Aon's Insurance Companies' Forum 2019

Post event summary | April 2019

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Foreword

Thank you again for attending Aon's Insurance Companies Forum which I hope you found interesting and insightful.

I chose the title "The changing market for insurance companies" to provide a figurative umbrella for a wide range of themes currently being experienced by the industry. Yet a single day is not enough to even touch the surface. It is clear to me that the insurance industry is going through a period of enormous change; challenges to the business model, increasing regulatory scrutiny, the extent and pace of digital transformation, not forgetting Brexit, is causing disruption across every sector, the likes of which have not been seen before.

The messages from John Neal and Jamie Symington set the tone for the day: time to change. No longer can Lloyd's support syndicates continually failing to recognise the need for profitability above the dogged pursuit of top line growth. Individuals, untouchable as a result of the 'accountability firewall' following the financial crisis, will now be front and centre thanks to the expansion of the Senior Manager and Certification Regime. Having set the scene, the panels discussing the financial lines markets for insurance companies in the UK and US demonstrated how these pressures are being brought to bear in real terms; with hardening rates, contraction of capacity and management of excesses and coverage deployed. Themes developed by the Silent Cyber panel, which included the PRA focus and the articulation of the problem in the "Dear CEO" letters, identified an issue which transcends product line and cannot be ignored.

But, despite these challenges - or possibly because of them - there is the opportunity for insurers to do new things, find new ways of working and develop new products that will fit the customer of the future. Our afternoon panels lifted the lid on the innovative ways that traditional insurance companies are moving to develop solutions more apt for today's world. A fascinating look into the world of InsurTech gave great insight into the 'smart' technologies being harnessed to better deliver customer experiences, along with a counterbalanced debate on the best methods by which to amalgamate such culturally diverse enterprises. Finally, we closed the day on a lively panel discussing innovation from a variety of perspectives from which it was clear that the industry is not constrained by the traditional products with which we are familiar, rather that much opportunity abounds.

The summaries on the pages that follow provide an overview of the key themes explored during the day.

A series of round tables will follow in the Autumn covering a range of sector-specific themes. More information will follow in due course, but I do hope you will be able to join us and continue the discussion around the ongoing challenges and opportunities of our hugely exciting and important industry.

I look forward to seeing you soon.

Claire Sales | Executive Director
Aon Risk Solutions | Specialty | Financial Services

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An industry responding to the challenges of this age

Welcome and opening remarks

Dominic Christian | Aon's Global Chairman, Reinsurance Solutions

"*What a moment in time*," said Dominic Christian, Aon's Global Chairman, Reinsurance Solutions, in welcoming delegates to Aon's 2019 Insurance Companies' Forum. "*We live in a world replete with opportunity and a tsunami of need. Risk has never been so complex; risk has never been so scrutinised; risk has never been more volatile. Risk in many areas has paradoxically become more understandable and yet less measurable.*" The growth of intangible risk, Christian added, is so fast that, "*soon the so-called property/casualty industry will perhaps be called the casualty/property industry.*"

Responding to a kaleidoscope of risk

Given these challenges, he asked, how will industry key stakeholders respond to this kaleidoscope of risk? "*How will clients navigate the democratisation of data? How will capital providers get closer to their clients and their risks? How will intermediaries expand their virtues against this background? How will regulators maintain a fair, open and efficient structured market?*"

Above all, Christian concluded, laying down a challenge to the industry: "*How will we improve on the client view of an often opaque customer experience? How will we deliver great benefits for clients and investors in this venerable marketplace whilst embracing, with confidence and excitement, the opportunities before us?*"

My mission – to get Lloyd's back on the front foot

John Neal sets out an ambitious vision for the Lloyd's market

John Neal | Lloyd's CEO

Waiting around for the insurance market cycle to recover is no strategy for future success, said Lloyd's CEO - John Neal, telling delegates that the reality is 2017 and 2018 have shown the market cycle has "*perhaps gone forever*". With pricing, in real terms, remaining broadly flat, he added: "*The concept of waiting for the good times to return is just not going to be right for the challenges that Lloyd's and insurance face today.*"

Given that the cycle is unlikely to ride to the rescue, the case for evolving the market, in Neal's view, is quite clear. "*Lloyd's, like most of the insurance sector, hasn't been reacting quickly enough to the way the world and most importantly our customers are changing. The simple reality is the clients we connect with and insure, have changed the shapes of their businesses and their business needs dramatically in the last 10-20 years.*"

The shift to intangible assets

The result is a fast-changing risk landscape said Neal, with a marked shift away from insuring tangible assets, to the protection of intangible assets such as software and data. "*This is exposing businesses to new risks and I think we have some way to go to develop the products and services that sit alongside customer expectations. The onus is on us to innovate to supply customers with the products they need and that are relevant to their evolving risk.*"

Neal didn't, however, disguise his disappointment at Lloyd's recent performance. "*We haven't performed to expectations as a market. Between 2013 and 2016 we grew 14% in a soft market, with combined ratios of between 85% and 103%.*" While he argued that those results were not terrible, they failed to reflect a period which had experienced the lowest level of catastrophe activity for some 180 years. "*On an adjusted, normalised cat loss ratio, the market hasn't produced an underwriting profit since 2012,*" said Neal. "*For Lloyd's these results aren't good enough. It's been tough for the market, but performance has been worse than our peers and we all know that we're better than that.*"

A clear game plan

Against this challenging backdrop, Neal told delegates that they should be prepared to see change. "*My mission as CEO of Lloyd's is simple: to get Lloyd's back on the front foot, with a clear game plan and the confidence of all our stakeholders - particularly our customers - that befits the best known insurance brand in the world.*"

In the short term, the priority has been to get the market back into first class performance and the recent syndicate performance reviews have played a key part in that process said Neal. "*It is simply not okay that between 2015 and 2017, unprofitable businesses at Lloyd's eroded 87% of the profit that the market had made.*"

Having completed a lot of that work to address past failings, the question is now, said Neal, one about what the future will look like. "*How can we release the market to be right at the forefront of innovation in insurance and reinsurance?*" An extensive survey of 500 interviews amongst key stakeholders - a quarter of which were end clients - has helped shape that perspective and given Neal cause for optimism. "*There is a real passion for Lloyd's. I've always worked on the premise that if someone expresses an opinion with passion - negative or positive - that's a good thing. It means they care. People want us to succeed.*" He added that the research has, "*given us clear insights and got us closer to what the customers' expectations are and what should drive our thinking as to how we should change.*"

2019 strategy

Neal went on to reveal a strategy that has both a short to medium term element and a medium to longer term objective. "*Short to medium term it is about making sure that we're fit for purpose and can serve you in the way you expect us to.*" He also added that there will be a change in geographical focus. "*We're being a bit more thoughtful in how we deploy our resources and where we put our bets down. The reality is that US$1 in every US$2 of the world's GWP is in the US. We have to put the appropriate focus in the US, particularly as a marketplace that values us, has traded with us for 180 years and is doubting whether we are as committed to them as we should be.*" As part of that strategy, Lloyd's has hired David Duclos as non-exec chairman of Lloyd's Global Network, said Neal, to help support the development of Lloyd's international capability and its ability to connect internationally, particularly to the US.

In the medium to long term, Neal continued, the market must be bold and imaginative. "*We have to put the customer front and centre of our thinking. Our customers' expectations of insurance are dramatically different from the world that some of us grew up in,*" he said, adding that Lloyd's is the only marketplace that operates truly globally. "*We need to reinforce that position and one of scale in the areas of commercial corporate specialty insurance and reinsurance. We should be the most technologically advanced marketplace in which to do business.*"

Sharing risk to create a braver world

Unveiling Lloyd's new purpose as 'Sharing risk to create a braver world', Neal said: "*Everything is up for discussion. We have to consider everything if we are to make the most of what I think is a one-time generational opportunity for change.*" That included distribution, he added, as well as the way capital presents itself to the platform, Lloyd's structure, technology, and talent.

To that end Lloyd's is publishing a prospectus on 1 May that sets out some possible ideas for building the future at Lloyd's. These include a standardised risk exchange through which standardised risks, with the help of brokers, can be placed in minutes at a fraction of today's cost and an automated claims process that speeds up settlement to improve customer experience and increase trust in the market. A preview of this prospectus was published last week with further options and can be viewed at www.lloyds.com/thefutureatlloyds. Addressing brokers and underwriters at Lloyd's annual results where the preview was launched on 27 March, Neal urged all market participants to have their say on how Lloyd's should develop in the future. "*I want to emphasise how much we need your help and effort to build this new future at Lloyd's - please register to get involved at Lloyds.com/thefutureatlloyds.*" He said this would be used to create a blueprint for the new market, along with prototypes of whichever elements chosen to progress with.

This is a pivotal moment for insurance and Lloyd's said Neal. "*In my view Lloyd's is the strongest insurance and reinsurance brand in the world. Ours is a market that for hundreds of years has shouldered the risk of nations, businesses, communities, and helped them recover quickly after disaster has struck,*" adding that the "chastening results" of the last two years "*tells us that longevity is no guarantee of success.*" "*We can't afford to take our eye off the ball again,*" Neal concluded. "*We've got to corral the passion around the marketplace and restore our position at the front of the thinking in insurance and reinsurance…to secure the legacy of the marketplace for the future.*"

Regulatory enforcement & individual accountability

Focus on financial wrongdoing shifts to individuals says Jamie Symington

Jamie Symington | Brown Rudnick LLP

Are we on the cusp of the most significant development in the approach to regulation in financial services ever? Yes, according to Jamie Symington, from law firm Brown Rudnick LLP, who told delegates that, "*we are about to witness the UK's regulators' ambitions for individual accountability in financial services finally to come to fruition.*"

The change comes after both the banking crisis and what has become known as the conduct crisis - which saw traders manipulate LIBOR and foreign exchange - left senior management largely unscathed in terms of regulatory action. Would that same response from the regulators happen today asked Symington? "*I think probably not. I think we have reached the high watermark for big fines on big firms. Regulators are trying something new. It now feels like the stars are in alignment for radical transformation.*" Driving that transformation said Symington, are the three areas of culture, the Senior Managers and Certification Regime (SMCR), and a new approach to FCA investigations and enforcements.

Erosion of trust drives culture focus

Focusing first on culture, Symington said that a "d*riving ambition to change culture in the industry forms the backdrop to a number of the regulators' current initiatives.*" The reason for this, he continued, was how the banking and conduct scandals had resulted in an erosion of trust between industry and consumers. "*This was an industry that was characterised by conspicuous bonuses and rewards on the upside, but with little downside risk and the consequences of wrongdoing shouldered by consumers and taxpayers, not the people who ran and benefited from the industry.*"

Last year the FCA published a discussion paper 'Transforming culture in financial services', said Symington, which indicated that there is a real attempt by the FCA to engage its stakeholders in discussion about how to change culture and also indicates that they are still working out the best way that enforcement interventions are going to work to bring about cultural change.

The individual must take responsibility

Turning to SMCR, Symington argued that the FCA and the PRA have been eager to emphasise the role that SMCR plays in making good on its promise of regulation through individual accountability and, in turn, to senior management accountability. *"A key feature of SMCR is that firms have to clearly allocate responsibilities to ensure that there is an individual senior manager accountable for every aspect of regulated activities*," said Symington. The regime imposes a duty of responsibility, he added, which means that if a firm is in breach of the regulatory requirements and standards, it's the senior manager responsible for the relevant area that can be held to account if they did not take reasonable steps to prevent the breach. "*SMCR applies to all staff,*" Symington said, "*in positions where they could pose significant risk to the firm or any of its customers.*"

Effective enforcement

Having a legal framework in place is one thing, said Symington, addressing the third key area driving regulatory transformation, but success will depend on effective enforcement action. "*All the signs are that the regulators will be using their powers under the new framework to the full.*" One reason to believe this is the criticism of the regulator's response to the failure of HBOS said Symington. "*An overhaul of the FCA's processes has taken place since then and it's taken them back to some quite basic principles as to how it should use its powers. Investigations are now opened and taken on the statutory test of whether there are circumstances suggesting that misconduct has occurred.*" The consequences of this approach, he continued, is the increase in the number of investigations to nearly three times the number opened in the last financial year compared to three years previously, with the FCA increasingly focusing on the role of senior management and individual accountability.

Investigation risk is real

"*The dial has shifted. The risk of being investigated and the subject of an investigation is more real for individuals working in the financial sector than at any time in the past,*" claimed Symington who pointed to the cases brought against Barclays' chief executive in his response to a whistle blower where his personal conduct was found at fault and a more recent FSA fine on the former CEO of Sonali Bank for failing to mitigate anti-money laundering risks arising from a culture of non-compliance amongst the bank's staff. "I*t does show that there is a determination by regulators to hold senior managers to account,*" concluded Symington.

UK financial lines market trends

Different appetites characterise markets, while regulatory interest grows and D&O continues to provide opportunity for profit

Jason Mills | Aon

Panellists

William O'Kelly | Aon
Jonathan Kennett | Chubb
Chris Chapman | Mayer Brown International LLP
Geraud Verhille | AIG

Opening a session on financial lines market trends in the UK, Aon's William O'Kelly said: "*We're looking at a changing market for financial institutions in general and in particular for insurance companies. I'd characterise it more as a series of mini-cycles around geographies- Australia is a standout case; by classes - FIPI for example; and by industry group, life insurance operations specifically.. Markets are behaving in different ways with consistent inconsistencies. Even primary and excess carriers have very different appetites across the market.*"

One reason for this said AIG's Geraud Verhille was the difficulty for certain carriers in getting hold of a critical mass of data. "*You'll see fragmentation and difference in appetite in the market. Given the varying degrees of access to critical mass of data and claims information it makes it difficult for a lot of carriers to spot specific trends and act on them.*"

Another clear trend is that of the interest of the regulators said Chris Chapman from law firm Mayer Brown International LLP. There is no more apparent interest in an active area of risk in the financial lines area of the market than there is in the insurance industry in the UK at the moment. It is difficult to under estimate the potential impact of the work the FCA is doing in the UK insurance market, which will drive investigation and enforcement trends in the UK and throughout the rest of the world.

Will product innovation be stifled?

Turning to product innovation, the panel discussed whether a potentially hardening market in areas will stifle innovation. "*The market has done pretty well innovating in cyber space, given the breadth of coverage that the product delivers,*" said Jonathan Kennett from Chubb. "*Over the last decade, while there haven't any been any new financial products rolled out, what we've seen within current products is the constant expansion of coverage. There is ongoing innovation - whether it's always deliberate or not, is another conversation!*"

Regarding breadth of coverage, Chapman added that there's a pretty good match between the cover insureds want and the cover they're getting. "*But there is still sometimes a mismatch. The reasons there is a gap don't always make sense from an underwriting perspective.*" For example, said Chapman, insureds worry that their investigations cover won't be triggered until after they need to engage defence counsel. That could perhaps be addressed by a greater focus on reasonability and prior approval. "*As an industry, we are over focused on product and not customer need,*" said O'Kelly, adding: "*There are also some existing products that have a crying need for revision and rethinking,*" pointing to some of the products in crime and PI. "*We talked in the past about the move in the UK from a legal liability basis in PI claims to a more regulatory driven settlement. We've patched up wordings along the way…but we haven't been able to get to the root of the problem, and maybe now, when there is more rate for the exposure, is the time to make coverage reflect clients' needs.*"

Profitability issues

If coverage is right, is there profitability in the market for insurers currently? "*There is always pressure to do more,*" said Chubb's Kennett. "*But the challenge is where can we refine strategy to grow more in the bits that are doing well and where do we need to pull back or charge more?*" In some areas, where risks can be hard to spot, it can come down to a function of pricing he added. Chapman pointed to D&O as a class that can have very low price sensitivity in some cases, where individuals have a particularly low tolerance for risk and are prepared to pay a high price to avoid it. Turning to appetite, Verhille said that appetite is there across the board at the right price point, "*but there is a major dislocation between risk and price in certain areas, and if that doesn't get resolved, you'll see a de-emphasis of carriers on certain areas of business.*"

Fighting crime exposure

Addressing the issue of crime for insurers, Kennett argued that more generally, there is an increasing level of sophistication of computer attacks on financial institutions. "*On the insurance side, we've not seen that level of attack yet, but what we are seeing is social engineering continue to evolve,*" he said, also pointing to the growing threat of fraud perpetrated by AI.

Although insurers shouldn't let the dominance of the cyber threat open themselves up to complacency when it comes to the "*traditional employee theft such as false claims or setting up of fictitious reinsurance,*" added Verhille.

Presenting risk in the best light

For clients looking to buy cover, the panel concluded with a discussion on how best clients should present their risk to the market. Offering his views on what underwriters are looking for, Kennett said: "*The key is an articulation of your needs. Be clear as to what your buying priorities are, whether that's around balance sheet protection, price, or cover. Where have you seen those losses over the last ten years in your own business? Be open and help us understand some of the details in your business. It's about good communication and dialogue.*"

Verhille agreed adding: "*It's important we capture that granularity and price for it whether it's the activities of tied agents, or issues arising out of DUAs in Australia, or in the UK. It could be a small constituent of a company's operations but drive a lot of the risk.*" O'Kelly commented on the difficulty of very granular underwriting, particularly for large, complex, organisations and the need to look at corporate culture as a factor.

US financial lines market trends

D&O is going up; E&O is going up faster

Natalie Graham | Aon

Panellists

Tracy Forst | Aon
Blake Cramsie | Aon
Ron Goldstein | Aon

Addressing trends in the US financial lines market, Aon's Tracy Forst told delegates that the era of huge rate rises is being consigned to the history books. "*Over the last couple of years, we've been wondering when the hard market was coming. We've seen a US$60bn cat year in 2017 and a US$40bn cat year in 2018 and when that happens, I get the team together and say we're going back to the late '80s and a time of 1,000% rate increases. They remind me that was 30 years ago and we're probably never going back there. Waiting around - in the US market at least - for a dramatic change of that magnitude just isn't going to happen*."

There has however, said Forst, been a firming in the US market in D&O lines. "*Risk selection is more stringent and underwriters are sticking to their guns.*" While on the E&O side it's a bit more dramatic - with rates up almost 25% - as lawyers go after more smaller cases which, in turn, is hitting loss ratios, added Forst.

Cases come to court quicker

The increased frequency in E&O cases reflects how much better attorneys have got at finding more cases and bringing them to the court or into mediation continued Forst. "*Ten years ago, E&O claims counts may have been 1,000 a year, but they are now around 3,000 a year. They're much smaller but are getting to the policy more quickly.*" Florida's time limit demands, added Forst, means insurers have 14 days to get to the policyholder to tender policy limits and make an offer - if they miss that window, they are then exposed to all the damages in excess of the policy limit. Florida also has a tough judicial system which adds further pressure to insurers said Blake Cramsie. "I*t's 'all or nothing'. When a plaintiff makes a demand, you must accept all the conditions or deny them all. And if you don't do either of those, you're seen to be acting in bad faith*." And finding institutions acting in bad faith is now a big thing added Cramsie. "*It used to be about runaway jury verdicts, whereas now it's become much more focused on what you're doing as an institution. How are you compensating your claims adjusters for instance? Is it tied at all to outcomes on claims?*"

D&O frequency on the rise

On the D&O side, rate increases are also being fuelled by an increase in loss frequency said Ron Goldstein. "*We've come off a prolonged soft market where the expectation is of low frequency but high severity events, but we're seeing a firming based on one of those components changing. There is now an 8-10% chance of a US public company being subject to a security class action which is more than double the figure for three years ago*."

It's not just frequency either. When it comes to the types of D&O claims being seen, there is also a shift said Goldstein. *"Across the board, we're seeing a change from financial restatements and problems of that nature, to more event driven litigation. The Marriott hotels cyber breach for example saw the company take a 6-10% hit and there were security class actions filed thereafter.*" In the wake of corporate problems around issues such as the #MeToo campaign, Goldstein said that D&O underwriters were now asking more questions around corporate culture and how companies treat their employees.

Insurers' E&O challenging

For insurance companies looking for E&O cover, the picture is similarly challenging. "*The insurance company E&O market is in a state of change,*" argued Forst. "*The most recent renewals we've had have been very challenging. For the first time in ten years we had a client that was non-renewed. They were in the auto space in Florida and the market just didn't want to write any of their coverages - not just E&O. We had to go to 40 markets and found terms but they were dramatically different at more deductible and more than twice the previous rate. If you're a US based insurer in difficult states and you have some loss frequency in your profile, you will be challenging for the underwriting community*."

Reducing exposure

In turn, this pressure places more emphasis on insurers reducing their exposure to bad faith claims. Some could do that by removing themselves from a state but, where that is not practical said Forst, they have focused on areas like educating their claims handling team and really understanding the jurisdictions they're in.
"*The relationship with your E&O carrier needs to be really strong*," said Cramsie. "*They can sometimes be your best resource because they want a good outcome as much as you do and they have the experience.*"

Silent cyber: the issue and how to address it

The regulators warn insurers over their exposure

John Brosnan | Aon

Panellists

Mark Lynch | Aon
Peter Schwartz | Enyo Law
Neil Arklie | Aviva
James Riley | RenaissanceRe

Peter Schwartz from Enyo Law, told Aon's Forum that the PRA is ramping up its focus upon insurers' effective identification, quantification and management of silent cyber exposure and is moving to a more prescriptive approach. Increased oversight and accountability can be expected from the regulator in making sure that the industry addresses properly and timely a "known unknown".

Reading between the lines of the PRA's latest 'Dear CEO' letter of 30 January 2019, (with limited exceptions), the industry's response to the PRA's Supervisory Statement upon underwriting cyber insurance risk (SS 4/17) and preceding 'Dear CEO' letter of 14 November 2016, has been underwhelming, Schwartz said.

Coverage uncertainties and potential exposures

Schwartz then asked delegates whether anyone remembered the days of "deal now, detail later"- highlighted in the World Trade Center litigation 15 years ago - comparing the current silent cyber situation to that period. He felt that the coverage uncertainties and potential exposures inherent in silent cyber were probably more serious, as an industry issue, for so long as they were not properly addressed. Why? "*The NotPetya attack alone showed how financially devastating and multi-dimensional the intrusion of malware can be. Industry experts have estimated a loss to insurers of over £$3 billion but, the problem is, 90% of that was estimated to fall within silent cyber coverage,*" warned Schwartz.

PRA says boards must do more

In the ‘Dear CEO letter’ of 30 January 2019, Schwartz emphasised that the regulator re-stated its key findings from the ‘Dear CEO letter’ of mid-November 2016 and in SS 4/17, including that silent cyber is a very serious unknown risk that gets worse with time and, although the market understands that silent cyber sits in many traditional classes of business, they don’t know yet which are more exposed and by how much. In its recent findings, the PRA stressed the boardroom responsibility for “owning” this risk. “*In effect, the PRA said, ‘Not good enough... You need to do more, and do it more quickly’*,” said Schwartz. The PRA has now set a timetable to deal with the silent cyber risk. All insurers and reinsurers must “progress their work and fully align with the expectations set out in SS 4/17” to reduce their unintended exposure to non-affirmative cyber risk. If insufficient, demonstrable, tangible, timely progress is not now made, Schwartz predicted, “*just watch the carrot metamorphose into a stick.*”

“*It’s not just the regulator either,*” said Aviva’s Neil Arklie. “*We’ve got rating agencies looking at how you are going to respond in the event of a loss and we have our own internal risk and compliance people who are very concerned about it.*” One of the issues, he added, was that cyber falls within lots of traditional lines which you can’t extract it from, citing the example of solicitors’ professional indemnity. “*It’s a mandated class and the Solicitors’ Regulation Authority will not allow you to change that wording to exclude cyber - it’s built into it.*”

Reinsuring the risk

From a reinsurance perspective, RenaissanceRe’s James Riley said: “*There is no reason why the reinsurance community should not be trying to address this alongside its clients. The nature of the problem is to try and move from the current space where we don’t necessarily have good quantification mechanisms for the exposure, to then having clarity of cover in the future.*”

The exposure isn’t going to go away when we have clarity of coverage, he added. The industry will improve policy wordings, but insurance consumers will continue to look to their insurers for solutions to this exposure, which will require more robust affirmative offerings. “*The way we work with our clients is to partner and work with them on their current problem,*” said Riley, “*so if they’re picking up big numbers from what they’re having to give to the PRA, we can talk about what those numbers mean in the same way that we would with a client’s property cat exposures for example and then, in the future, work with clients on the product development cycle.*”

The scale of the problem however is leading a lot of insurers to wonder how they can even begin to assess and manage the risk, said Aon’s Mark Lynch. “*You’re trying to rectify a problem that has long existed but gone unnoticed, so it’s a retrospective analysis. You’re also dealing with a risk that mutates and evolves so rapidly that even when you start to quantify it, you have to consistently review your assumptions and your understanding of the threat landscape because it changes on an hourly basis*.”

Triage ‘at risk’ business

Aon’s approach, added Lynch, is to take clients through a step by step approach to firstly triage those areas of business an insurer is most concerned about, then it’s about assessing exclusionary language. “*Find a way to systematically go through contract wordings and see where cyber exclusions exist and test them to see if they stand up to scrutiny. Once we’ve done that, we’ll look at quantification and the loss models that are out there...which aren’t currently up to the standard that you will see in the natural catastrophe space.*” The quality of the models means a preferred approach is to gather as much data as possible for each risk and use the expertise of a company like Stroz Friedberg to craft scenarios for the client’s book of business said Lynch.

The robots are coming

From machine learning to IoT - the growing role of technology in the insurance sector

Caroline Bell | Aon

Panellists

Ben Rose | Aon
Liam Gray | Startupbootcamp
Ant Barker | Aviva Ventures
Hélène Stanway | AXA XL

Aon has a threefold ambition when it comes to the use of tech, said Aon's Ben Rose as he addressed delegates on a session looking at the growing role of technology. "*How can we make insurance technology useful to our clients; how can we make technology useful to ourselves; and thirdly, how can we make technology useful to our insurer partners.*" For insurer partners, said Rose, Aon Inpoint has a key role to play. "*Through a combination of data, analytics, consulting, and engagement, Aon Inpoint brings together the right people, information, and capabilities to help solve challenges for insurers and reinsurers.*"

Culture comes first

Turning thinking into action when it comes to the use of tech however is a key priority said AXA XL's Hélène Stanway, pointing to AXA XL launching the world's first insurance blockchain for marine insurance last year. "*There is a lot of talk out there but we want people to move beyond talk and into proper action. We want to drive the culture of innovation. It's okay to learn and it's okay to fail.*" The emphasis on culture for AXA XL when it comes to tech is key added Stanway. "*It's about the people; getting them to accept uncertainty and transforming that uncertainty into knowledge and action.*"

Insurtech in action

What though do many of these insurtech projects look like in real life? One example in trial, said Ant Barker from Aviva Ventures, is the use of machine learning to quicken the claims process in the motor arena. "*Machines can look at pictures of cars following an accident, and be able to identify which parts have been damaged, automatically generating a price for repair, make a write-off decision and leading that claims journey for the customer without having to involve a human loss adjuster.*"

Cyber cover in the SME space is another area ripe for insurtechs said Liam Gray from the business accelerator Startupbootcamp. "*One of the companies that came though our accelerator in 2018 focuses on providing cyber insurance for SMEs in the US, but it's not just an insurance policy; they're looking at the full value chain from pre-loss, through to risk transfer and incident response.*" Another example, he added, was an insurer that doesn't take premiums up front but when there is a claim, the insured pool splits the cost between them. There are lots of readymade solutions out there too, added Rose. "*We have recently moved away from Excel in Aon Inpoint to Alteryx which enables us to interact with data in a very different way. For example, we were interested in understanding the drivers of churn between different reinsurers on a panel for a cedant. Alteryx allowed us to take all of Aon's reinsurance data for six years and get it all in one place to help us understand what is driving positive and negative churn. You don't necessarily need to think about a technology investment in machine learning as an entire team of experts to bring in; there are tools out there that are off the shelf and easy to use.*"

IoT disruption

In the cargo sector, Stanway told delegates about the use of Internet of Things (IoT) solutions by one business to reduce losses where temperatures can spoil the cargo - for commodities like coffee for example. "*The use of heat sensors has allowed us to understand that it is not advisable to transport coffee to northern Europe in January and February because it gets too humid.*" Some businesses, she added, are pursuing IoT because they think it will make the purchase of insurance irrelevant, "*but that's a big problem, particularly around cyber exposure where they open themselves up to a whole new area of risk.*" Stanway concluded however that, "*IoT is going to be one of the big disruptive technologies.*"

As the IoT journey continues, said Barker, turning to home insurance, "*there is the potential to turn insurance from a low engagement/low utility product…to a high engagement/high utility product.*" Giving the opportunity, he added, with devices like leak detectors, to move the relationship from fixing things when they go wrong, to stop them going wrong in the first place.

Who pays?

There's a more fundamental question when it comes to IoT responded Gray. "*Who pays for it? That's where most of the conversations stop when it comes to start-ups meeting insurers. Yes, this is a great idea, it will add lots of value for the insurer in terms of gathering data, and it will add value to the client in terms of helping them manage their risk better, but who makes the payment for that item?*"

Creating deal value through human capital

The changing emphasis on talent - it's no longer just about the most senior employees

Piotr Bednarczuk | Aon

Panellists

John Harvey | Aon
Pratik Rathore | McLagan (an Aon company)
Chris Holme | Clyde & Co LLP

How do you create deal value through human capital? Aon's Piotr Bednarczuk told forum delegates that companies will need to act differently in corporate transactions and how they do deals. In particular, he stressed, you need data on people - not just for high level executives, but deep data on the talents throughout the business, their characteristics, and what is important for them. "*Identification of these talents and securing which ones you want to keep and need to keep will be more and more important.*"

This emphasis on talent in a deal scenario is particularly important given the changing trends in the workforce added Clyde & Co's Chris Holme. "*Twenty years ago, the focus in M&A was always on the few people at the very top; the rationale being if you retain the people at the top and keep them happy, then that would cascade down and everyone else would stay. Today, that's not the case.*" Millennials make up a much greater proportion of the workforce, he said, and are more likely to move than people were 20 years ago, while other factors such as increased transparency about what other companies can offer and less fear about losing access to benefits like a final salary pension scheme mean, in a deal situation, there is now more emphasis on how to keep everyone happy throughout the entire business.

Changing retention strategies

As a consequence, there is more differentiation when it comes to talent retention strategies. One example, said McLagan's Pratik Rathore, is a realisation that the acquired firm shouldn't simply be forced to become like the acquirer. "*Firms used to acquire a digital services business and try and make them into a financial services firm - but they lost value as people left. Most insurance and financial services firms have realised that if you're trying to pick up digital capability, then what's important is to leave them alone and let them do what they do best.*"

Another important difference, Rathore told delegates, is in equity compensation. "*Equity based compensation, when it comes to tech talent, is so different from what exists in financial services. When you're trying to hire, you will need these kinds of tools to retain and motivate them.*" Another factor, said Rathore, is location. "*If you're trying to build a tech hub within a financial services hub, the chances are you won't get the talent.*"

The value of benefits

Making sure acquired employees value their benefits is also critical said John Harvey from Aon. "*The way in which employee benefits are delivered is increasingly important. If you're not providing benefits in a way that is easily accessible - such as online, or mobile - then they very rapidly slip down an employee's levels of awareness. If it takes too long to access or change a benefit, then the benefit almost ceases to exist.*" In some cases, Harvey added, employees have become more engaged with their pensions for example - even though their deal was less generous - simply by making sure they have better access to their pension, understand the value and are equipped to make decisions on their own and in real time.

"*A key phrase is 'total rewards' and taking a more holistic approach,*" added Bednarczuk. "*We're working with an insurance company buying another insurer in the tech area and they have a very professional M&A deal team but they're doing it step-by-step. What happens is they started off with retention packages, then they go into the LTIP situation, optimising it element by element. But we showed this company that if they stop the step by step approach and look at it more holistically you can benefit from trade-offs, which in turn can generate synergies and cost savings.*"

Putting people issues up front

Underpinning all this however is a need to convince the finance and corporate development functions that putting more emphasis on people in the deal would make sense. "*The law is a great instigator of helping to ensure that the people aspect is taken more seriously,*" said Holme, who referenced the obligation to carry out information consultations wherever employees might be dismissed, changing role, or in a business moving from one place to another. "*You can use the information consultations quite positively as a mechanism to help build engagement with the whole workforce and to bring them along in relation to the changes that you want to make.*"

Inform the people managers

Effective communication is obviously a key factor in any successful deal. Aon data, said Bednarczuk, reveals that, amongst the most highly engaged employees, one third of their engagement drops within days after the announcement of a deal. "*The only way you can solve that is through keeping the people managers - who have direct access to the talent in the business - well informed about the deal.*"

Product innovation: keeping coverage relevant for today's issues

Do the simple things well, but keep innovating

Ed Smerdon | Aon

Panellists

Joachim Albers | Allianz SE
Jonathan Post | Swiss Re
Patrick Brown | BHSI
Tina Walton | AXA XL
Kamal Galagedera | NFU Mutual

"*Innovation is around staying relevant to clients and staying competitive,*" said AXA's Tina Walton - opening a session on the challenge of innovation for insurance companies. There is though, a natural caution for insurers towards innovation as both buyers of products and sellers, said Joachim Albers from Allianz SE. "*If I'm buying a product, I would not be experimental. I need to understand that it works.*" Also on the sell side, he added, there is a reputational issue to protect which results in smaller steps around innovation to ensure programmes work and remain relevant.

Do the simple things well

It's an approach shared by Jonathan Post from Swiss Re who cautioned against too much proactivity. "*The danger is that you get yourself into a situation where you design something fantastic, but your client either doesn't need it or doesn't want to be the guinea pig. Being reactive, listening harder and being able to incorporate learnings in to the product and its delivery is something that is indistinguishable from innovation itself. Do the simple things very well.*"

That doesn't mean though that insurers can simply stand still. "*While the changing market might make insurers more reluctant than they were perhaps a few years ago to venture into unchartered territories, they can't afford to stand still either. They have to make sure their coverage is relevant at any given time. You can't just stop innovating,*" said BHSI's Patrick Brown.

Regulators force cover to evolve

Of course, it's not just customer issues that can generate innovation, with the regulatory environment also pushing insurers to evolve cover. On the arrival of the Senior Managers and Certification Regime, Kamal Galagedera - NFU Mutual said: "*I had so many senior managers knock on my door and say what is our D&O cover again? Those kinds of regulatory issues generate demand for cover as do PRA/FCA investigations; raising questions as to how the product pays out when the issue has been generated by the regulator rather than the customer.*"

The changing regulatory picture can also put a question mark against to what extent certain risks are even insurable said Albers, referencing recent experiences in Australia for financial lines coverage. "*There has to be a discussion between insurers and insureds as to what the right balance is between providing coverage and what is the cost of doing business and what is not insurable anymore.*"

Developing truly global programmes

In the shadow of Brexit, the panel also explored whether the need to be licensed across Europe has led to a greater interest in making sure there is truly global cover under many of these financial lines programmes. "*Licensing isn't necessarily the answer,*" said Post, "*it's what you do with your licensed network. There are few legal regulatory systems that are fit for purpose when it comes to the provision of international programme coverages. My hope for any good that might come out of Brexit is that European regulators look at their own authorisation requirements and ask themselves whether they are fit for purpose in the context of truly international global coverages.*"

Insurer threats

Returning to the challenges of innovation itself, offering new and diverse products that can't yet be priced accurately can pose a real threat to an insurance company said Brown. "*We want to encourage innovation within our customers, but when you start looking at different, innovative fintech type products around shared or gig economies for example - what we don't yet have is long term sight of what the impact is going to be both in terms of an insurer's balance sheet and claims; that makes pricing interesting.*"

There is also what can be a difficult process of coming up with an idea and bringing it to market. "*It can be a long and painful process, or quick and successful,*" said Walton. "*It often comes down to collaborating with the right people. There are a lot of hurdles to get over, so it is a challenge to install that culture of innovation and it's important to have the smooth processes that allow the innovators to get their ideas over the line.*" Allowing people to fail was also crucial she added. Another key ingredient is the "*humility and the agility to recognise when you get it wrong,*" said Post, "and being able to take rapid remedial action is also vital".

Working with the broker

What role does the broker play in driving innovation? There was widespread agreement among the panel that there is a need for active partnerships. "*Innovation needs collaboration,*" said Walton, "*and we need the brokers for that.*" Galagedera added: "*As a buyer I'm looking for wide knowledge of all the events that can occur and the ability to work with agility and speed with an insurer to give me a solution.*" Post emphasised however that communication needs to go both ways. "*The role of the broker is very important in telling us what the client needs but also in going the other way to emphasise to the client that it is about a risk partnership. Loyalty is very important otherwise insurers are not going to take that first mover disadvantage.*"

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance

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