



INSURING THE ETHEREAL: CLOSING THE GAP BETWEEN TANGIBLE & INTANGIBLE ASSET RISK TRANSFER

Dr Trevor Maynard, Head Of Innovation, Lloyd's

Webinar

Monday, 21 June 2021, 11:00 BST

A Word From Today's Chairman



Professor Michael Mainelli

Executive Chairman

Z/Yen Group



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Today's Agenda



- 11:00 – 11:05 Chairman's Introduction
- 11:05 – 11:25 Keynote Presentation – Dr Trevor Maynard
- 11:25 – 11:45 Question & Answer

Today's Speaker



Dr Trevor Maynard

Head Of Innovation

Lloyd's

Insuring the ethereal

Closing The Gap Between Tangible &
Intangible Asset Risk Transfer

Dr Trevor Maynard
21 June 2021

LLOYD'S KPMG

Protecting intangible assets: Preparing for a new reality



LLOYD'S KPMG

Safeguarding intellectual property to enhance corporate value



LLOYD'S KPMG

Safeguarding reputation
Are you prepared to protect your reputation?



LLOYD'S KPMG

Safeguarding human capital





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Lloyd's Lab Plus Day
We will be taking photographs and filming at today's event.
If you do not wish to be featured in the photographs or footage please let us at the registration desk to advise us.
Lindsay Mathison
Email: lindsay.mathison@lloyds.com

Stacks of blue brochures on the desk.

Clear acrylic container filled with pens and pencils.

Tablet computer on the desk.

Tablet computer on the desk.

Mutualising the risks of innovation



<https://www.lloyds.com/news-and-insights/product-innovation-facility>

Protecting intangible assets: Preparing for a new reality



Poll:

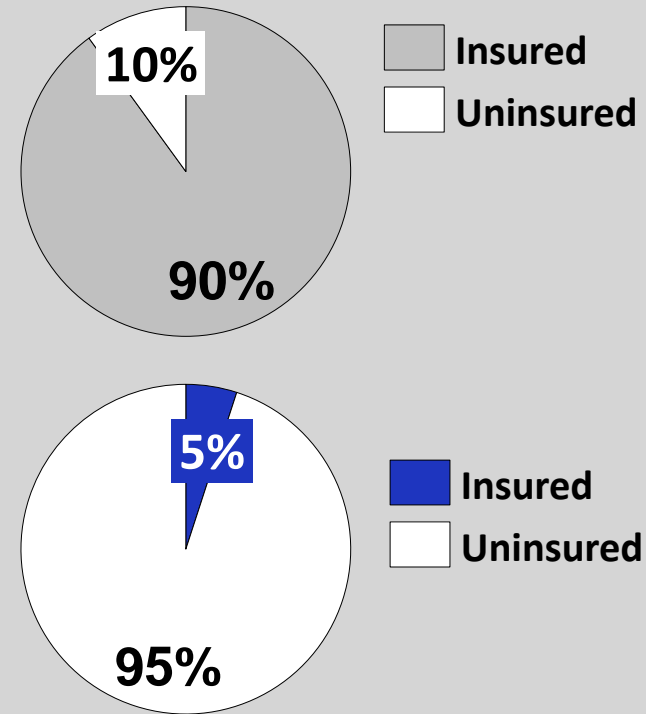
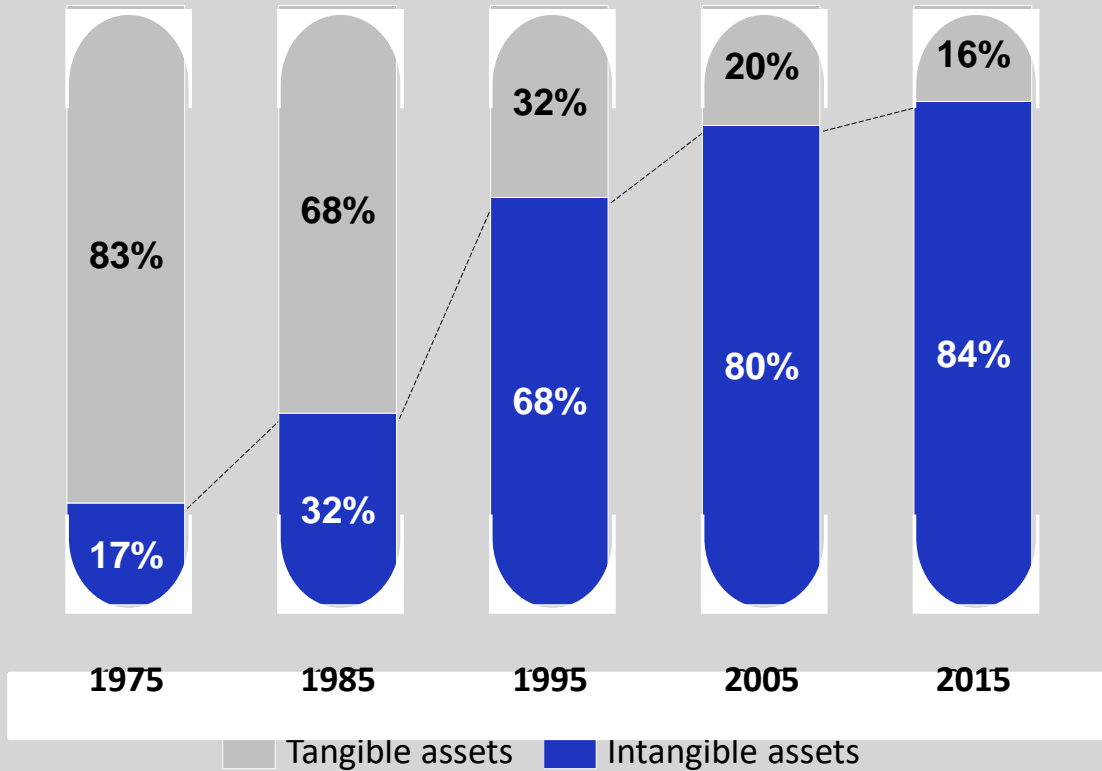
What percentage of S&P 500 value is comprised of intangible assets?

- 17%
- 32%
- 68%
- 80%
- 84%

The types of risks that need to be insured are changing

Protecting intangible assets

Composition of S&P 500 value



The speed of change is unlikely to slow down

Protecting intangible assets

“3D printing is going to be way bigger than what the 3D printing companies are saying”

Credit Suisse

“We think deep learning could approach \$17 trillion in market cap [in the next 15-20 years] —which would be 35 Amazons”

Catherine Wood, CEO of ARK Investment Management



3D Printing



Robotics



Deep Learning



CRISPR Genome-Editing



Cryptoassets



Frictionless Value Transfers



Mobility-as-a-Service (MaaS)

- Classification:
Confidential

The new intangible driven world

Protecting intangible assets

- Digital business models have gradually been embraced and the top most valuable companies demonstrate this.
- The value of intangible assets is significant, 85% of the total business value across industries according to research.
- Covid has accelerated digital transformation of many companies.
- Companies are now having to protect employees and information at their homes

2008			2018		
Top 10 U.S. companies by market capitalisation in 2008			Top 10 U.S. companies by market capitalisation in 2018		
#1	Exxon	Energy	#1	Apple	Tech
#2	General Electric	Industrials	#2	Google	Tech
#3	Microsoft	Tech	#3	Microsoft	Tech
#4	AT&T	Telecom	#4	Amazon	Tech
#5	P&G	Consumer	#5	Facebook	Tech
#6	Berkshire	Finance	#6	Berkshire	Finance
#7	Google	Tech	#7	J&J	Consumer
#8	Chevron	Energy	#8	JP Morgan	Finance
#9	J&J	Consumer	#9	Exxon	Energy
#10	Walmart	Consumer	#10	Bank of America	Finance

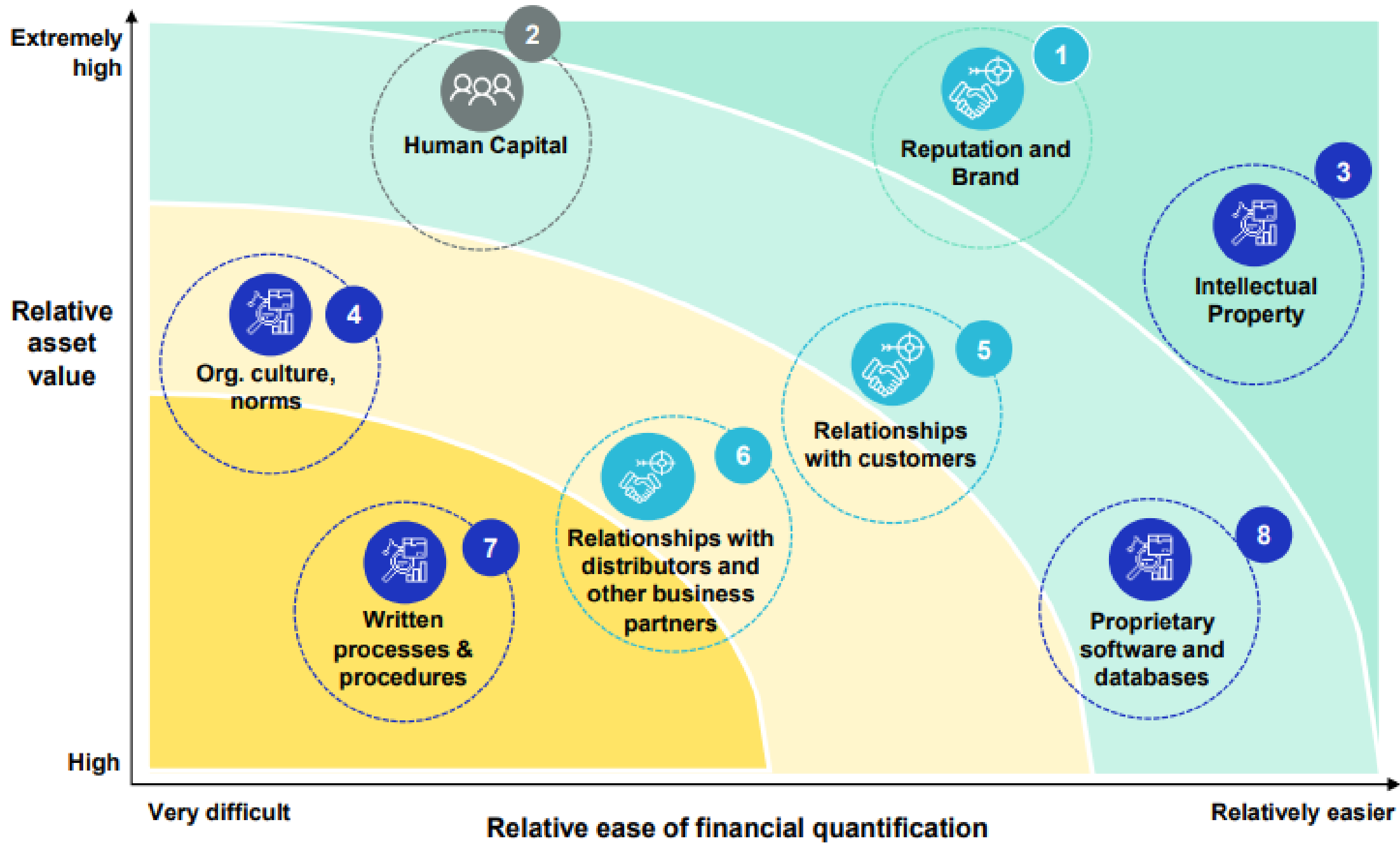
What are intangible assets?

Protecting intangible assets

- Intangibles unlike tangible assets are those assets that are less physical in nature e.g. computer software.
- Reputation, human capital, and intellectual property are becoming the main drivers of value in most industries across the globe
- The economic landscape has been changing over the last couple of decades with digitisation of assets taking place.
- Covid-19 has helped accelerate this change further and now digital business models are likely to persist into the future.



There appear to be **eight distinct categories of intangible assets**, spread across the three main asset categories – structural capital, relational capital, and human capital. These eight categories are explored in further detail in this report.



How to protect your intangible assets

Five actions you could take

1

Assess the total intangible value of your organisation.

How (much intangibles do you have on your balance sheet? Do you have other 'hidden' intangibles like human capital or reputation that are valuable but not on your balance sheet?)

2

Rate the relative value of different types of intangibles in your organisation; determine which are critical to your success. (Which assets will bring you competitive advantages? Which assets will help you maximise shareholder value?)

3

Perform 'war-gaming' exercises to test your resilience to risks impacting intangible assets; determine your weaknesses. (Look at internal and external risks across all intangible categories. Think about immediate and long term risks.)

4

Assess your ability to adequately monitor intangible asset value changes over time and assign each asset a clear risk owner. Consider using corporate partners, such as communications agencies, to further understand risks and value. (Do not leave risk ownership to the lower level staff – the most successful organisations manage risks at the executive level.)

5

Determine if there are risks you cannot deal with within the organisation and require support from the insurance market. (Insurers can help you transfer some of the risk off your balance sheet and can help you prevent risks from happening as well as respond to adverse events.)

Safeguarding Intellectual Property





Copyrights / Database rights

Creations of mind,
e.g. literary works,
films, music,
databases,
architecture, etc.



Patents

An exclusive right
granted for an
invention.



Trade marks

A word or a
combination of
words, letters, and
numerals.



Industrial designs

The ornamental or
aesthetic aspect of
an article.



Geographical indications

Having qualities or
a reputation due to
geographical
origin.

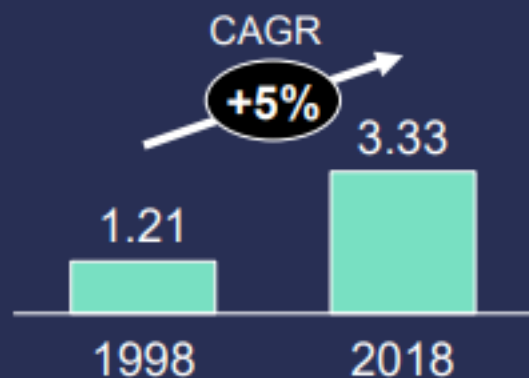


Trade secrets

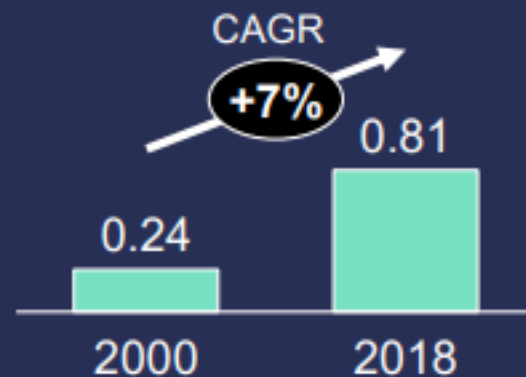
IP rights on
confidential
information which
may be sold or
licensed.

Compound annual growth rate of global IP

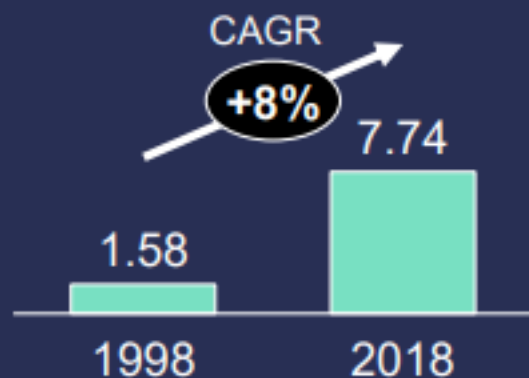
Global patent applications
(millions)



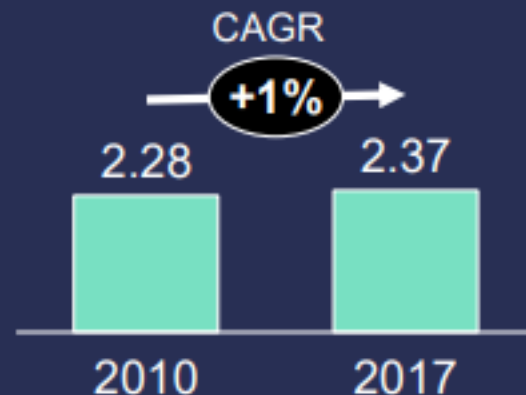
Global industrial design grants
(millions)



Global trademark grants
(millions)



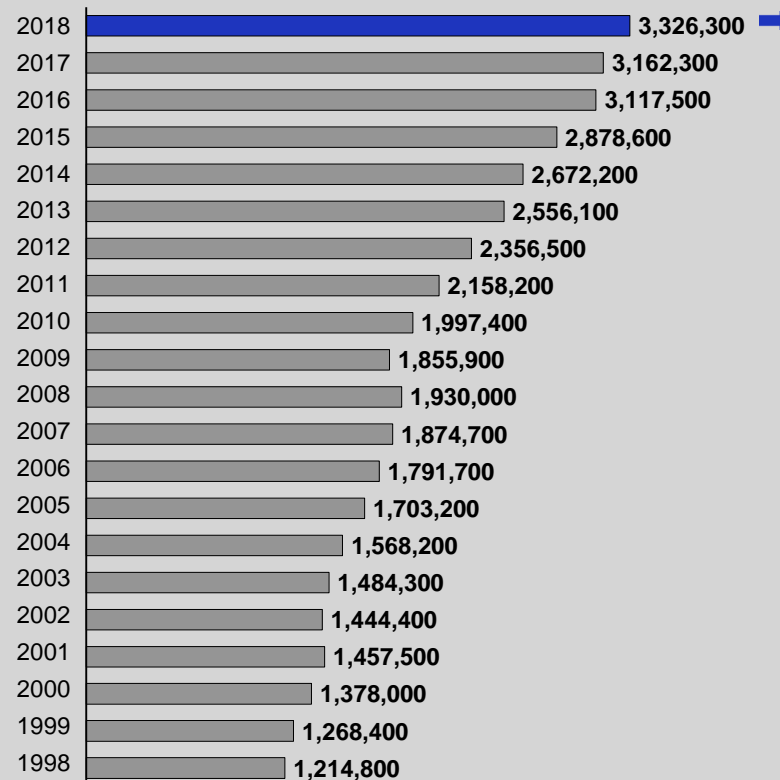
OECD R&D spend
(% of GDP)



The importance of IP has been steadily rising across the world for the past few decades.

- China registering almost three times more patents than it's closest 'follower' the U.S.
- This trend is unlikely to change soon with China registering a 12% increase in 2018.
- In Europe, the patent applications have grown from c. 75,000 in 1998 to around 170,000 in 2018.

Number of patent applications worldwide from 1990 to 2018



Ranking of the 20 countries with the most patent applications 2018



Example intellectual property risks



Reengineering of your product



- You find that a product indistinguishable from yours is on sale via online platforms but your organisation has not produced it.
- Its quality is poor and you start seeing an adverse impact on media from people who have bought the product.

Online piracy of your digital product



- You have just had a media session where you talked about the publishing of your content tomorrow and voiced happiness about no leaks this time.
- An hour later you learn that your content is leaked online and has been published on all major torrent websites.

Trouble from patent trolls



- A patent troll company approaches your organisation, claiming that you have breached 10 of its patents related to specific aspects of your product.
- They file a suit against your organisation, requesting a compensation of \$500m.

Trouble with the 3rd parties



- A third party you are working with to help produce a new film, informs you that their employee has left a DVD of the film in the public transport.
- A week later you are informed that the film has been published online on various illegal streaming websites.

The world without IP insurance



Small business invents a unique product



Patent application is successful



The business starts licensing the product to major market players



Major competitors start challenging the validity of patent



The business engages in complex legal proceedings but soon runs out of money



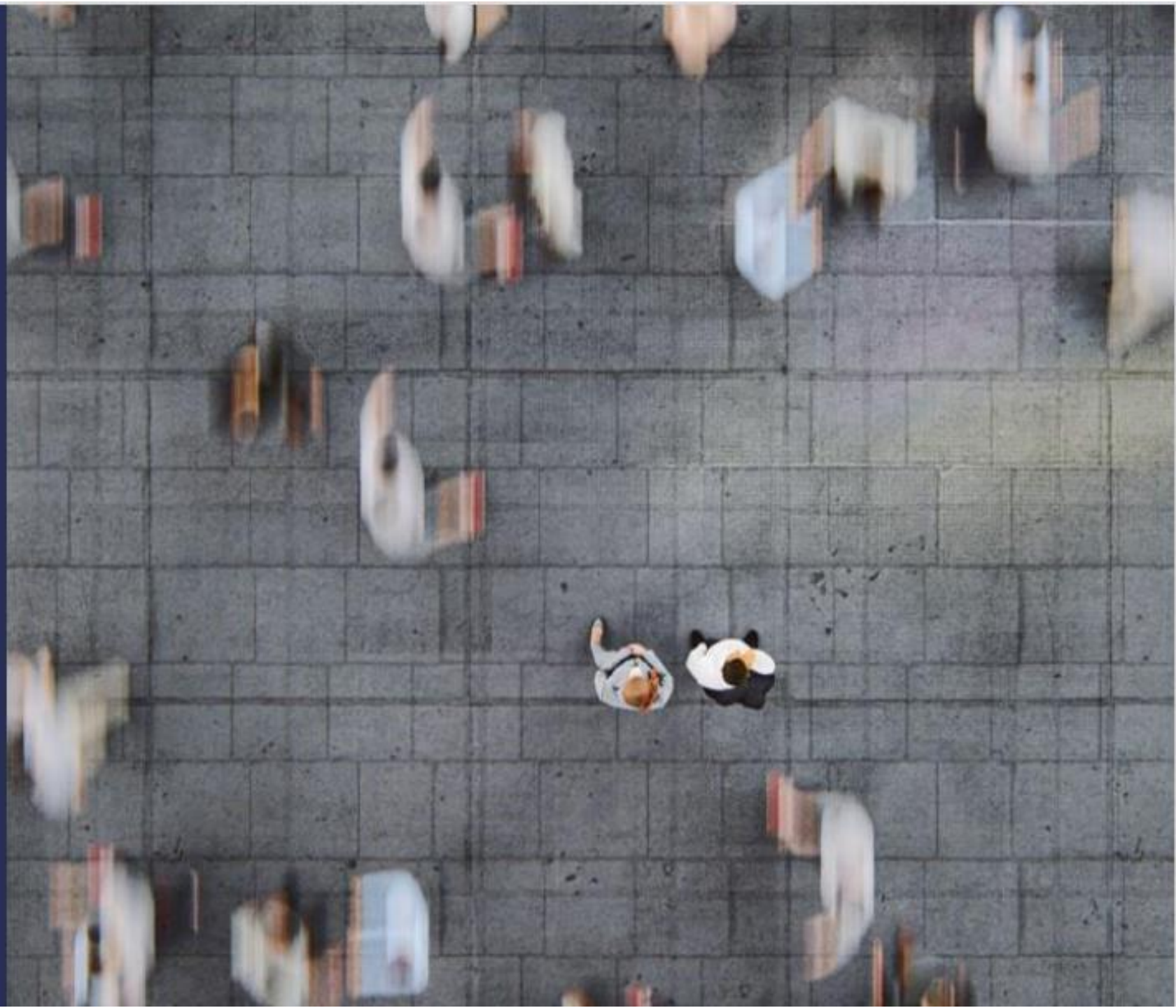
Insurance solutions for protecting your IP

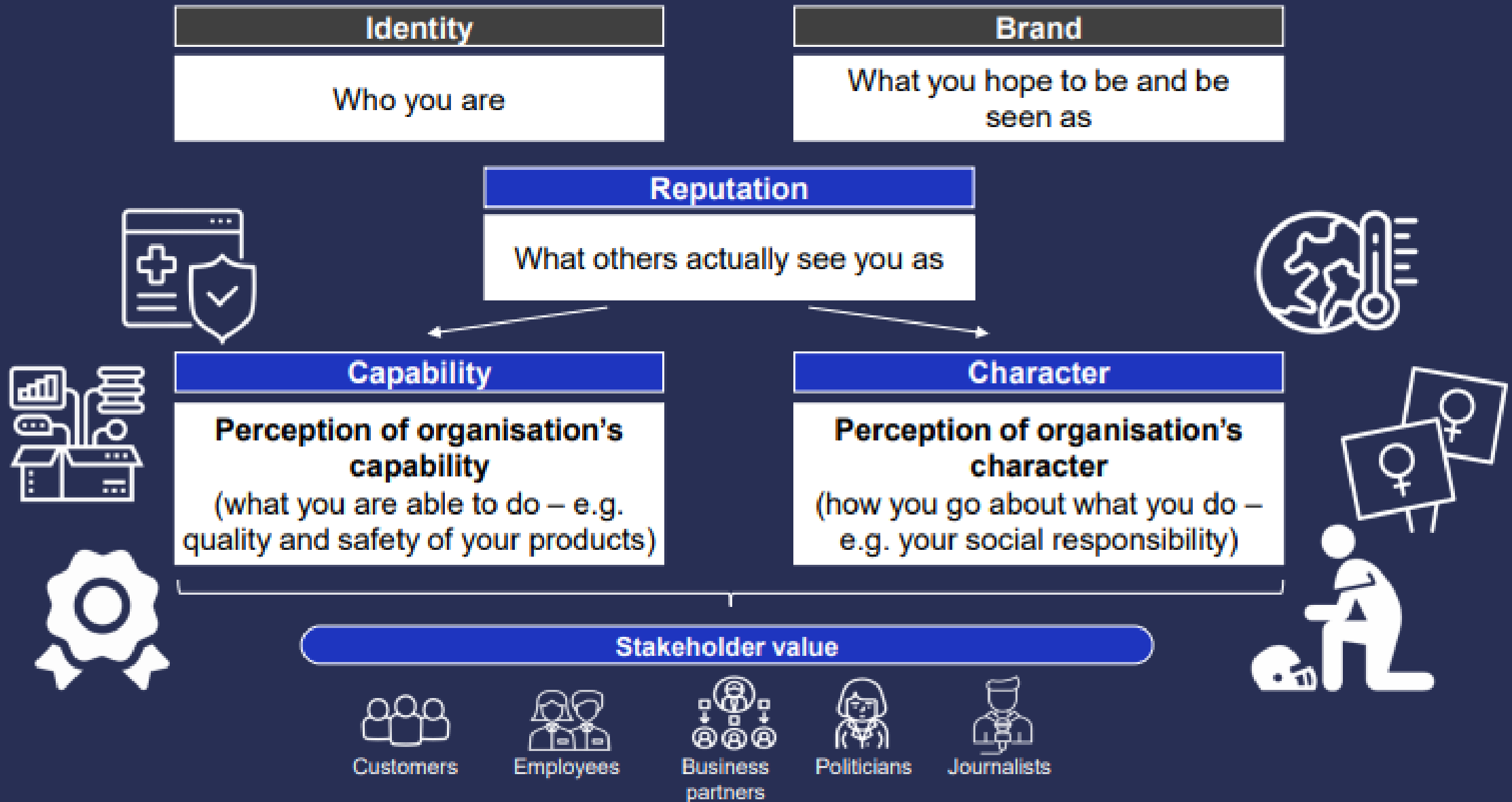
1) **Defensive products** that would protect the insured against someone making a claim against its patent or a claim about the insured infringing someone else's patent (e.g. infringement liability product or indemnified party infringement liability)

2) **Offensive products** that would help businesses when pursuing a case against a 3rd party that has knowingly or innocently infringed your IP (e.g. enforcement (abatement) product).



Safeguarding reputation





Poll:

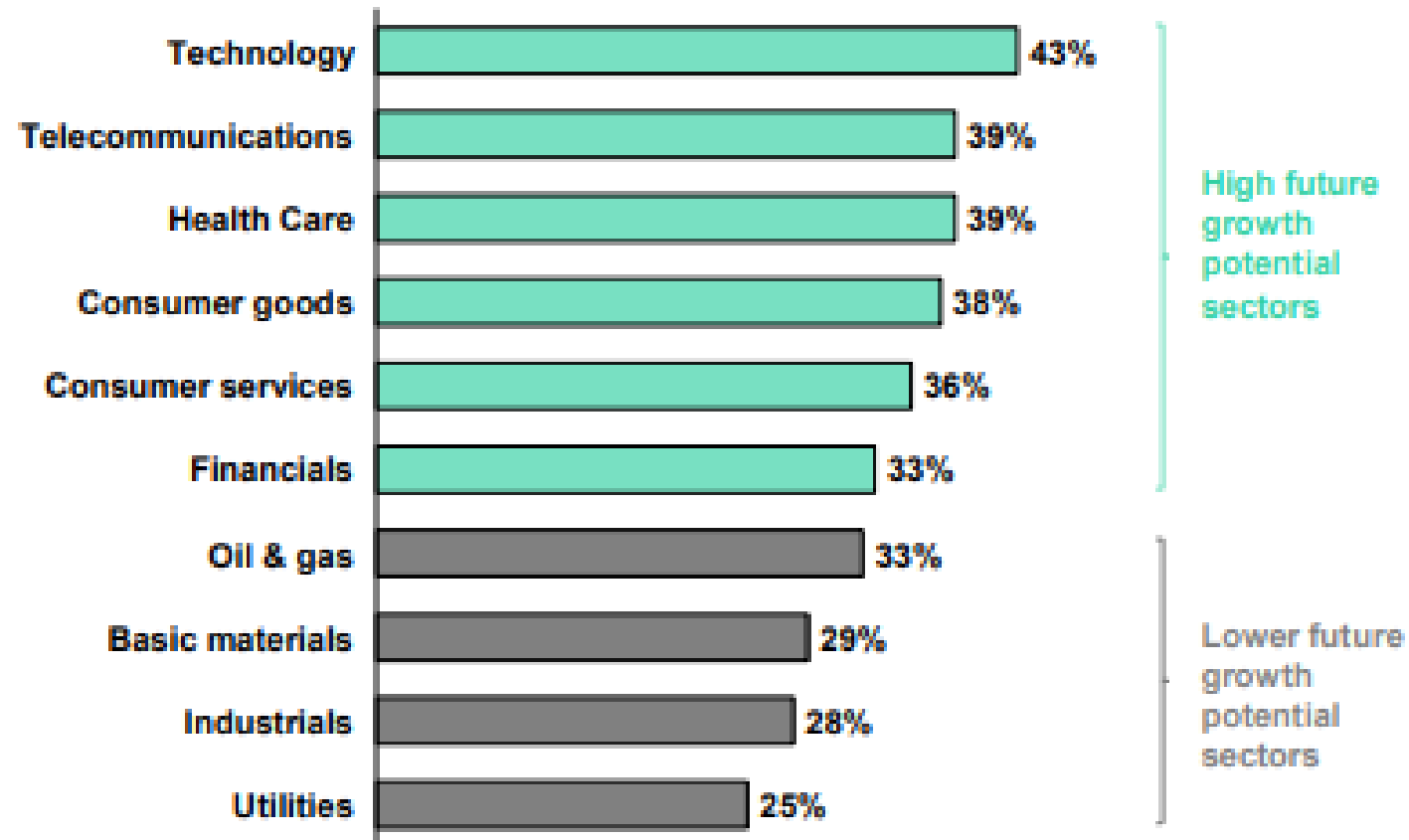
Which of the following sectors has the highest percentage of its market cap purely dependent on corporate brand & reputation

- Financials
- Health Care
- Technology
- Telecommunications
- Consumer Goods

Average brand and reputation contribution
(market cap weighted)

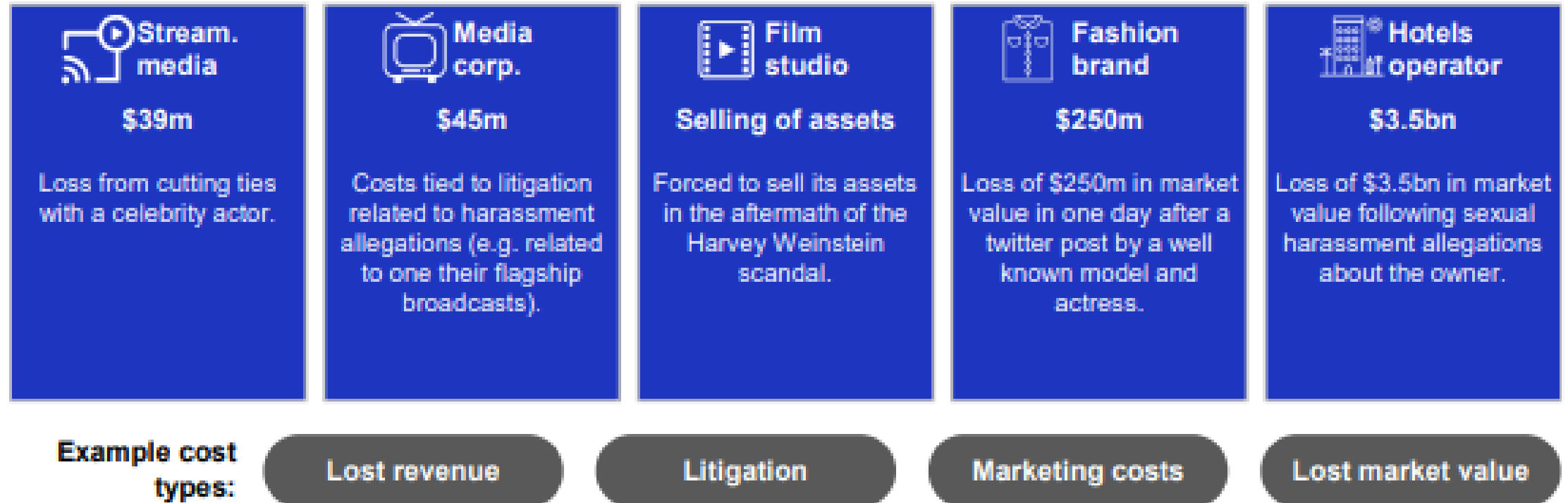
\$16.77
trillion

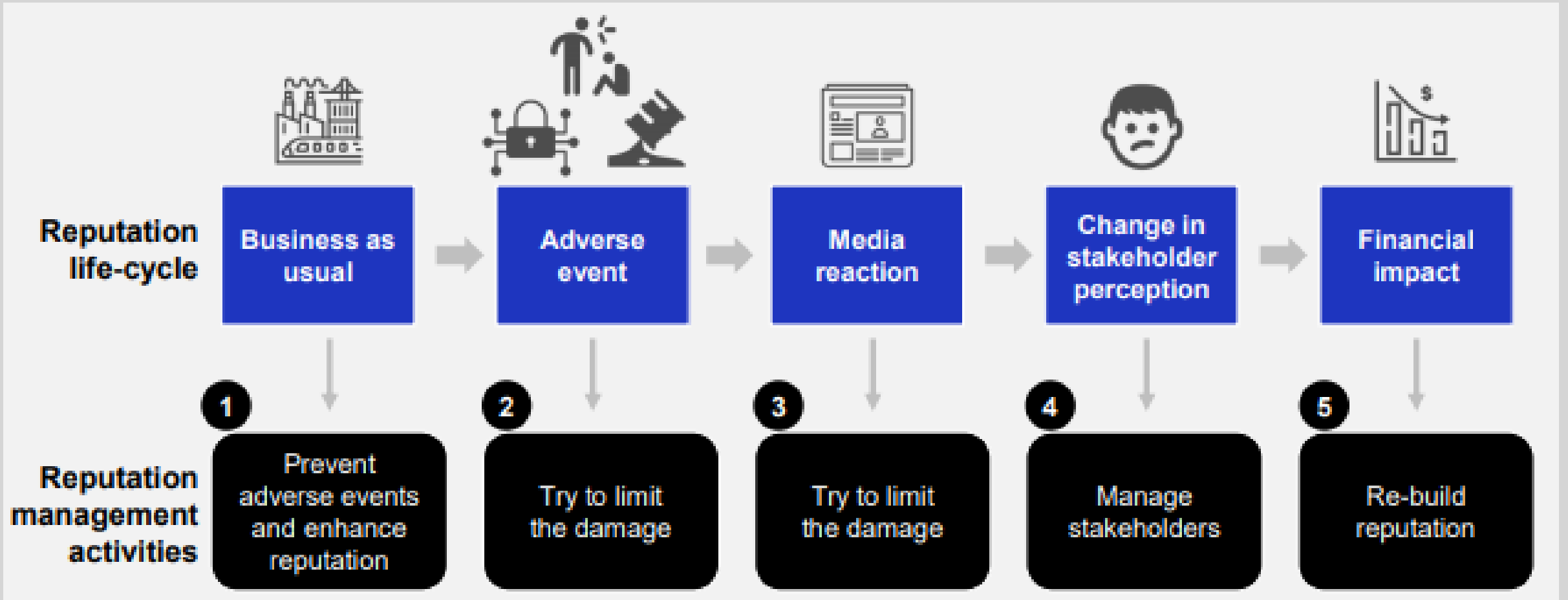
Corporate brand and reputation accounts for **35.3% of the market capitalisation** of the world's 15 leading equity market indices. That equated to \$16.77 trillion of value for shareholders in Q1 2019.



The study by AMO shows that the corporate brand and reputation is contributing more value to companies in “high future-potential” sectors such as technology, telecoms and healthcare, compared to more immediately predictable sectors like oil & gas, basic materials, industrials or utilities.

Example financial costs related to the #MeToo movement¹





Example reputational risks



Pressure on social media



- CEO is caught in the #Metoo scandal with several allegations on social media.
- Some customers start boycotting company's products / services.
- A key shareholder believes these allegations are unfounded and that the CEO is instrumental to the success of the organisation.

Climate change denial



- A document leaks showing that your organisation emits 2x more CO2 than previously reported.
- Same day, there is a press article quoting your CFO that there is no evidence of climate change.
- A week later, there is a survey showing that school leavers would 'hate' to work in your organisation.

Harmful products



- Turns out that the last batch of products you started selling can harm customers' health.
- You recalled them and launched a revised version that is "perfectly safe". A week later there is news that a customer has got ill.
- Three retail partners (30% of your distribution) announce that they have stopped working with you.

Privacy breach in remote working



- News breaks that you have installed spy software on your employees' laptops, taking a screenshot every 5 minutes to check if they are working properly.
- Staff attrition does not increase as the job market is difficult, but you notice that front line staff client conversations have deteriorated.

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beazley beazley

Beazley enhances Reputational Risk offering with AI-enabled tools providing enhanced insights for policyholders

Beazley renews Lloyd's consortium and partners with Polecat Intelligence



Home News Analysis Services Regional News Events Links Directory Newsletter Signup



AI tools enhance Beazley's reputational risk insurance coverage

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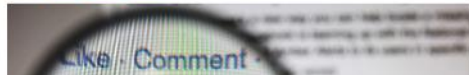
Commercial Risk

Insurance & Risk Management News

Commercial Risk Europe Commercial Risk Africa Commercial Risk Asia International Programme News

Beazley adds AI to reputational risk policy via partnership with Polecat

By Ben Norris on January 26, 2023



Zurich GPS inter program kept

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Beazley announces enhancement to reputational risk offering

- Classification: Confidential

Parametrix's Lloyd's journey

"We actually reached Lloyd's by coming across the Cloud Down report" – Ori Cohen, Co-Founder

2019 - Read the Lloyd's Cloud Down report (2018)



January 2020 submitted idea via PIF's online product form to the PIF.



February 2020 Interest shown in submission to the PIF and initial discussions begin with MA's.

April 2020 Parametrix joins cohort 4 in the Lloyd's Lab to test their product further.



September 2020 Launched product and now applying to be a Lloyd's coverholder.

Lloyd's Launches Biz Interruption Insurance Policy for SMEs, Led by Tokio Marine Kiln

September 30, 2020

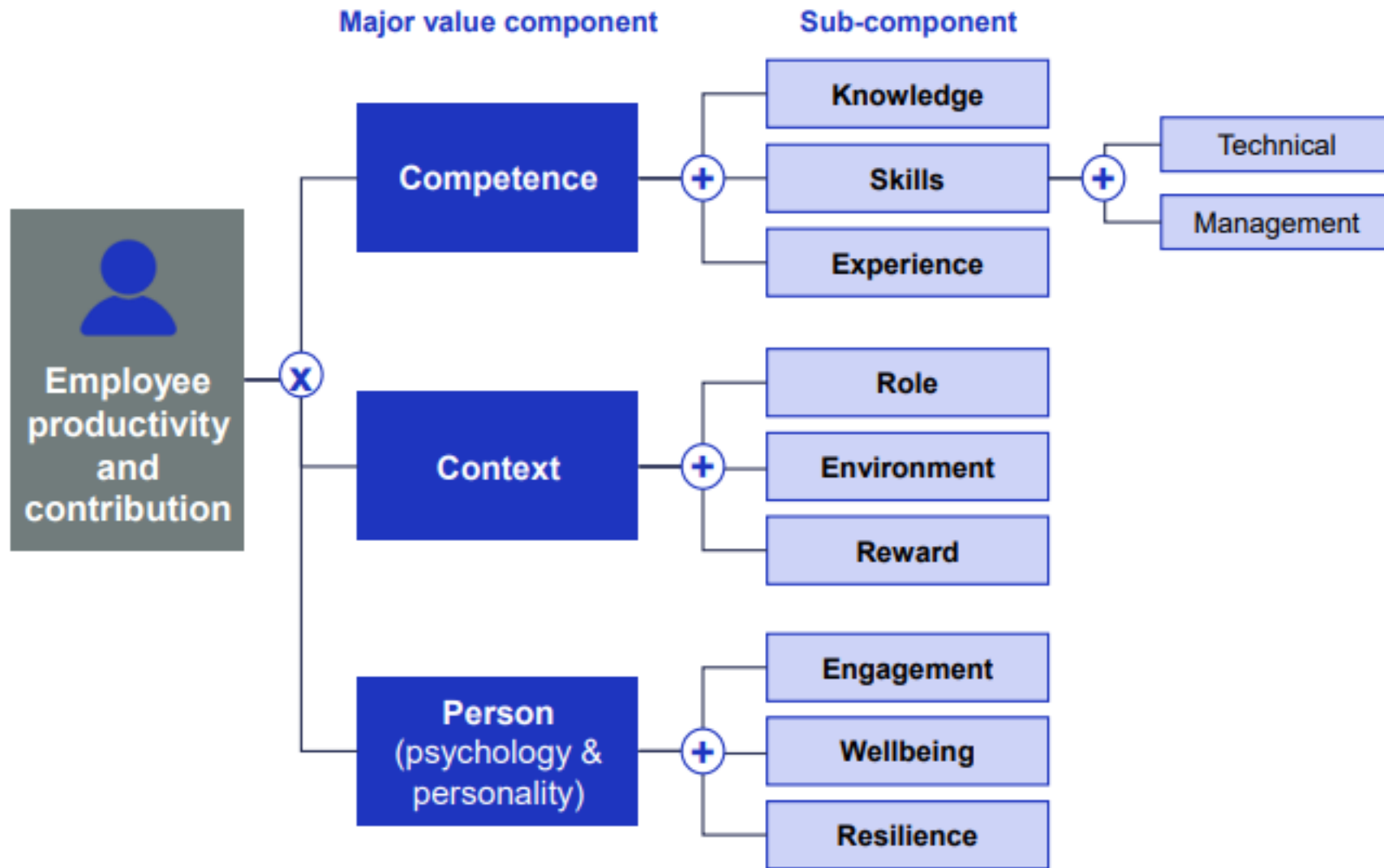
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Safeguarding human capital



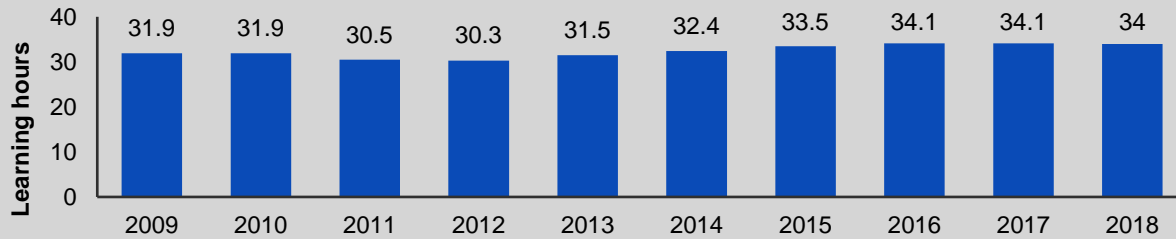
Illustrative framework for defining individual human capital value:



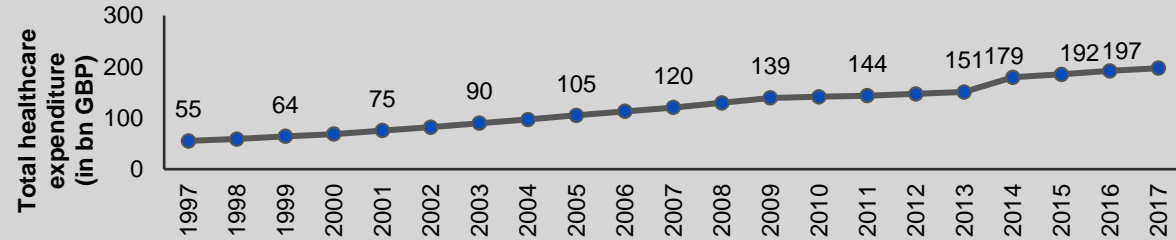
Human capital

Protecting intangible assets

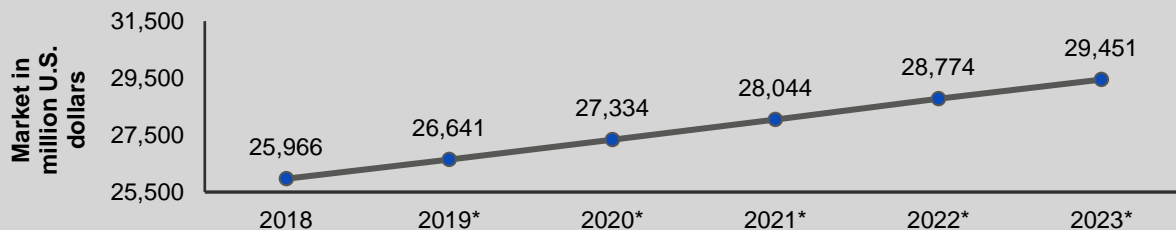
Learning hours used per employee worldwide from 2008 to 2018⁴



Healthcare expenditure in the United Kingdom 1997 to 2017 (in billion GBP)⁵



Human Capital management market worldwide 2018-2022⁶



Largest value creator but difficult to quantify.

There are four types of human capital:

1. Implicit and tacit knowledge
2. Capability and skills
3. Health
4. Attitudes

European countries spend roughly 5% of their GDP on education and 7% on health care. Companies have also increased investment in education, health and upskilling.



Example human capital risks



No information is codified



- A team of employees starts working on a major innovation project aiming to launch a range of new products.
- 3 key members of this team leave the business suddenly, leaving no information on how the innovation was generated and limited info on the planned product design.

Insufficient HR analytics



- Your HR analytics fails to notice a sudden spike in absences of people with a specific skill that is not widely available across the organisation.
- Due to the unavailability of this skill, you cannot meet the supply demands and business is interrupted for 2 weeks.

Challenges in remote working



- Following a government advice, all employees have been asked to work remotely from home.
- You notice that the average productivity drops by 30%.
- You see a significant increase in the instances of security breaches.

Sudden spike in 'sick days'



- You find a steady rise in the claimed sick days above the usual seasonal fluctuations. The situation is much better in other companies in your sector.
- Different departments and regions are impacted at a different rate, resulting in capacity shortfalls in specific areas.

The current insurance landscape

Cover for events relating to individual employees



 Employees leaving

Key Person
Insurance

Kidnap and
Ransom
Insurance

Directors &
Officers
Insurance

 Wellbeing and health

Employee
Life
Insurance

Private
Medical
Insurance

Workers'
Compensation
Insurance

Cover for wider financial implications on the business



Business
Interruption
cover

Reputation
and Crisis
Management

Employment
Disputes
Insurance

In summary

Majority of major company value now intangible

Large insurance gap

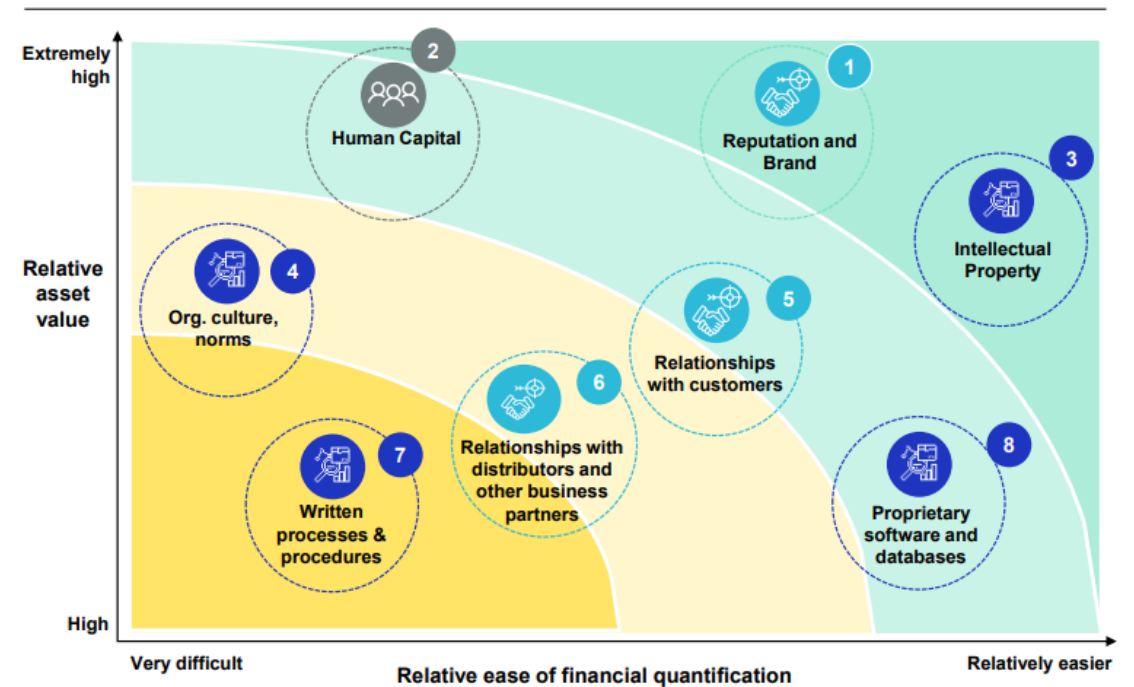
Key assets include

- Intellectual Property ; Reputation; Human capital

We are exploring solutions in these areas:

- Lloyd's Lab; Product Innovation Facility

Many opportunities for innovation



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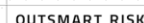
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Forthcoming Events

- Tue, 22 Jun (08:00-08:45) Financial Centres Of The World 2021: Focus On Busan
- Tue, 29 Jun (10:00-10:45) Impact Investing – The Future?
- Wed, 30 Jun (11:00-11:45) Fraud & Pandemics From The Spanish Flu To The Present
- Thu, 01 Jul (09:00-09:45) Why AI Needs Another "AI" - Anthropology Intelligence.

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