hand of litigation hovered more balefully over our affairs than it does at present, and not just here in the United States. In parallel, the media interest in what we do has never been greater and the ability to deal with the news cycle, such as it is in our field, never more important.

Fourth, the increased outsourcing of financial judgments of insurers into the hands of third parties, and the implications of those judgments, have never been a more potent influence on

market perceptions. Such judgments now go beyond matters of purely economic significance, such as levels of capital adequacy (on which I have some further comments later in the context of the trend toward multiline business models). The testing of insurer strength by reference to operational benchmarks such as enterprise risk management, and the quality of corporate governance, is a growing trend. It has also been embraced by regulators – Solvency II in Europe, and NAIC protocols on this side of the Atlantic, being cases in point. And this is to say nothing of the activity of non-statutory institutions such as, for example, the Lloyd's franchise board and its focus on the delivery of business plans.

Fifth, and as a direct consequence of the globalization I mentioned earlier, the need for dedicated regional service delivery by insurance suppliers – and, indeed all other stakeholders in the marine insurance business – has become increasingly important. For example, in responding to this trend over the last 13 years, the American Club has itself opened new regional service centers in, successively, London, Athens and Shanghai.

Sixth, a growing shift from monoline to multiline product supply has characterized the positioning of many marine insurers in recent years. This has been a trend visible among some of the P&I clubs, for example. Part of it has been driven by market consolidation, part of it by a desire to generate new sources of revenue and part at least in implicit recognition of the requirements of new regulatory regimes, notably Solvency II, where the presumed volatility of monoline business may, over time, impel demands for higher levels of capitalization, at least among non-mutual insurers.

Seventh, the application of modern technology to the marine insurance business model has developed exponentially in recent years and will continue to do so in the future. No serious player can allow itself to fall behind the curve in this respect. Such technology includes not only that related to the processing of information and the means of communicating it to the market, but also that related to the analysis and pricing of risk based on actuarial and other models.

Finally, the manner in which marine insurers conduct their affairs is driven these days by rising expectations of transparency and accountability. As the manager of an International Group shipowners' mutual, where members are insureds and insurers alike, and where there is a clear nexus between operational accountability and strategic oversight by virtue of the club's mode of governance, transparency for us is embedded in the mechanisms of day-to-day business. But those who invest in, and consume, marine insurance products will, increasingly, demand to know more about those who provide those products, and the manner in which those products are developed, financed, priced, implemented and overseen. And, as to oversight, they will expect that boards are well qualified, thoughtful, committed to the interests of shareholders, properly engaged and motivated, and appropriately representative of those whose interests they are mandated to serve.

I am sure that many other trends can be identified as agents of change in our industry. I believe that the foregoing are among the most significant. They will surely shape the landscape of our business over the years ahead.

At the same time, the recognition of, and response to, these trends must never be permitted to erode the enduring values which characterize our industry, based as they are on the great traditions which continue to run as a golden thread through the fabric of what we do. We welcome the future as we build on the past. We welcome change as a stimulus to improvement. This does not mean compromising our values as much as enhancing outcomes for our customers as we cleave to those values in the pursuit of evolving imperatives.

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Having identified these winds of change, how do we harness them to best effect and win the future of marine insurance? The short answer would be: by responding to the changing environment in a focused and energetic way. This is entirely correct. But such a goal cannot be accomplished in a vacuum. The overarching culture of the commercial surroundings in which any business hopes to succeed needs to be appropriate to, and provide encouragement for, that success. This proposition is based on the “comparative advantage” theory of the early nineteenth century British political economist David Ricardo. The idea is as vitally important to the future of marine insurance as it is to any other sector of commercial enterprise.

A commercial culture which is conducive, in that overarching sense, to winning the future of marine insurance, comprises the following elements.

First and foremost, simple enthusiasm and vision: the ability of the participants in a business to see the landscape ahead, and their genuine desire to be part of it. This is predicated upon an insurance establishment interested in the marine specialty, appropriately capitalized and willing to deploy that capital in the pursuit of marine opportunities, with a prudent, but realistic, appetite for risk.

Second, a benign regulatory, legal and operational environment creating the minimum amount of friction in the development of opportunities, and a general ease of doing business in the marine insurance field.

Third, ample access to qualified people – the vitally important human capital on which all commerce relies – and the educational platform and vocational training which underpin the supply of those people. One of America’s greatest advantages in the global market has been its ability to attract and nurture talent, and its exceptional capacity for innovation and renewal. We can, and should, promote these advantages in the world market for marine insurance.

Nor should we lose sight of the fact that expertise in our field represents a tradable export in the supply of which only a relatively small number of national economies compete, the US being one. Since this expertise creates a valuable export of services in support of the growth of US trade internationally, it must continue to be encouraged and promoted.

Finally, and as a related component of the first cultural positive I described, is a simple will to succeed and a dogged persistence in achieving that success. This connotes singularity of purpose coupled with a willingness to embrace change and assume risk when needed.

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I shall pause here and restate my main observations which lead to the conclusions in the final part of this address as to what key characteristics of success an ambitious marine insurer – and by extension any kind of marine insurance related entity – will be cultivating in order to win our industry’s future.

To recapitulate, the winds of change which will shape that future are, I suggest, as follows:

- Globalization as a fundamental business driver.
- Rising customer expectations of product value and innovation of approach.
- More demanding regulatory and legal environments.
- Increased outsourcing of financial and qualitative analysis to third parties.
- Decentralization of service delivery.
- Increased product diversification.
- Growing exploitation of IT and related technologies.
- Rising demands for transparency and accountability in operations and governance.

In harnessing these, the successful marine insurance entity of the future will also be best served by an overarching business climate which exhibits the following elements:

- The vision of stakeholders with deployable capital and an appetite for writing marine risks.
- The friendliness of the regulatory, legal and operational environment.
- The availability of skilled and motivated people.
- The will to succeed, taking a long-term view of the business landscape.

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Given the factors I have described, let me conclude by sketching the chief characteristics which the winning marine insurer of the future in my opinion is likely to possess. Several of these characteristics will apply, *mutatis mutandis*, to related service providers, since the underlying components of success will apply to all.

Such an entity will be found in a location where the business environment is marine insurance friendly – New York has traditionally been such an environment, while the Scandinavian nations, the United Kingdom and other European states belong to that category, as well as several in Asia and in emerging economies elsewhere, of course, where opportunities for marine insurers will surely continue to expand.

Wherever they happen to be located, the winners of the future will exhibit the following chief virtues:

- They will be well capitalized with access to levels of funding both necessary and sufficient to match present and future opportunities and the appetite for risk. There will be a powerful community of interest between all stakeholders.
- They will exhibit a degree of product diversification appropriate to their size and market positioning, and the skills at their disposal. A trend toward multiline insurance offerings will likely be evident.
- They will have a deep understanding of the markets they serve and the expectations of consumers within those markets. They will be innovative in product development, have a clear and differentiated identity, and will apply an exceptional focus on adding value to customer relationships.
- They will have a capacity for global outreach through regional service centers able to provide a strong local presence.
- They will employ highly skilled and motivated people, with the qualifications and experience able to supply outstanding levels of professional service within a strong, team-based working environment.
- They will foster cordial and cooperative relations with insurance regulators, financial analysts and all other agencies relevant to their operations wherever they are based, or wherever they might have a bearing on business. They will be environmentally conscious.
- They will have a clear and coherent business strategy recognizing the strengths, weaknesses, opportunities and threats inherent in their market positioning. This will be supported by a strong system of enterprise risk management and a robust architecture of governance.
- They will implement a business model benefiting from the widest range of statistical and market inputs, both internal and external, which enhances risk selection and loss control, yet is flexible enough to react intelligently to changing market conditions.
- They will execute their business model on a platform with first-division IT capabilities, and will possess an exceptional ability to connect with customers and to communicate knowledge with immediacy and relevance.
- They will, more generally, enjoy first-rate communication and public relations skills, capable of engaging with interlocutors from any sector of the shipping industry,

governmental and trade organizations, the press and any other outside parties relevant to their business.

- They will, above all, conduct their affairs to the highest standards of integrity supported by a single-minded commitment to customer service and exceptional transparency and accountability in operations, and at the level of corporate governance.

What a paragon of virtue I have described! There are no doubt other elements of such virtue which can be identified, some of them subsets of the more general categories I have just mentioned. And, as I observed earlier, many of the above ideals are, *mutatis mutandis*, capable of application to other entities which occupy the marine insurance space, including brokers, lawyers and adjusting firms.

Now some of you may be wondering whether the American Club, and its sister businesses, as international insurers and service providers based here in New York, meet the winning criteria I have just outlined. Most of them, I believe, they do. There is more work needed in regard to a few, perhaps, but we know what is required, and are determined to get wherever we need to be!

Above all, I am certain that we are not alone here in New York in aspiring to win the future of marine insurance. This extraordinary, world-class city – a microcosm of the world itself, no less! – must surely, with its glittering maritime and commercial traditions, continue to assert itself at the forefront of marine insurance, and related professional practice, on the global stage. It is a stage we share with others – the representatives of some of whom we welcome here today as friends.

Many of those others may already be winners, or will be winners in the future, in markets only as yet developing. And let us not forget that, more than ever, we occupy an interdependent world. This is not a zero sum game, so let us hope we can all to some extent be winners over the years ahead. But let it also be understood that my own group, as well as the maritime community at large here in New York, has every intention of continuing to compete both now and in the future.

Ladies and Gentlemen, many thanks for your attention, thank you again for being here and, most especially, for having accorded me the great honor of being this association's chairman over the last twelve months.
