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LEO

THE FINANCIAL CENTRE'S MAG

INSURANCE: RISING UP TO THE CHALLENGES

FINANCING A SUSTAINABLE FUTURE

INSURANCE IN THE AFTERMATH OF BREXIT

STABILITY AND ADAPTABILITY – A CORNERSTONE OF SUCCESS

LuxembourgforFinance
Relying on Expertise, Building on Innovation

LUXEMBOURG
LET'S MAKE IT HAPPEN

NICOLAS MACKEL,
CEO,
LUXEMBOURG FOR FINANCE

Dear readers,

While our last edition was available in digital format only because of the limitations the lockdown imposed, this new edition of our magazine will be digital because we have decided not to print our publications (magazines, brochures, etc) any longer. I hope you will appreciate this small contribution to fight climate change and continue to read our publications digitally to stay up to date on the financial industry as well as Luxembourg's role in it.

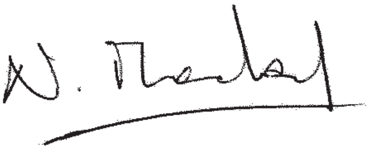
This edition is dedicated to the insurance sector which may not always take centre stage but which plays a vital role in our lives and in our economies. First of all, because the insurance sector has our backs by covering the risks of life and of business. Indeed, as individuals, we need insurance cover to protect us against the consequences of accidents, fires or other hazards. Businesses need the same cover but also need to cover investments and transactions. Second, the insurance industry is one of the largest groups of investors and thus helps finance economic activity to a very large degree. It also helps finance governments by buying the debt they issue for investments like roads, schools, hospitals, etc.

The articles in this edition cover the many challenges which this part of the industry is facing. We talk about the solutions that insurance companies needed to find after Britain decided to leave the EU in order to be able to continue serving clients in the single market. We explain the struggle generating returns on investments has been for the last couple years in a very low interest rate environment. Obviously, the regulatory framework and the burden it can represent is part of the story as is the digital future of the insurance industry.

In this edition we also launch a new series of articles on the theme we have chosen for our Ambitions 2025: Financing a sustainable future. Each article of this series will feature a story of how a financial product helps in financing a sustainable future. The maiden article showcases Fidelity's Sustainable Water & Waste Fund. We aim to show through this series how the financial services industry not only helps finance economic activity but can help make a contribution towards a better and more sustainable world for all of us.

Finally, we take great pride to be partnering this year again with the Luxembourg Art Week, by now a well established art fair bringing together numerous renowned European galleries. Given the current sanitary context, the organisers have had to change the programme to ensure social distancing measures can be respected at all times but they have also spared no effort to allow this fair to go ahead. In our article some of the participating galleries share their view of this important event.

Enjoy the read.



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ANY QUESTIONS?
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SCAN THIS QR CODE TO READ MORE ABOUT LUXEMBOURG'S AMBITIONS FOR 2025:

AMBITIONS 2025: FINANCING A SUSTAINABLE FUTURE

Since the publication of the first edition of Luxembourg for Finance ambitions paper in January 2020, the world has witnessed a truly global crisis. This revised edition of the brochure lays out a 5-year vision for the further development of a sustainable financial industry. The plan centres around 6 main features that are already at the core of Luxembourg's role as a centre of excellence in cross-border finance, in Europe and beyond. announced their relocation decision.

SCAN THIS QR CODE TO LISTEN TO OUR LATEST PODCASTS:

SHAPING FINANCE PODCAST SERIES

We're delighted to launch "Shaping Finance", our new podcast series offering a platform to high-level decision makers and shapers in international finance. Tune in to listen to the first two episodes with Finance Minister Pierre Gramegna and Miles Celic, CEO of the CityUK.

LUXEMBOURG AAA RATING AFFIRMED

"The stable outlook points to our expectation that Luxembourg will maintain strong credit metrics over the next two years, despite the significantly adverse economic and budgetary impact of Covid-19," says credit rating agency S&P.

LUXEMBOURG TO BECOME FIRST EUROPEAN COUNTRY TO LAUNCH A SUSTAINABILITY BOND FRAMEWORK

Luxembourg becomes the first European country to launch a sustainability bond framework, which is also the first framework to comply with the new recommendations of the EU taxonomy for green financing, while also meeting the highest market standards (e.g., the ICMA Principles). Furthermore, the new framework has been designed to comply with the draft European Green Bonds Standard (EU GBS), and will contribute to growing the sustainable bond market on a global scale.

EUROPEAN DESI INDEX: 3RD IN CONNECTIVITY

Luxembourg ranks 3rd in connectivity in the latest Digital Economy and Society index (DESI), published by the European Commission.

FINANCING A SUSTAINABLE FUTURE

CLIMATE CHANGE IS ONE OF THE BIGGEST CHALLENGES OF OUR TIME. WITH A GROWING FOCUS ACROSS OUR COMMUNITIES ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES, THE LUXEMBOURG FINANCIAL CENTRE IS PLAYING A LEAD ROLE IN DRIVING THIS CHANGE, SUPPORTING A RANGE OF ACTIVITIES FROM RESPONSIBLE INVESTMENT FUNDS TO GREEN BOND LISTINGS AND ESG FUND LABELLING.

TODAY, AN INCREASING NUMBER OF FINANCIAL INSTITUTIONS ARE INCLUDING ESG ASPECTS IN THEIR INVESTMENT DECISIONS. ESG INVESTMENT FUNDS ARE NO LONGER SEEN AS A FASHION OR A LUXURY. ON THE CONTRARY, THEY ARE ON THE RISE, DELIVERING RETURNS AND BECOMING MAINSTREAM. FOR THIS MAIDEN EDITION OF 'FINANCING A SUSTAINABLE FUTURE' LFF SAT WITH SAURABH SHARMA, ASSISTANT PORTFOLIO MANAGER AT FIDELITY INTERNATIONAL TO LEARN MORE ABOUT THEIR ROLE IN ESG AND ITS LUXEMBOURG BASED SUSTAINABLE WATER & WASTE FUND.

In recent years, Fidelity International has become increasingly involved in sustainable investments to the extent that they have 180 analysts across the globe rating companies not only from a fundamental standpoint, but also from an ESG standpoint and issuing internal ESG ratings. Today, Fidelity has a dedicated fund range and all its funds incorporate ESG into their investment decisions.

LFF: HOW DOES FIDELITY INCORPORATE ESG INTO ITS INVESTMENT PROCESS?

SS: We have three pillars when considering ESG. Firstly, integration of ESG analysis, secondly engagement and thirdly collaboration. We believe that these three elements complement each other and increase the likelihood of success in enhancing investment returns. Different funds have varying levels of focus on sustainability, with the strongest applications of the approach within our Sustainable Family Funds.

ESG analysis must be embedded in your research to be meaningful. Investors are increasingly expecting a more rigorous and critical evaluation of an issuer's sustainability profile, across all asset classes and all geographies. In 2019 we integrated and launched a proprietary Sustainable Ratings system. These ratings are available to everybody internally and portfolio managers across the globe can tap into this research too.

One of the most effective ways to improve investor outcomes is by influencing corporate behaviour through engagement. To add value, you must engage directly with management and decision makers, make sure that you listen to them and know what their targets are.

Then there is collaboration. We are a signatory to the Task Force on Climate related Financial Disclosures (TCFD) and the UN-backed Principles for Responsible

SAURABH SHARMA,
ASSISTANT PORTFOLIO MANAGER,
FIDELITY INTERNATIONAL

“Investors are increasingly expecting a more rigorous and critical evaluation of an issuer’s sustainability profile.”

SAURABH SHARMA

Investment (PRI). We work with local industry associations to ensure companies have a consistent set of standards to work towards. Each of these elements is designed to help identify and operate high standards of corporate responsibility.

LFF: HOW DO YOU ASSESS AND MEASURE THE ESG CRITERIA WHEN MAKING AN INVESTMENT?

SS: We have set targets for our Sustainable Family Funds. At least 70 per cent of the portfolio needs to be invested in companies that we classify as having “good” ESG values and the remaining 30 per cent are companies which we expect to improve. This is where the bottom-up approach comes in. We start with a detailed review of ESG affecting each individual asset at the security level.

We use data providers such as Trucost, Morgan Stanley Capital International (MSCI) and Institutional Shareholder Services (ISS). Additionally, we get data on carbon intensity from UN global compact evaluations.

For our proprietary Sustainable Ratings system, the investment universe has been segmented into 99 distinct sub-sectors. Each has industry specific criteria upon which each issuer is assessed, relative to their peers. For each industrial group you will have questions on ESG issues. Our analysts are free to add questions to the list.

The analysts then rate the company on each of these questions and predict whether they expect the company to improve its ESG standard or to deteriorate it.

LFF: HOW DO YOU MEASURE THE RETURN RELATIVE TO ESG CRITERIA ?

SS: This is one area where the industry could still improve. There are a couple of ways of looking at it. The performance of our funds is measured against their reference indices and our defined sustainability criteria.

The performance of our Sustainable Water & Waste Fund, for example, is measured against the MSCI All Country World Index (ACWI). We believe, given the thematic and sustainability focus, that we will add value to our clients in the long term. During the recent volatile market, we looked at the performance distribution of our internal ESG ratings and found that a strong positive correlation existed between a company’s relative market performance and its ESG rating. In the 36 days between 19 February and 26 March 2020, the S&P 500 fell 26.9%. In the same period the share price of companies with a high-Fidelity ESG rating dropped less than that on average, while those rated poorly fell more than the benchmark. Although the time period is small, we expect this trend to be persistent in the long term.

LFF: COULD YOU EXPLAIN THE STORY BEHIND THE SUSTAINABLE WATER & WASTE FUND?

SS: Our Sustainable Water & Waste Fund is a story of people. For centuries people have built cities with a sanitary system around a body of water. Across the world, any global city you look at has this fundamental framework. This has been a story for thousands of years and it is going to be the same story for the next thousand years. There is no economy without water and no sustainable economy without waste management. So within this fund, we invest across the whole value chain of water and of waste.

For water, we go from pump manufacturing and water treatment companies to water recycling companies. The same goes for waste; it is end to end.

The Sustainable Water & Waste Fund is based on five drivers: urbanisation, consumption, infrastructure, regulation and sanitation needs, and scarcity of resources. In 2011, 50 per cent of the global population lived in cities. By 2050, this number is expected to be 70 per cent. As more people move to the city, our water consumption and the waste production increases.

Now, the majority of people are not aware of how much water they actually use. That cup of coffee you make in the morning requires about 140 litres of water to grow, process and transport enough beans for just one single cup. The footprint of a simple cotton t-shirt can take up to 2000 litres of water. It is not just drinking water that we consume.

Those figures bring us naturally to consumption and wealth creation. The more money we spend, the more water we consume in terms of goods. Increased consumption also means more pressure on our infrastructure. This story plays out across the developed world. Take London for example. The drainage and sewage system here were built in 1850 for a population of one million people. Today, London has a population of around 9 million. This illustrates the constant need for capital expenditure just to maintain the infrastructure.

Another driver of this fund is regulation and sanitation needs. Since the pandemic we became so much more aware of the importance of sanitation. Water waste companies have been dealing with regulation such as that for ballast water, where you must clean the ballast water before you release it into the ocean.

My last point is scarcity. Although 70 per cent of our planet is covered by water, only 2.5 per cent is drinkable and only 1.5 per cent is accessible to us. Likewise, with waste. There is limited land that we can use for our waste. Land is not a resource that is there in abundance when you fill up a city. Recycling and circular economy need to be put at the forefront.

LFF: WHAT ARE INVESTORS LOOKING FOR WHEN THEY INVEST IN THE SUSTAINABLE WATER & WASTE FUND?

SS: This fund was launched on 7 November 2018 with USD 20 million. As of the end of June 2020, we are managing USD 1.7 billion. We grew from USD 20 million to almost USD 2 billion in less than two years. Investors understand the story. They also like the fact that the fund's structural drivers are here to stay. It's not a story we see playing out just for a couple of quarters. A lot of investors are coming into this portfolio for the long term.

When investors look at their portfolios, many of them will list large exposures to technology and communication services. Most of our allocation tends to be in industrial companies and utilities, so this fund serves as a great diversifier.

Last but not least, investors now actively look for sustainable funds. Not only is this fund sustainable in theme, but we have defined a sustainable ESG framework which is monitored by our compliance team.

LFF: CAN YOU SHARE SOME FIRST-HAND EXPERIENCES WHERE A REAL CHANGE OR IMPACT WAS MADE AS A RESULT OF YOUR ESG APPROACH?

SS: A Malaysian rubber glove manufacturer was alleged by the Guardian newspaper to be involved in forced labour, unreasonable working hours and recruitment fees. Unfortunately, these kinds of practices do occur in this sector, which is why we actively engage on this issue. The company confirmed that it has now put in place mechanisms to ensure reduced working hours and will absorb the cost of recruitment fees from the end of 2018. It has since published an updated policy on these issues on its website. This gives us greater confidence that the company has addressed the allegations in the report and is improving its labour relations, but we continue to monitor the situation closely.

LFF: WHAT FUND LABELS OR OTHER INDICATORS SHOULD INVESTORS LOOK OUT FOR WHEN SEEKING SUSTAINABLE INVESTMENT FUNDS?

SS: Today, there is no one perfect way, there is no holy grail of labels. That is why it is important for investors to understand how ESG is integrated into the investment process. Investors have to ask themselves, is it just an overlay or is it integrated throughout the process?

Our Sustainable Water & Waste Fund was set up in Luxembourg, where there is a strong relationship between the country and sustainable finance. They provide the right structure that allows a wide range of our European customers to access the fund. Investors in Luxembourg funds are experienced in sustainability, they often ask the right questions and most importantly, they challenge the integration process.

For this fund we worked with three different labels, the Luxembourg label LuxFLAG, a Belgian label called Febelfin and Ecolabel, an Austrian label. The LuxFLAG label asks about your investment process, they want to know how ESG is integrated into your investment process. Once they have checked every step and they are happy with the results, they give you the label which will need to be periodically renewed.

LFF: WHAT DO YOU THINK WILL BE THE FUTURE OF ESG INVESTING?

SS: This is not a brief moment in the spotlight, but rather a serious reappraisal of our system of capitalism, of how enterprises are run and for what purpose. The COVID-19 crisis and the lockdowns of entire economies worldwide have sharpened the focus on corporate responsibility for employees, customers and even suppliers. It appears as if capitalism is about to go through one of its periodic reinventions. One aspect of its current incarnation was largely shaped in the 1970s by Milton Friedman's shareholder doctrine, which held that a company should be run in the interests only of its shareholders. But, over the past half century, the world has changed. The CEOs of many of the largest corporates, some of which appear almost to rival governments in their reach and influence, have said that running them solely for the benefit of equity owners is no longer an option.

Friedman's approach risks alienating non-shareholders – including the customers and employees on whom every business depends. In the long term, what is good for stakeholders is good for shareholders too. In short, I would say that ESG investing is here to stay.

MvH

> "The COVID-19 crisis and the lockdowns of entire economies worldwide have sharpened the focus on corporate responsibility for employees, customers and even suppliers."
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> SAURABH SHARMA

THOMAS LILLELUND,
CEO,
AIG EUROPE SA

INSURANCE IN THE AFTERMATH OF BREXIT

AFTER THE UNITED KINGDOM VOTED TO LEAVE THE EUROPEAN UNION IN 2016, A NUMBER OF INSURANCE COMPANIES DECIDED TO SET UP AN ENTITY IN LUXEMBOURG IN PREPARATION FOR BREXIT. INSURANCE COMPANIES SUCH AS AIG, SOMPO INTERNATIONAL AND LIBERTY MUTUAL INSURANCE EUROPE ENSURED THAT THEY WOULD BE ABLE TO CONTINUE TO SERVICE THEIR CUSTOMERS WITH MINIMAL DISRUPTION. LFF CAUGHT UP WITH THEIR CEOS TO HEAR THE STORIES BEHIND THEIR NEW LUXEMBOURG BASES.

"Our priority in response to Brexit was to ensure that our clients had the certainty they needed that AIG would be ready for any Brexit outcome."

THOMAS LILLELUND

EU MARKET

With half a billion citizens, the EU is an important and mature insurance marketplace for international companies. There is a large market for goods and services, including financial services; they go hand in hand. But most importantly, the single market with one currency for most of the countries and a common set of rules makes doing business easier and more cost effective. The 'freedom of services' regime allows insurance companies to trade seamlessly across borders and offer their products to clients, wherever they are in the EU. The EU's appeal for insurers is reinforced by its economic strength and geopolitical stability.

"The EU counts for nearly a third of global Insurance premiums and is an integral part of AIG's international business. It is a sizable and influential market, with a deep pool of expertise and talent, along with a sophisticated and mature range of clients and policyholders with a complex and extensive variety of insurance needs. The Single Market enables firms to access clients across the region, trading seamlessly across borders under a common rulebook. The EU's strategic importance is unquestionable," comments Thomas Lillelund, CEO of AIG Europe SA.

NEW OPPORTUNITIES

Europe is a key market for insurance companies seeking both growth and diversification. The agriculture market, specifically crop insurance, has experienced significant growth in recent years, as European farmers as well as Agricultural focused businesses are encountering a variety of challenges, notably from evolving and increasingly unpredictable weather patterns. Hail, frost, drought and excessive rain can all contribute to significant damage and loss of agricultural production for producers who are unprepared for these eventualities. Sompo International is addressing these challenges through product innovation such as parametric policies whilst simultaneously trying to increase the take up of existing insurance products.

“Penetration rates for crop insurance remain stubbornly low in Europe despite government subsidies and recent claims experience. Sompo International is committed to this market and currently active in Italy, Germany, Portugal and France. We are diligently working to improve upon and deliver crop insurance, and other products, that better meet client needs whilst growing our presence across the Continent,” recounts Thomas Brazil, CEO, SI Insurance (Europe), SA (SIIE).

The United Kingdom’s decision to leave the EU forced most London based insurance companies to consider the best way for them to keep a foot in the European single market. Their main concern was to ensure that they were able to provide certainty to their customers. Solutions tabled by companies varied considerably but most of them chose to either strengthen their existing EU presence or redomicile in continental Europe.

> “The relocation process went smoothly – we were well prepared. From an immigration point of view, work permits and visas were secured and we were able to seamlessly relocate staff.”
>
> THOMAS BRAZIL

THOMAS BRAZIL,
CEO,
SI INSURANCE (EUROPE), SA (SIIE)

"The UK's departure from the EU was actually "business as usual" for us with limited impact to our activities. We chose to redomicile our company to Luxembourg while maintaining all our EU branches. This meant absolute continuity of cover for our clients, with no need to transfer cover and no issues on our ability to service and pay our claims on our policies," stated Dirk Billemon, General Manager, Liberty Mutual Insurance Europe (LMIE).

London is still seen as a centre of expertise and most industry stakeholders expect London to remain a global centre for insurance particularly, be it because of Lloyds being in the City or the technical financial knowledge that will remain there for the time being. The London insurance market has been operating for a very long time and has proven to be resilient, transforming and changing itself many times.

DIRK BILLEMON,
GENERAL MANAGER,
LIBERTY MUTUAL INSURANCE EUROPE (LMIE)

A NEW HOME

"Our priority in response to Brexit was to ensure that our clients had the certainty they needed that AIG would be ready for any Brexit outcome. We were one of the first companies to announce that we had chosen to locate our HQ in Luxembourg, as the hub for existing network of branches across the region. We took a comprehensive approach, transferring EEA policies to our new Luxembourg entity and establishing a clear framework for how we would address multi-jurisdictional EU/UK business. As a result, our clients knew that they had service coverage and ability to pay their claims, so the transition was extremely smooth. This enabled us and our clients to move on from Brexit very quickly and focus on our strategic priorities for the European business," explained Thomas Lillelund, when describing the incorporation of the new company in Luxembourg in 2018.

When insurers looked for a new continental base for their EU operations, Luxembourg was regularly placed at the top of the list of possible options. The CAA being a respected regulator, both on a European and international level, was a strong reason for professional organisations to consider Luxembourg in the face of the uncertainty and disruption of Brexit. The established relationship and strong historical ties between the Grand Duchy and London were also useful.

"It is important to have a regulator who knows and understands your business, especially your future needs. If you wish to adapt, you can have the best ideas as a company, but they can only materialise if you have the support of your regulator and a legal framework that lets it happen," observes Dirk Billemon.

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DIRK BILLEMON

"Having a regulator that is well-respected throughout the European and London markets and conducts dealings in English has been incredibly helpful, especially as we set up SIIE. Having regulatory partner that shares your passion and high ethical standards is the foundation for the strong working relationship we have built with the CAA," recalls Thomas Brazil.

The local Luxembourg market offered access to many different skills sets too. The ability to hire fluent Italian speakers for your Italian farmer clients can be a challenge if one does not have access to an international community, and Luxembourg's cosmopolitanism helps in that respect.

"Luxembourg rose very quickly to the top of the list – for AIG following a thorough evaluation process. It is close to our clients at the heart of Europe, with an insurance focused, expert and robust regulator, a stable economic and political environment (not to be taken for granted in a world of change and disruption), a predictable legal environment, excellent English language skills(important for international companies) and a strong financial services talent base," emphasised Thomas Lillelund.

Whether moving a company or setting up a new one, all companies needed to consider their strategic approach to staff. Who would be relocated and when? Moving a company, moving clients or moving staff is an onerous process that needs careful management.

"The relocation process went smoothly – we were well prepared. From an immigration point of view, work permits and visas were secured and we were able to seamlessly relocate staff. We also found great new office space that will grow with us as we continue to expand our business in Europe. Equally important was our ability to recruit well-qualified people locally that not only understand the environment in Luxembourg but also have a good understanding of the neighbouring countries," says Thomas Brazil.

THE FUTURE

Speaking to the CEO's of these three insurance companies, it has become clear that Luxembourg is now home to three more world-class insurance experts that offer a full range of specialty insurances from property, energy, cyber, accident & health, crop, aviation, car and life insurance. Without a doubt there will be challenges to navigate arising from the Covid-19 crisis. Insurance is becoming largely more risk adverse than in 2019 but Sompo International, Liberty Mutual and AIG are all well positioned to partner with their clients to address these challenges and look to the future.

"We have enjoyed strong growth over the past few years in both our insurance and reinsurance business. Continental Europe is certainly an important growth market for us, and we will continue to invest and developing products adapted to the European market. Even through the challenges of COVID-19 we see continued momentum in EU as we review our mid-year financial results," concludes Dirk Billemon.

Their new home enabled LMIE to set up a platform to reach the whole of the continental European market and the opportunities this market offers them.

"With exceptional financial strength, solid ratings and teams of underwriters, claims and actuarial professionals that understand the risks faced by the local and global market,s--we are committed to the European market today and into the future. I believe there are a lot of opportunities for us to grow, especially in Europe. As a company, we have been very prudent through what we term as the soft market environment of the last few years. We are well-positioned to take advantage of an improvement in the industry, while some of our peers are actually having to step back," says Thomas Brazil.

Times may be uncertain but the captains of these three latest arrivals to Luxembourg are confident they are best positioned to navigate these unprecedented challenges from their new Luxembourg continental base, whatever the future holds.

"We continue to build on the strong foundation established in 2019 and are maintaining that momentum, discipline and market leadership in 2020, focusing on underwriting excellence, operational efficiency and delivering value for our customers. We are well-positioned to provide the technical expertise, innovative problem-solving and claims service our clients distribution partners need in this challenging time," stated Thomas Lillelund.

MvH

FLORENT ALBERT
MANAGING DIRECTOR EUROPE,
LOMBARD INTERNATIONAL
ASSURANCE

STABILITY AND ADAPTABILITY - A CORNERSTONE OF SUCCESS

FACING A MULTITUDE OF CHANGES IN THE INDUSTRY, RANGING FROM CLIENT BEHAVIOUR CHANGE TO INNOVATIVE INITIATIVES AND UPCOMING REGULATORY PRESSURES, FOUR KEY EXPERTS IN THE LIFE INSURANCE SECTOR SHARE THEIR VIEWS ON THE TRENDS AND CHALLENGES AHEAD.

> "Life insurance and wealth management are absolutely linked and one could not live without the other."
>
> FLORENT ALBERT

THE YIN - YANG RELATIONSHIP OF LIFE INSURANCE AND WEALTH MANAGEMENT

Life insurance is a fundamental component of wealth management and is an essential tool for tailoring a wealth management strategy in terms of investments and succession planning.

"Life insurance and wealth management are absolutely linked and one could not live without the other," states Florent Albert, Managing Director Europe at Lombard International Assurance and Group Chief Financial Officer. Life insurance or insurers such as Lombard International Assurance, which was established in Luxembourg almost 30 years ago, work in close partnership the wealth management industry, building strong relationships with private banks, wealth managers, and family offices, to provide long term services, as well as specific wealth structuring expertise to High Net Worth and Ultra High Net Worth clients. Taking a step back and taking a longer-term view of the world, Albert believes that this macro trend will to continue. *"Wealth creation has never been stronger in the world than today and that pace is accelerating. Wealth needs smart investments, smart solutions and strong expertise. It is quite interesting to see a lot of tier one banks such as UBS, Credit Suisse, Julius Baer or Pictet continuing to set up ultra-high net worth desks or single family office relationships, positioning themselves to specifically serve this client base."*

At Sogelife, present in the Luxembourg insurance market since 1996, life insurance products offer the possibility to integrate a wide range of eligible assets into a single investment contract, such as dedicated internal funds and specialised insurance funds. Jean Elia, CEO at Sogelife, explains that on the succession planning side, the Luxembourg life insurance industry offers an extensive and solid expertise for managing sophisticated wealth structuring across borders, that very few other financial places are able to provide. At the beginning of 2015, Sogelife decided to review their business model and shift a majority of their business away from guaranteed rates to unit linked solutions, which has more than doubled since the strategic change.

Addressing the local and international markets through a multi-channel distribution, Laurent Heiles, Director at Bâloise Assurances, one of the first life insurance companies in Luxembourg and serving the local market since 1890, sees the Grand Duchy's leading alternative investments hub in EU as a definite advantage for the national and international insurance industry. This gives different players, such as asset managers and banks, the opportunity to propose an infinite number of investment possibilities to clients. It is, however, important to make this information clear and available to the partners of insurers, in order to be able to discuss them with end clients on a timely basis.

RISING TO THE CHALLENGE OF EVOLVING EXPECTATIONS

Elia shares his experience: *"There used to be a myth that private banking clients were not clients who expect digital experiences, but who rather sought out personal relations. In reality, these clients are very much into digital innovation and expect not just a good customer experience, but an enjoyable one. Though we don't get to see the end client, as we are in a B2B2C model, our strategic objectives and these new digital initiatives share one common goal: make the customer's journey a delightful one."*

CALI Europe entered the Luxembourg insurance market 20 years ago and has seen client expectations evolve over the past 2 decades. Though the basic expectations of looking for investments and financial offers corresponding to investment profile remains, with insurance companies proposing attractive legal and fiscal framework packages around it, Guy Van den Bosch, CEO at CALI Europe, has seen an evolution towards more digital solutions. *"Private life insurance is a people business. When you are working on wealth management solutions, people don't do business through the internet - it is people related. Clients, however, want to be informed. Permanently. They want to see the evolution of their assets and their contracts at all times, which is quite different to my experience 20 years ago, when it was the norm to send and discuss changes with clients every few months."*

Bâloise follows the same train of thought, but has taken things a step further by having created an internal innovation lab several years ago, with dedicated members surveying the market and addressing client needs with innovative solutions. *"We are looking to simplify our client's and partner's lives, making their interaction with us as smooth as possible, while being considered as a trustworthy and uncomplicated partner."* Despite the fact that up to 80% of innovative suggestions are not developed right away, concepts are kept at hand and prepared to be launched should the organisation see the need to adapt offers in a certain direction. *"Innovation is in our culture and we are not afraid to take a step forward, even if the seeds we sow are reaped at a much later date. Telematics and universal life products were two such examples for the local market. Though launched some time ago,*

"At the beginning of the crisis, we were a bit worried that clients were going to shift towards guaranteed rates to secure their business. Dealing with High Net Worth Individuals (HNWI), however, has proven the opposite."

JEAN ELIA

JEAN ELIA,
CEO,
SOGELIFE

"We are looking to simplify our client's and partner's lives, making their interaction with us as smooth as possible, while being considered as a trustworthy and uncomplicated partner."

LAURENT HEILES

LAURENT HEILES,
DIRECTOR,
BÂLOISE ASSURANCES

it took a little while for clients to warm up to the ideas. Nevertheless, we have been seeing a gradual upward trend, proving that we are on the right track." Heiles underlines that taking the time to explain the differences and familiarise consumers with the tools and products offered is crucial to making clients accept new and innovative solutions.

Van den Bosch also notes that a simplification of processes through digital solutions is crucial in a world where information has to travel quickly. As regulation evolves, bringing along a more complex landscape, the life insurance sector needs to keep a balance of complying with the rules, while keeping client relations simple and efficient. The Covid-19 healthcare crisis has, over the last few months, further highlighted the downsides of focusing on purely face-to-face management.

"Client expectations are a function of their sophistication in terms of the assets that they want to invest in and how their wealth develops. The regulatory and tax environment also drives it and Europe has, over the last 30 years, evolved in terms of regulation, tax, demographics and also in terms of pools of wealth. We have seen more complexity emerge from the environment that we're in." Albert notes that one of the key strengths of the Luxembourg ecosystem is the ability to adapt, to adjust and to continue to tailor to the High Net Worth segment of the of the market. International clients seek out Luxembourg thanks to its freedom to provide services and system of protection, governed by the Luxembourg regulator for insurance and known as the "triangle of security", which ensures the legal and physical segregation of investors' assets on one hand and those of shareholders and creditors of the insurance company on the other.

NAVIGATING THROUGH AN ADVERSE ENVIRONMENT

Has the Covid-19 pandemic influenced the life insurance world? According to Elia: *"At the beginning of the crisis, we were a bit worried that clients were going to shift towards guaranteed rates to secure their business. Dealing with High Net Worth Individuals (HNWI), however, has proven the opposite; they took a look at the the stock market and took advantage of its volatility to invest and move away from the low guaranteed rates. It really shows that they dictate the market and that one cannot predict their movements based on what we can expect of retail clients."*

FINTECHS AND INSURTECHS RESHAPING THE INSURANCE INDUSTRY

Beyond the current healthcare crisis, the rise of Fintechs and Insurtechs have been adding to the diversity of not just the life insurance industry, but the insurance industry as a whole. Van den Bosch explains that digital solutions are needed to simplify and accelerate processes and mainly sees the integration of automation and digital solutions on two fronts: the operational side of business to streamline compliance and AML activies, and on the communication side to enhance the exchange between clients, partners and insurance companies. He does not, however, believe that online sales will catch on in the HNWI arena at this point in time. Heiles agrees and sees online solutions more on the retail front, though he does

GUY VAN DEN BOSCH,
CEO,
CALI EUROPE

"Private life insurance is a people business. When you are working on wealth management solutions, people don't do business through the internet - it is people related."

GUY VAN DEN BOSCH

specify that digital solutions are essential in all areas.

There nevertheless, seems to be a gap in the solutions Fintechs are offering and what life insurance organisations truly require, though a clearer dialogue and more frequent workshops are set to be organised to bridge this gap.

When discussing Insurtechs, all participants agreed that this progress was indeed a very important step in the insurance industry and that they consider the growth of this industry as a positive move to strengthen the market, emphasising that they do not consider Insurtechs to be a threat, but rather regard them as partners in the business.

"I believe that the future will be complementary between traditional insurance companies and Insurtechs. Insurtechs are not here to replace insurance companies, and there is room in the ecosystem for us to cooperate and support each other," confirms Elia.

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REINSURERS HELP BUILD RESILIENCE FOR TURBULENT TIMES

REINSURERS MUST FIND NEW WAYS TO MAINTAIN AND INCREASE THEIR RELEVANCE, AS NEW RISKS EMERGE AND GLOBAL MACROECONOMIC CONDITIONS BECOME MORE COMPLEX. WE TALK WITH TWO LARGE REINSURERS ABOUT THE TRENDS SHAPING THEIR INDUSTRY AND THE CHALLENGES AHEAD.

“We see increased demand for reinsurance because the world is riskier now than it used to be.”

IVO HUX

LUXEMBOURG HISTORY

Swiss Re has had a presence in Luxembourg since the 1980s. In 2007 it brought together it’s European Economic Area (EEA) operations together in Luxembourg. Europe accounts for one third of Swiss Re’s group activities.

“Swiss Re’s reinsurance business has its European headquarters in Luxembourg. Our Luxembourg office is essentially a large management and administration hub with specialists in the areas of finance, legal, compliance, actuarial and risk, with a focus on regulatory and governance matters,” says Ivo Hux, General Manager of Swiss Re in Luxembourg, from where it co-ordinates the other branches across the EEA.

Swiss Re set a trend with its EEA strategic home in Luxembourg. Non-EU reinsurers have also located their central EU hub in Luxembourg. TransRe, headquartered in New York, is one of such that followed.

“We moved to Luxembourg to make our corporate structure more efficient, to enhance our long-term ability to provide underwriting support, reinsurance capacity, financial security and prompt accounting and claims settlement to our customers and brokers,” highlights Jonathan Hewitt, CEO of TransRe Europe. *“From Luxembourg we serve our customers and brokers in Continental Europe, Middle East and North Africa. We sought a location within the EU that allowed us to redomicile one of our subsidiaries, had a stable, mature political environment and a reservoir of technical industry expertise. Luxembourg fits all those criteria.”*

AN IMPORTANT INDUSTRY IN A RISKIER WORLD

“Reinsurance is a growth industry,” highlights Hux. The increased sale of insurance products, emergence of new risks and an ever more complex global macroeconomic environment are driving the reinsurance market. Hewitt agrees: *“We see increased demand for reinsurance because the world is riskier now than it used to be. In the past few years, 1.2m of rain fell on Houston over two days, Japanese typhoons have been more destructive than expected, state-backed cyber attacks have taken place, and now we have the Covid-19 pandemic. We are seeing a change of attitude by our clients, which are in turn being driven by their own customers buying more protection.”*

IVO HUX,
GENERAL MANAGER,
SWISSRE, LUXEMBOURG

PREPARING FOR THE UNEXPECTED

While Covid-19 has had an important impact on the reinsurance sector, the pandemic has always been on the industry's radar. As Hewitt (who lived and worked in Hong Kong during the first pandemic (SARS) of the 21st century) notes: *"Pandemics are not an emerging risk, it is a risk that has always existed and that has long been on our risk register."*

Digital transformation has changed the nature of risk for the global economy. *"Consumers and companies will need cyber insurance in just the same ways as we need fire insurance or motor insurance. Pandemic and global cyber event are systemic, without the geographic boundaries of an earthquake, or windstorm."*

That same digital transformation is affecting traditional services and products. For instance *"motor insurance is on the brink of dramatic change, driven by the trends of connected and autonomous cars,"* says Hewitt. By 2030, 41% of the traditional motor premium pool are expected to shift to new mobility risk structures. *"This is a positive development for society, since road safety will improve dramatically. However it is a real challenge for our industry as motor insurance is the largest segment in many markets, and premium flows will decrease as vehicles become truly autonomous."*

"Pandemics are not an emerging risk, it is a risk that has always existed and that has long been on our risk register."

JONATHAN HEWITT

USING TECHNOLOGY TO IMPROVE THE BUSINESS MODEL

"Let's not forget that it is not the risks that create growth but rather the solutions reinsurers can provide to those risks," highlights Hux. *"Tech-enabled solutions have a long tradition at Swiss Re, particularly in the underwriting areas, where our data allows us to calculate the appropriate risk premium for areas like life insurance or engineering and construction risks. A partnership with a client can go from pure support for individual risk calculation up to fully automated underwriting and risk sharing."*

Reinsurers will continue to reinvent their value to insurers, including speeding up the delivery to market of new products. Swiss Re has an insurance platform that allows clients to get new products to market more quickly, through a cloud-based data-driven application. *"We look after the end-to-end journey in a white label structure that allows our client to focus on their core business: selling insurance."*

New insurtech players may disrupt traditional relationships. TransRe has developed its own technology capabilities, at the same time working closely with the InsurTech community.

"Artificial intelligence and machine learning will play an increasing role in the underwriting and pricing of risk going forward. We focus our InsurTech efforts and reinsurance capacity on start-ups who can assist us to improve our own operational efficiencies and analytic strengths," highlights Hewitt.

THE STRATEGIC ROLE OF ALTERNATIVE CAPITAL

New capital has entered the industry through structures such as insurance-linked securities (ILS).

"Alternative investments including infrastructure loans provide an attractive risk return profile."

IVO HUX

"Alternative investments including infrastructure loans provide an attractive risk-return profile, particularly when considering the diversification benefits with the rest of the portfolio. It allows us to grow our natural catastrophe book and proactively manage our risk appetite by making use of a broad range of third-party capital, including ILS and retrocession instruments," stresses Hux who established a dedicated team in charge of managing Swiss Re's third-party capital activities. *"Our Luxembourg entity serves as distributor of our globally originated and structured ILS products to European investors, and will structure deals for European clients."* Swiss Re benefits from the strength of Luxembourg's fund management industry, through its Luxembourg UCITS fund, with over USD 17bn of net assets.

With low interest rates forecast to continue, the search for yield is likely to stay. *"Third party capital increasingly plays a role in reinsurance, and we can assume it will remain a permanent part of the landscape. It supports our own reinsurance selling, and we have an opportunity to provide reinsurance risk pricing and analysis services to other capital providers. We currently do both,"* adds Hewitt.

> "It is our responsibility as risk carriers to help economies find solutions to emerging risks."
>
> JONATHAN HEWITT

JONATHAN HEWITT,
CEO,
TRANSRE EUROPE

THE GROWING DEMAND FOR ESG

"Clearly the most significant long-term threat is climate change," says Hux. *"Addressing sustainability topics is economically relevant for the liability as well as the asset side of our business. We have released studies showing that over the last 3 years, implementing ESG considerations in the investment process could provide better risk-adjusted returns."*

Swiss Re has committed to decarbonise and achieve net-zero CO2 emissions by 2030 for its own operations, and by 2050 from all its insurance offerings and investments.

"Rating agencies are putting ESG into their criteria for assessing the viability of companies and the sustainability of clients' business models. It is our responsibility as risk carriers, to address these issues," adds Hewitt. *"Our clients are insurers, but their customers are looking closely at their service provider business practices, and those insurers will expect the same of us."*

REINSURERS SUPPORT RESILIENT ECONOMIES

As Covid-19 economic loss estimates exceed USD 12 trillion, both reinsurers highlight how solutions must be handled by more than just insurers and reinsurer. *"It is our responsibility as risk carriers to help economies find solutions to emerging risks. We have to manage emerging risks on our balance sheet, but it's also an opportunity for us to generate business in support of growing economies,"* stresses Hewitt.

"Our industry cannot cover all risks. The question is how we will work with governments, and other stakeholders to create solutions to make societies more resilient. Our goal is a win-win for society: we support governments in making their communities financially robust, while closing a massive protection gap and thus growing our business," concludes Hux.

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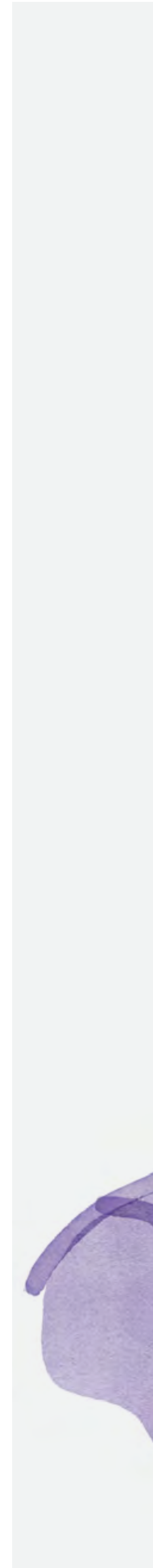
> "The regulator in Luxembourg has been very efficient and clear in telling us their expectations up-front and guiding us in the setting-up of this new operation."
>
> LUDOVIC BAYARD

A CHANGE OF SCENERY – FROM ONE HUB TO ANOTHER

IN 2018, GENERALI RELOCATED THEIR EMPLOYEE BENEFITS-FOCUSED SUBSIDIARY FROM BRUSSELS TO LUXEMBOURG. WE SAT DOWN WITH LUDOVIC BAYARD, GENERAL MANAGER AT GENERALI EMPLOYEE BENEFITS NETWORK, TO FIND OUT MORE ON WHAT PROMPTED THE SHIFT AND HOW THE MARKET HAS DEVELOPED SINCE.

LFF: CAN YOU TELL US MORE ABOUT THE HISTORY OF YOUR BUSINESS AND ACTIVITIES IN AND OUTSIDE OF LUXEMBOURG?

LB: Generali Employee Benefits is an International network of insurance companies. In Luxembourg, we coordinate our activity on a global scale. To better clarify, we operate within what we call the employee benefits segment, which includes pension and protection benefits – such as death, disability, accident and healthcare. Our clients are exclusively multinational corporate clients, i.e. we don't deal with purely domestic companies nor retail business at all. Typically, our target of clients is the Fortune 500 global clients and our main contacts within these companies are the global Human Resource managers, CFOs and risk managers at the head offices. We explain what we can provide to them on a global scale – country per country, meaning that our services can cover all their employees, whether local employees in their respective locations or mobile employees / expatriates. It is important to note that to provide these services to clients on a local basis, we need a network of local insurance companies, so we have at least one partner per country, a Generali company if we are present in this country, or an external partner if Generali



LUDOVIC BAYARD,
GENERAL MANAGER,
GENERALI EMPLOYEE BENEFITS NETWORK

is not represented in a given country, such as Le Foyer in Luxembourg. These partners cover our corporate clients' local employees; they issue the policies, they pay the claims and they take care of all the local administration aspects while we reinsure up to 100 percent of the biometric risks, giving us the possibility to coordinate all the local schemes, to consolidate the information and the risks, while also providing added-value solutions and reporting to the headquarters of these clients.

LFF: WHAT WERE THE REASONS THAT PROMPTED YOU TO OPEN AN EMPLOYEE BENEFITS-FOCUSED SUBSIDIARY IN LUXEMBOURG IN 2018?

LB: One big advantage in Luxembourg is the dedicated regulator, very accessible and open to two-way discussions, especially for a global operations like ours; we operate through partnerships in over 100 countries. The regulator in Luxembourg has been very efficient and clear in telling us their expectations up-front and guiding us in the setting-up of this new operation. The fact that they are dealing solely with insurance and that they are not part of the banking regulators, which happens to be the case in many countries, definitely makes a big difference. You need people who understand life insurance, the global activity, as well as the corporate activity of the industry, as regulations are often based on local retail business, rather than on cross-border corporate business. The dialogue is also open and regular to allow constant alignment and feedback.

Luxembourg also offers a highly professional ecosystem with access to skilled professionals and very importantly, synergies within the asset management and pension world, as we are looking to expand in the global pension activities to further boost our activity. Luxembourg being a place with a large number of asset managers was definitely another driving point for us to relocate from Brussels.

LFF: HOW HAS THE LUXEMBOURG INSURANCE MARKET EVOLVED SINCE 2018? HAVE CLIENT EXPECTATIONS CHANGED OVER THE YEARS AND HOW ARE THEY CHANGING NOW?

LB: In our business, being a very specific segment of the wider insurance industry, the trend is global for some aspects, but at the same driven by local culture changes and specificities. The famous "glocal" trend. Corporate clients are becoming increasingly demanding. They want to protect their employees, being their main asset - especially in the current situation where the awareness of the importance of having a good package for health is rising. But they also – more and more – want to steer their global insurance benefits to make the most of them: not only the economic conditions but also the qualitative aspects (wellbeing, reporting, benchmarks…) as they want their human capital to be engaged. Happy employees lead to happy clients which leads to growth as we know and therefore EB coordination is becoming more of a powerful tool to drive profitable growth for all our customers. The changes we face in the market are more an evolution (acceleration in many cases) rather than a drastic revolution. However, we have clearly seen a shift of enrollment in these programmes from HR to risk managers and CFOs when dealing with employee benefits. We have also observed that organisations are more willing to share the risk, requesting for solutions such as captive insurance solutions. Clients are shifting away from purely traditional solutions and are looking for packages that include well-being, prevention and basically anything to help employees be more efficient in their day-to-day activities.

LFF: HAS THE CURRENT LOW INTEREST RATES ENVIRONMENT IMPACTED YOUR TRADITIONAL ASSET ALLOCATION STRATEGY?

LB: We are a less exposed than those operating purely in the life and investment insurance sector where clearly for them it is a very challenging environment. Our geographic diversification is also of help in moment of turbulences. Some of our large Group subsidiaries are facing this low interest environment and have had to offer new products and investment supports to de-risk their portfolios. As regards to the EB segment of our group, the investment component has had some impact on some long-term disability reserving for instance, but it is not as crucial or impactful as in the life investment business.

LFF: HOW HAS THE COVID-19 CRISIS IMPACTED YOUR ACTIVITIES AND WHAT LONG-TERM EFFECTS OF THE PANDEMIC DO YOU SEE FOR THE FUTURE OF INSURANCE BUSINESSES?

LB: For us, mortality, morbidity, and thus COVID, was potentially a bigger threat than the low interest rates, as at the beginning of the crisis, there was no table for a pandemic like this. Fortunately the impact has so far been limited, as we insure corporate clients, who reacted quickly and switched to teleworking almost overnight. People were less exposed to the threat and were still able to continue their activities from home. Though we have had a number of death claims, most of the health claims were covered by the state, lessening the impact on our business.

I fear instead that there will indeed be significant impact on the economic situation of our clients. We have already caught a glimpse of the potential impact in America, with companies cutting jobs, leading to fewer employees, therefore fewer premiums. We don't expect a great deal of new business this year and will focus more on the renewals.

If we look at the last six months, we have had clients suffer the consequences of the crisis, but we have also had clients that are booming, especially those who were more digital and more agile. Whether the clients who performed well will offset those performing badly is yet to be seen. I think the next six months to one year will be fairly negative, with more clients suffering than those doing well, however, like in any crisis, agility will pay off. After that, however, I expect to see us go back to a "new normality" in terms of growth. The awareness of protection solutions will defnintely be higher after this crisis.

LFF: HOW HAVE FINTECH AND INNOVATION IMPACTED THE INSURANCE INDUSTRY AND YOUR BUSINESS?

LB: For many years, insurance companies have done things on their own for the more traditional piece of business, such as underwriting risk profiles and paying claims, but in terms of client relationship and additional services there is, no doubt, room for improvement. The insurance industry has been moving towards being an active partner rather than just an insurance company that pays claims. We believe that we cannot do everything on our own and therefore we need to create, maintain and manage an ecosystem of partners. In order to do so, we need to find companies, start-ups, Fintechs etc., that have a specific expertise and who can then help us provide additional services to our clients. We are currently recruiting specifically for these functions and are looking to organise additional collaboration with the start-up and incubator community in Luxembourg to address these companies. We already cooperate with several Fintechs, however, we are in the process of analysing local collaborations and are looking to expanding these partnerships to several countries. Unfortunately, this is no easy task, as services offered in one country might not easily be replicated in other countries, be it due to regulations, culture, compliance, or other aspects that make things more complex.

I am definitely excited to see the evolution of the industry from here on and look forward to meeting the challenges ahead.

LM

> "For many years, insurance companies have done things on their own for the more traditional piece of business, such as underwriting risk profiles and paying claims, but in terms of client relationship and additional services there is, no doubt, room for improvement."
>
> LUDOVIC BAYARD

SIMON SCHWALL,
CEO,
OKO

BUILDING FINANCIAL INCLUSION THROUGH TECHNOLOGY

WHILE OVER 500 MILLION SMALLHOLDER FARMERS IN THE SOUTHERN HEMISPHERE PRODUCE MORE THAN 50% OF THE WORLD'S FOOD, LESS THAN 20% HAVE ACCESS TO TRADITIONAL INSURANCE; MAKING THEM INCREASINGLY VULNERABLE TO CLIMATE CHANGE-RELATED WEATHER EVENTS. WE SPOKE WITH OKO AND IBISA, TWO INSURTECHS HOSTED BY THE LUXEMBOURG HOUSE OF FINANCIAL TECHNOLOGY (LHOFT), TO LEARN MORE ABOUT THEIR PLANS TO ENABLE THE NEXT GENERATION OF INSURANCE FOR AGRICULTURE.

INSURTECHS DRIVING THE REVOLUTION IN MICROINSURANCE

"70% of the population in Africa works in agriculture. There is an enormous need for insurance for people who might lose all their income when facing extreme weather," says serial entrepreneur Simon Schwall, CEO of OKO, an InsurTech founded in 2017, using satellite data and mobile payment, to distribute affordable index-based crop insurance directly to farmers in Africa and deliver instant claim settlement when facing adverse weather.

While delivering affordable agricultural insurance for smallholders farmers is challenging with average penetration rates of 0.5%, InsurTechs are sparking a revolution within the microinsurance industry and are acting as key partners to big insurance players in building farmers' resilience.

"Traditional insurance products are not yet able to successfully penetrate this segment due to the heavy operational costs associated with the distribution of their products, premium collections, claim verifications or payment," adds Schwall, who entered in partnership with insurer Allianz and French telecom company Orange to scale up distribution.

"Our products are available from any mobile device, even if you're not connected to the Internet, even if you don't have a bank account. Customers can use their phone to obtain an insurance policy and pay their premium with only a few SMS. They don't need to go to a point of sale."

With a direct-to-customer distribution model allowing for rapid scale, OKO has registered 1800 customers over the last 4 months further to its first product launch in Mali. Awarded the second prize at the FinTech Awards 2019, one of the main

> "Our products are available from any mobile device, even if you're not connected to the Internet, even if you don't have a bank account."
>
> SIMON SCHWALL

FinTech competitions in Luxembourg, the new kid on the block has also been included in the list of the top European FinTech startups to follow in 2020 by Sifted, the Financial Times start-up media outlet.

SATELLITE DATA IN ACTION

Index-based or parametric insurance, using Earth Observation satellite data to trigger payment, is increasingly viewed as the most cost-effective way of protecting smallholder farmers against climate risks. It is a win-win situation: farmers don't need to submit a claim and an insurer doesn't need to send a claims adjuster.

The data provided by weather suppliers is used to define risks with high precision, optimise the premium price as well as automating the claim validation process.

"Advances in technology mean weather data is more detailed and reliable. We collect data from the last 25 years of how much rain fell so that we know in every area what is the probability of drought or flood. If we observe that they suffer from a bad season, we automatically send them a financial compensation. It is a tremendous tool for financial inclusion because it doesn't matter how far the field of the farmer is," stresses Schwall.

MUTUAL INSURERS THE KEY FOR AGRICULTURE INSURANCE

"People in rural parts of the world tend to embrace more the cooperative or the mutual model as they take decisions as a community," explains Maria Mateo Iborra, Co-Founder of IBISA, a B2B platform, based on blockchain and satellite data, to empower local mutuals, insurers and micro-finance institutions to better protect their customers with cost-efficient insurance products.

Mutuality today accounts for 27% of the agricultural insurance market, yet InsurTechs are mostly focused on traditional insurance. This represents a big opportunity for IBISA.

"By working with our partners, we can leverage the trust they have built with their customers thus facilitating the farmer's adoption of the product and keeping the customer acquisition costs at a marginal level."

Incorporated in April 2019, the platform currently provides services in India, Niger, Zimbabwe and Guatemala. The team has plans to expand in Philippines and Ethiopia.

In addition to innovative loss assessment solution, the service includes parametric risk modeling, solvency calculation, policy administration and last-mile integration.

"IBISA is by nature a way to prove that insurance is inclusive, more especially for those who need it most. One of the problems of mutuals and insurers, especially in developing countries, is scalability. It becomes difficult to manage if you are not using systems that are automated. Technology is building resiliency and scalability for our partners," adds Jean-Baptiste Pleynet, Co-founder at IBISA.

The start-up has developed strong ties within the space sector and has the support of ESA (European Space Agency) and LSA (Luxembourg Space Agency) in the framework of the Business Applications programme to further develop the platform and scale its operations in India.

IBISA leverages leading-edge technologies: satellite Earth Observation, blockchain, parametric risk modelling and a gamified collaborative platform for expert 'watchers' to bring insurance everywhere in an easy manner.

"Blockchain provides trust, less friction and better exchange of information. Insurance is a business based on trust more than other business because you pay first and you get the services after your pay," says Pleney.

> "By working with our partners, we can leverage the trust they have built with their customers thus facilitating the farmer's adoption of the product."
>
> MARIA MATEO IBORRA

HARNESSING MOBILE PENETRATION

Farmers' lack of awareness and understanding of insurance products remain a key barrier to the uptake of index insurance services.

OKO is harnessing mobile penetration through its partnership with Orange Mali to conduct a voice SMS campaign educating farmers on its insurance service. Mobile money agents are also attending its community meetings to ensure customers receive help setting up their accounts and making transactions.

"We are setting up a Chatbot on WhatsApp so that people, even if they are not literate, can receive voicemails and make sure that they understand the insurance products," says Schwall.

He stresses that rapid technological development such as GPS, speech to text recognition or image recognition will lead to building stronger resilience and opening up even bigger markets in Africa and developing countries. In this context, OKO has been selected by Google as part of its "Google for start-up" program, as one of the 11 start-ups that can have the strongest impact on sustainable development goals.

"The high resolution of phones nowadays allows for image recognition to identify a problem through machine learning. Speech-to-text recognition also helps us understand

what farmers needs without necessarily having a big call centre operating all the time. Google brings us the machine learning expertise and tools to help us move forward."

START-UP NATION

"Luxembourg has all the required elements to build a future-proof financial sector. The country has always been very supportive, and the space sector is key for the country with flagship companies such as SES or initiatives such as the Luxembourg Space Agency and SpaceResources.lu. You have an easy access to all the actors of the industry, even for a small start-up. Our type of venture is a marathon and having this kind of support around you is a game-changer," explains Matteo.

Both InsurTechs were part of "CATAPULT: Inclusion Africa", a unique one-week program of Fintech startup development organised by the LHoFT, focusing on creating bridges between Africa and Europe and aligned with the sustainability goals of Luxembourg's finance centre.

"Everyone wants to be a start-up nation, but Luxembourg understood that they have this financial expertise to attract FinTech financial technologies. For a company like us that is targeted at micro-finance, there is the double advantage that Luxembourg is at the core of microfinance in Europe and one of the leader in terms of satellite technology," concludes Schwall.

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> "IBISA is by nature a way to prove that insurance is inclusive, more especially for those who need it most."
>
> JEAN-BAPTISTE PLEYNET

MARIA MATEO IBORRA,
CO-FOUNDER,
IBISA

JEAN-BAPTISTE PLEYNET,
CO-FOUNDER,
IBISA

MARC HENGEN,
MANAGING DIRECTOR,
CHAIRMAN OF THE EXECUTIVE COMMITTEE,
THE LUXEMBOURG INSURANCE
AND REINSURANCE ASSOCIATION (ACA)

FACING THE TIDAL WAVES OF A CHANGING ENVIRONMENT

AMIDST A NUMBER OF CHANGES IN THE INDUSTRY, MARC HENGEN, MANAGING DIRECTOR, CHAIRMAN OF THE EXECUTIVE COMMITTEE AT THE LUXEMBOURG INSURANCE AND REINSURANCE ASSOCIATION (ACA), GIVES US AN INSIGHT INTO THE INSURANCE AND REINSURANCE INDUSTRY.

"Luxembourg was very quickly put on to the map of possible locations where it would make sense to relocate to after Brexit."

MARC HENGEN

LFF: LUXEMBOURG IS INCREASINGLY BECOMING A NON-LIFE INSURANCE HUB IN THE EU, AS MAJOR INSURANCE COMPANIES SET UP THEIR POST-BREXIT EU HEADQUARTERS HERE. WHAT WERE THE MAIN REASONS FOR SUCH RELOCATIONS AND WHAT ARE THE CHALLENGES AHEAD TO FURTHER CONSOLIDATE THIS ROLE IN THE EU?

MH: After the referendum, it was more or less foreseeable that the UK would not be a part of the single market anymore. With the UK being an important insurance market not only at national level, but also at international level, companies who were selling their contracts to other European countries from the UK quickly realised that in order to continue serving their European clients and developing markets, they would need to relocate at least their European activities to another EU country. It so happens that Luxembourg has been a specialist in this, though mainly for life insurance, for almost 30 years now. So, Luxembourg was very quickly put on to the map of possible locations where it would make sense to relocate to after Brexit. In addition, having not only a dedicated regulator, but also a regulator who has a lot of experience in regulating an international and European-wide activity was seen as a big advantage. Bear in mind that, for these companies, the market is the European Union; the future of the European market and the free flow of services, which is the aim of the European treaties, will be key to continuing that business model.

Though the relocations have been going on since the referendum, 2019 was the first year in which these new companies did all their business from Luxembourg after having transferred all the contracts to their newly created head offices, which led to Luxembourg observing a big jump in premiums last year.

LFF: OVER THE PAST FEW MONTHS, COVID-19 HAS THRUST THE WORLD INTO UNPRECEDENTED TIMES. HOW HAS THIS GLOBAL PANDEMIC AFFECTED THE NATIONAL AND INTERNATIONAL INSURANCE INDUSTRY? AND HOW DO YOU THINK CAN THE INDUSTRY SUPPORT THE ECONOMIC AND SUSTAINABLE RECOVERY IN THE AFTERMATH OF THE PANDEMIC?

MH: The recent crisis has affected the way we work from an organisatioinal point of view. Almost overnight, 90 percent of employees had to work from home, which is a new way of working and had to be organised quickly, the outcome was very positive during the crisis. In the immediate aftermath of the crisis outbreak, there were also the economic and financial crisis. Financial crisis, due to the valuations and the losses on the stock markets, had a heavy impact on most insurers as underlying assets depreciated substantially; in some cases, by 30 percent. During the crisis and the lockdown, there was almost no commercial activity, so no new business for insurers. The insurance industry was nevertheless able to maintain all client services, allowing clients to receive compensations for ongoing claims and the handling of client requests remotely through phone calls, e-mails or newer tools for online conferences. This happened in both the local and international markets.

As regards to how the insurance industry can and should support the economic recovery in the aftermath, we have observed that Luxembourg insurers and reinsurers have been massively subscribing to government bonds - even at a negative interest rate - to support the Luxembourg recovery measures. The insurance business is based on long-term business, making the infrastructure investments which are needed quite suitable for the investment aims of insurers in search for stable long-term investment opportunities.

LFF: FURTHER TO THE PANDEMIC, THE INSURANCE INDUSTRY HAS RECENTLY BEEN FACING A NUMBER OF ADDITIONAL CHALLENGES. HOW HAVE THESE CHALLENGES IMPACTED THE INSURANCE INDUSTRY AT THE NATIONAL AND INTERNATIONAL LEVEL?

MH: We have observed a shift from guaranteed return or fixed income life insurance contracts to more unit linked products in the search of yield and return on investment. I don't think that low interest rates alone are to be blamed. Quite a few sectors have been shaken during the recent crisis and so the investment strategies for many clients have changed and been adapted in one or the other way.

> "The insurance business is based on long-term business, making the infrastructure investments which are needed quite suitable for the investment aims of insurers in search for stable long-term investment opportunities."

There are a lot of upcoming regulations, such as the revision of the Solvency II directive, which regulates the solvency ratios insurers need to have. There are also several upcoming initiatives on client information, especially on the communication of ESG criteria towards clients before the signing of contracts, as well as during the life of these contracts. The insurance business is heavily regulated and will not likely be any less heavily regulated in the future, which is making the business increasingly complicated. What we hope is that the current crisis will not be the source of another regulatory wave and that it is not taken as a pretext to limit the possibilities the European Union and the single market offer insurers and reinsurers.

LFF: DUE TO THE PERSISTING LOW INTEREST RATE ENVIRONMENT, THE INSURANCE INDUSTRY HAS BEEN EXPERIMENTING WITH HIGHER YIELDING INVESTMENT CLASSES, SUCH AS ALTERNATIVE INVESTMENTS. WHAT HAS THE INSURANCE INDUSTRY'S APPROACH TOWARD ALTERNATIVE INVESTMENTS BEEN SO FAR? WILL THIS TREND CONTINUE?

MH: First of all, low interest rates are not a new phenomenon, but they have now become negative interest rates and very few clients are willing to pay money for capital to be held somewhere. Yield has always been linked to perhaps a less conservative investment strategy. The exposure to risk is part of the core activities and the model of each insurer and reinsurer depends on their positioning policy. Yield is expected by clients, which also pushes them to take certain risks. 2018 and 2019 were fairly good years for non-traditional or non-conservative investments. I do think that clients will continue in the direction of higher yielding investment classes in the future and one of the reasons there have been quite a lot of reallocations or readjustments of investment strategies during the crisis is due to the volatility of markets in certain areas of activity.

LFF: THE INSURANCE INDUSTRY PLAYS A CRUCIAL ROLE IN THE ASSESSMENT OF EMERGING RISKS SUCH AS CLIMATE RISK. COULD YOU TELL US MORE ABOUT THE ROLE THE INSURANCE INDUSTRY PLAYS IN GREEN AND SUSTAINABLE FINANCE?

MH: Insurers have a twofold responsibility. First of all, insurers and reinsurers are there to tackle the consequences of climate risks and we had quite a dramatic example here in Luxembourg August last year when a tornado struck the south of our country. Insurances took over the financial consequences of this tornado.

The second aspect is that insurers collect a lot of data on regional tendencies, and are then able to use those data to create models and suggest a number of preventive measures to tackle changes linked to climate risk. One must take into consideration whether climate risk can be mitigated by a more sustainable way of living. This will require a lot of investment. We have observed that environmental criteria when looking for investments is becoming increasingly important not only to clients, but also to insurers and reinsurers. It is important to note that the perception of green investments as being not secure, having no return and not being considered as real investments has completely changed. Today, it is very clear that ESG investments can very well have a positive return and are definetly seen as must have investments.

LFF: TECHNOLOGY AND INNOVATION ARE ALSO DRIVING FUNDAMENTAL CHANGES ACROSS THE INSURANCE INDUSTRY. HOW HAVE FINTECH AND DIGITAL INNOVATION IMPACTED THE INSURANCE INDUSTRY? HOW DO YOU THINK WILL INSURTECHS AND THE PROVISION OF CYBER INSURANCE SERVICES CHANGE THE TRADITIONAL INSURANCE INDUSTRY LANDSCAPE?

MH: There are two main drivers of digitalisation and innovation. First, it is based how insurers interact with their clients or intermediaries. New digital tools are being asked for and they are appreciated by clients: it is a way of treating your client well and meeting his or her expectations. Secondly, it is also a question of efficiency with digitally automated functions. Insurers have the possibility to work more efficiently and with a greater profitability than before, as long as they comply with regulations. Automatisation of some services with lesser added value or which allow 24/7 access is key today and there are a large number of domains in which new services and solutions can, and are, being offered by Insurtech companies. We have seen that very often, these services are used in cooperation with the "traditional" insurance companies.

Although robot advisors do exist, human interaction remains important, especially in more complex situations. Nevertheless, we have noticed a decrease of importance of human interaction with younger clients, however, advice has not yet reached the point of being 100% automated.

LM

> "Although robot advisors do exist, human interaction remains important, especially in more complex situations."
>
> MARC HENGEN

LUXEMBOURG: YOUR EU INSURANCE HUB

The insurance industry in Luxembourg is part of a well-established and forward-looking financial ecosystem which is home to a global investment fund industry, a large corporate and private banking centre, one of the main EU capital markets infrastructures, and a leading EU FinTech Hub.

This comprehensive financial sector provides insurance companies not only with on-hand expertise with regards to underwriting, but also helps to support their key investment decisions.

- Luxembourg is widely recognised as a centre of excellence for the distribution of cross-border insurance products in the EU.
- 65% of insurance premium income is written for cross-border life insurance policies.
- Luxembourg hosts over 290 insurance and reinsurance companies.

In Figures: A Solid and Stable Economy

22.3%

Low public debt: 22.3%

AAA

Rated by the three major credit rating agencies

GDP

Annual Growth Rate in Luxembourg averaged 3.3% from 1996 until 2019

Why Luxembourg?

- Luxembourg is a founding member of the EU and is centrally located within the Union
- Luxembourg's political, financial and social stability
- Sound legal and regulatory framework compliant with EU Directives
- A responsive dedicated insurance regulator with a solid knowledge of cross-border insurance and reinsurance services, the CAA
- Unrivalled cross-border expertise of the insurance ecosystem and access to a highly qualified and multilingual talent pool
- Life insurance products in line with the contract and tax legislation of the country of residence of the subscriber
- Strong protection for life insurance policyholders
- International portability and great flexibility in designing life insurance policies
- Access to a wide range of underlying assets and investment vehicles

LUXEMBOURG ART WEEK

THROUGH A SELECTION OF CUTTING-EDGE EUROPEAN GALLERIES, LUXEMBOURG ART WEEK OFFERS COLLECTORS AND ART LOVERS THE CHANCE TO SAMPLE THE VERY BEST OF CONTEMPORARY ART. WE TALKED TO SOME OF THE PARTICIPATING GALLERIES TO GET THEIR TAKE ON WHAT IT MEANS FOR THEM.

> "Galleries are showing more higher quality works and you see more young galleries year after year."
>
> JÖRG GOEDECKE

Since its creation in 2015, Luxembourg Art Week has expanded rapidly, from 19 galleries in a single room, to a total of 64 in 2019. This year, the fair is spread throughout the comfortable, well-lit spaces of La Halle Victor Hugo, in central Luxembourg. The programme of events runs from the 20th to the 22nd of November.

What is the reason for the show's sustained growth? According to Jörg Goedecke, Director of galerie Gebr.Lehmann, a contemporary fine arts gallery based in Dresden, Germany, who's been part of the adventure from the beginning, it comes down to one word: quality. *"Galleries are showing more higher quality works and you see more young galleries year after year."*

THE MARKET MAKERS

Exhibitors at the show come mainly from Europe, with Brussels, Paris, Cologne, Berlin and Milan all well represented. The modest size of the event in the early days helped to foster a close relationship between the galleries, the city and the show itself.

For Constantin Chariot, gallerist at La Patinoire Royale-Galerie Valérie Bach, based in Brussels, what started as an emotional bond soon became an annual event not to be missed. *"I have a deep emotional connection with Luxembourg that started during my time as a banker here." This year's Art Week will be his first participation to an art fair since the start of the Covid-19 outbreak. Chariot, who has been participating in the Luxembourg Art Week since its second edition, also notes to the focus on quality: "I've seen the fair improve markedly over the last couple of years"* he says. *"This has been, for me, an annual affirmation of my desire to repeat the experience."*

CONNOISSEURS SANS FRONTIERS

"There's a truly cosmopolitan clientele," highlights Chariot. *"Luxembourg is home to people from across Europe, due to the global reach of its financial industry. And, at the same time, we have clients coming over the border. It's very interesting."*

New visitors attend the fair every year, mostly from neighbouring countries such as France, Germany, Belgium or the Netherlands. *"We have met collectors here that we have previously only seen at leading international art fairs such Art Basel or Art Cologne,"* says Goedecke. *"International collectors are mobile and are attracted by Luxembourg."*

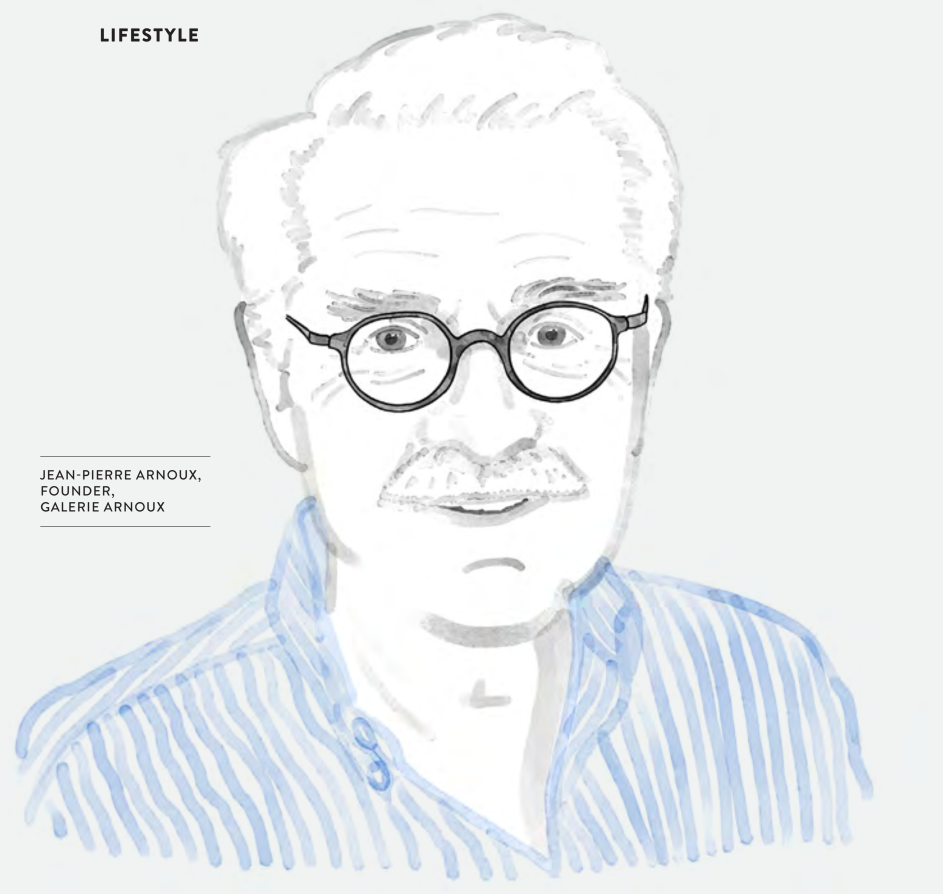
HOME IS WHERE THE ART IS

Although the number of residents in Luxembourg is relatively small, a high proportion of the population is interested in contemporary art. *"The Grand Duchy has a good number of public and private*

CONSTANTIN CHARIOT,
GALLERIST,
LA PATINOIRE ROYALE-GALERIE VALÉRIE BACH

"Luxembourg is home to people from across Europe, due to the global reach of its financial industry."

CONSTANTIN CHARIOT



JEAN-PIERRE ARNOUX,
FOUNDER,
GALERIE ARNOUX

“These are fairs where your presence is not lost in the noise of excess supply.”

JEAN-PIERRE ARNOUX

collectors, which reflects the importance of the Luxembourg art market,” notes Jean-Pierre Arnoux, Founder of Galerie Arnoux, in Paris. *“I realised that Luxembourg, more than any other neighbouring country, boasts a good number of private collectors and museums interested in art from the 50s,”* he adds. For the last 35 years, his gallery has specialised in this area.

2020 will be Arnoux’s third participation in the Luxembourg art fair. *“The first two exhibitions were a huge success in terms of contacts, as well as in terms of sales to collectors and museum.”*

For Arnoux, there are clear differences between the buyers at Luxembourg Art Week and other international art fairs: *“It’s a genuine market. Visitors come to the fair not only to browse, but also to buy.”*

Arnoux explains that collectors at other fairs are often too heavily influenced by art trends and so are incapable of displaying any personal sensitivities. By contrast, *“Visitors to the Luxembourg Art Week give me the impression of seeking an emotional and personal connection with the art piece.”*

SMALL IS BEAUTIFUL

The rapidly growing event has maintained a friendly and co-operative outlook. As a result, *“It’s a people-friendly fair. All of the dealers end up becoming well-acquainted with each other,”* says Chariot. *“There isn’t the same snobbishness as one would find in the larger international fairs. Exhibitors all know each other and share information.”*

While all art fairs will have to adapt to the post-covid world, the big international fairs will be more directly impacted. Fairs following the Luxembourg model seem better placed to cope with the new normal. *“These are fairs where your presence is not lost in the noise of excess supply,”* says Arnoux, *“You have an actual presence.”*

VIP PROGRAMME

Strategies for art fairs have to be carefully developed for the long-term, in coordination with museums, art institutions and the local government. It is the programme around an art fair that attracts international and leading collectors.

Luxembourg Art Week’s main challenge is to hold its own in the international art calendar. The VIP programme is an important part of this. Reflecting on last’s year VIP programme, Goedecke explains: *“The private programme includes a small dinner, allowing us to showcase artworks to new collectors and galleries.”*

This informal approach is a winner for Luxembourg, in Goedecke’s eyes: *“The huge fairs have some problems because they are all very similar. When you go to Art Basel or Art Basel Hong Kong, you see 98 per cent of the same galleries and the same art.”*

The fact that collectors and galleries come together so naturally in Luxembourg makes for a much more enjoyable, engaging experience. *“This is the strength of the Luxembourg Art Week,”* concludes Goedecke.

OB

TENTATIVE EVENTS AGENDA

2020
13.10

FOCUS ON BREXIT

Join the livestream of our digital event "Focus on Brexit" on Tuesday, 13 October 2020 from 11:00 AM to 12.30 PM (CET), during which our guests will discuss their views on the new relationship in practice and where we go from here.

2020
27-29.10

SUSTAINABLE FINANCE FORUM 2020

The 3rd edition of the Sustainable Finance Forum will take place digitally on three consecutive mornings from 11.00 AM to 12.30 PM (CET) and will give insights from experts on the need for sustainability in a post-Covid-19 world, the data behind sustainable finance, and the transition to a more sustainable global future.

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