Chartered Insurance Institute

OLIVER WYMAN

The underwriter of the future
Six years on

Message from Oliver Wyman

The commercial lines insurance market is sometimes viewed as more staid than personal lines – at least if measured by media buzz and breathless tweets devoted to InsurTech startups.

However, important transformation is underway across the commercial insurance world, from the small and micro world up to the large corporate and wholesale level – fuelled by digital automation, new forms of competition, and new forms of risk.

Our joint report with the CII in 2012 explored the outlook for the commercial market to 2022 and remains to this day one of our most-cited and most-debated reports. We thought it would be timely to review how our projections from 2012 actually played out now we have passed the halfway point of the journey to 2022 – what has played out as expected, what is new, and what this means for the insurance executives and underwriters of today.

As in 2012 we have consulted widely within the industry, talking to both established and new players, and with insurers, distributors and service/technology providers. We have also cast our net somewhat wider than the predominantly UK focus of the 2012 report – both because some key trends are playing out worldwide, and because commercial competitors are themselves increasingly multi-market. So in this report update we have also provided some perspectives from two key international markets (namely the US and Germany).

In short, we believe – and our industry participants heartily agree – that the commercial and wholesale insurance marketplaces are undergoing radical change. This in turn poses important questions for the business models of the companies that compete in the field, and for the roles and careers of those (including underwriters) who work there.

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Message from the CII underwriting faculty

It is now six years since the original ‘Future of Underwriting’ report was published by Oliver Wyman in partnership with the CII. I am amazed at how often I and others still reference its content. The report took a distinctive style, to try and make it stand out from many other prediction papers. But its key quality was in identifying those trends that would really transform our industry over the following decade.

Not everything that was predicted has happened (yet), but that is no surprise as we are only half way through the period of focus. What we have seen is numerous insurance companies announce their strategic plans, identifying exactly the same areas as those that would be essential for their future success.

At an individual level, some comments perhaps struck fear into an ‘old fashioned’ underwriter who didn’t want to change. Those who were open to a different approach, and who were keen to develop, saw the report as a template for career planning. I know from speaking to those in the CII New Generation Programme, that individuals at the outset of their careers have found it particularly useful.

Times move on, plans and visions need to be refined. Now seems a perfect time to revisit the report subject areas to discuss new insights and ideas. I have enjoyed talking about the original report, and have been exceptionally pleased to see the value many people have taken from it. As we now launch this latest version I have no doubt that I will feel similarly informed, whilst challenged at the same time. I am thoroughly looking forward to talking about this latest iteration as we move into a period where those changes maybe accelerate even faster than before.

I hope this report is of benefit to you, whether looking at strategic plans for your business, or in achieving your individual career aspirations.

David J Williams
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Executive Summary

In 2012, Oliver Wyman and the Chartered Insurance Institute (CII) published a joint report entitled “The Underwriter of the Future”. This report laid out our vision of what a commercial insurer might look like in 2022.

Having passed the half way point towards 2022, our new report examines how our 2012 predictions have been holding up in reality. This now allows us to make new prognoses for another 10 years, moving towards the year 2027. As in the 2012 report, we look separately at the markets for small-medium enterprise (SME) and large corporate/wholesale insurance, given they are developing in very different directions.

Our 2012 report focused primarily on the UK. However, as commercial insurance is changing rapidly globally, we also contrast the changes in the UK market with developments in other major countries, in particular the US and Germany.

From 2012 to Today

SME

In 2012, we predicted significant technology-led market disruption in the SME insurance sector by 2022 - first in micro-risks then moving to more complex segments. We foresaw that insurers would need to redefine their businesses – not only changing the role of the underwriter but also reshaping the entire SME business model.

This prediction has largely been borne out – the UK has seen notable progress towards direct and online distribution for micro and small risks (and even higher in sub-segments like tradesman’s motor van insurance, which is now predominantly sold online through the same price comparison websites that dominate personal lines motor).

At the larger end of SME, person-to-person customer relationships continue to play a bigger role. The need for advice and reassurance for customers means that the broker channel is still predominant. But the traditional model of branch-based face-to-face interaction is in significant decline, with remote and telephone based interaction increasingly the norm.

From the insurer's perspective, the UK SME market continues to move away from manual underwriting and paper-based administration. Automated (model-based) pricing and electronic/straight-through trading of risk is already dominant in micro risk and is becoming increasingly prevalent in larger and more complex risks. Even where the end customer still wants to interact with their broker in person or by phone, brokers are sourcing quotes and comparing offers either directly with insurer portals, or on trading platforms provided by broker software houses. Broker platforms already control a significant share of SME trading flow, and are steadily pushing into larger and more complex risk types over time.

Over the next ten years, we expect to see these trends go further yet in the UK. Automation will continue to make inroads in underwriting – driven both by broker demand and by continuing cost pressure. There will be more growth from online and telephone-based customer propositions, and more "straight through" fast-processing even for broker-mediated transactions. All customers will demand more including more price transparency, faster turnaround times and lower cost – forcing insurers to significantly re-engineer their service proposition and operating model.

Exhibit 1: Summary: our predictions for the "future of the underwriter" in SME

What we predicted last time for 2022

- Up to 80% of micro business in direct-to-consumer channels (incl. online brokers)
- Offline brokers still prevalent in larger SME, but up to 60–70% electronically traded & bound
- Insurers responding by
  - Launching direct platforms
  - Launching initiatives to support brokers
  - Becoming "an e-commerce organisation that happens to sell insurance"

What's happened 5 years in?

- More customer acceptance of online, but outside micro risk many still want some guidance
  - Larger SME business still via broker but "slow and steady" automation
  - Small number of dominant broker platforms
- Significantly more automation and STP
- Early stages of data enrichment and analytics

Outlook to 2027

- Even more direct, online and phone offers
  - >90% of micro
  - 40–50% in other SME
- More automation in both front and back office
  - 80–90% of SME straight-through (a few exceptions)
  - Still expanding into larger/more complex risks
- Hard choices for today's insurers and brokers
  - Full online/phone front end?
  - Maintain/reduce branches?
  - Replace/upgrade systems?

Looking at other SME markets worldwide, the UK has probably moved furthest on pioneering direct-to-customer offers, online journeys (even for brokers), and on automated underwriting and placement. However, the direction of travel is similar in other countries:

- In Germany, even though most SME commercial business is still transacted manually or via insurer portals, we already have seen some innovative "low-cost fast-service" online propositions for micro business (usually offered by leading incumbents rather than by new entrants). Leading insurers are also shifting to modular product architectures, which although never quick to implement, should enable much more auto-rated platform business in future,

- In the US, there is significant experimentation with new models, such as online direct-to-customer, SME platforms, insurance portals and distribution platforms. This includes attempts by established players and startups to sell directly to customers online (such as biBerk, NextInsurance). We also see the rise of SME platforms, such as Dovetail and Attune, and better insurer portals, such as AllianzGo. Even though the current business models are quite varied, the underlying technology approaches used by leading players will be nimble enough to shift models as they learn more. We believe that the future landscape will be dominated by platforms, including a few broad platforms that dominate in standard risks, and a larger set of niche platforms for specialist areas. We see insurers playing in multiple platforms/channels, with winners effectively plugging in and out of different platforms.

Large Corporate and Wholesale

The large corporate and wholesale world functions very differently to the SME world, and so our predictions in 2012 were also different. This is also a much more of a globalised market, so we predicted (and have indeed seen) much less divergence across countries and geographies.

On the demand side, we predicted that large corporate clients would become much more sophisticated in risk management – keeping much more risk on-balance-sheet rather than insuring it externally, meaning more focus on risk management and prevention. We also foresaw more demand for integrated rather than product-centric solutions

On the supply side, we expected insurers to become more radically client-centric, to build more holistic risk management service and advisory propositions, to use much more technology, and to be willing to more actively trade risk.

The big news was that we did not foresee the extent and pace of change on the supply side. Three trends stand out: capital becoming a commodity, rearrangement of the traditional insurance value chain, and substantial consolidation.

On the demand side, things have developed slower than we predicted. Some sophisticated corporates (especially in energy) are retaining more risk - but this has not spread widely. Some insurers have experimented with service-oriented models, but with only mixed success. And markets for "new economy" risks, such as supply chain and cyber, remain small compared to conventional product lines.

These changes in the market will, however, be durable. Capacity will continue to be abundant despite recent large losses. The traditional insurance model will look ever more high cost and under pressure. And "industry 4.0" will continue to play out – with dramatic impact on how the most innovative insurance players can model, manage and package risk.

The impact will be profound. We expect to see low prices continue, with only limited and short term relief in specific loss-affected geographies and individual risks. There will be no broad-based "up cycle" and hence no let-up of the pressure on insurer profitability. We will continue to see new configurations of the value chain – squeezing the traditional insurance model between ever more ambitious distributors, and more aggressive capital providers. These will sometimes also compete directly for the end customer.

Automation, connectivity and digital business models will continue to transform how enterprises work – in turn changing what risk cover they buy, and who is best placed to cover these risks.

Exhibit 2: Our predictions for the "future of the underwriter" in larger corporate & specialty

What we predicted last time for 2022

- More sophisticated client risk management strategies
- More technology-driven risk and pricing tools
- New holistic risk management service providers
- Client-centric coverage model, structuring solutions on whole-client needs
- Building a talent pipeline of quality staff able to drive continual innovation

What's happened 5 years in?

- New tech with complex impact on needs (e.g. cyber, "industry 4.0")
- Only most sophisticated clients retaining more risk
- Capital as a commodity, ongoing weak pricing
- Cost pressure and consolidation
- Broker innovation
- Reconfiguration of the value chain (MGA, TPA, …)

Outlook to 2027

- Proposition and platform innovation
- "Smart automation"/new operating models – cheaper, more flexible, smarter
- Modularisation/fragmentation – separating capital provision from underwriting
- Only participating where you know you have an advantage
- Hard choices for incumbents

Hard Choices for CEOs

Our report highlights that established insurers and brokers face a number of complex and difficult choices with high-stakes outcomes. Today's business models are under significant strain – and the ongoing direction of market change will only introduce more change and complexity. But the costs of change are high, and business conditions mean most CEOs feel there is little cash for investment, and little management bandwidth to think about, let alone implement, major transformation.

CEOs will need to make hard choices. These range from models that resemble today's, but involve painful decisions around cost reduction and automation, to more radical ones that entail very significant change. Established players will need to face up to the complexity, cost and disruption of investments in new operating models. Failing to do so risks remaining trapped in legacy business models and cost structures – and risks today's customers and profits being captured by others.

Threats and Opportunities for Underwriters

Individual underwriters and underwriting leaders will need to give serious consideration to the personal implications of the changes outlined in the report.

In SME the increase in automated, portfolio-underwritten business will significantly reduce the demand for traditional case-based underwriting in regional offices. Yet this may open up opportunities for those willing and able to fit into teams, that will require a combination of sophisticated analytical, data engineering, technological and entrepreneurial skills to win.

In the large corporate world, automation will not go so far, and there will still be demand for those able to understand, select and price complex risks. However the types of risk involved, and the types of skill needed to manage and prevent them, will shift significantly. Consequently there will be significant pressure to reduce the cost and complexity of today's fragmented and artisanal process flows.

Underwriting leadership will need to work out how they will source the capabilities needed, whether and how they can upskill existing staff, and how they will make their departments an attractive place for new kinds of talent. We expect the emphasis to be on focusing underwriters to be more creative and open-minded in ways of assessing, pricing and limiting risk for clients and how to embrace the possibilities of technology and analytics. By 2027 the best underwriters will be a heady mixture of statisticians, engineers and technology developers.

SME

Recap of the 2012-2022 vision for SME in the UK

2012–2018 – What's happened so far?

The next ten years in SME – Where next?

Impact on the underwriter

SME

Some six years on, the picture in UK SME has moved on significantly from 2012, largely in the direction we foresaw. Small and micro-risks are sold much more predominantly online and by phone (sometimes even bypassing the broker) rather than through traditional branch networks. And automation is making big inroads behind the scenes for both broked and direct business.

Recap of the 2012–2022 vision for SME in the UK

It is useful to quickly recap our original 2022 SME scenario for the UK in order to get a sense of how rapidly things are changing. Back in 2012, our report predicted significant technology-led market disruption in SME insurance. We saw this hitting the small and micro-risk segment sooner than for larger and more complex segments. We foresaw that insurers would need to redefine their business model, and that the traditional role of underwriters would change significantly.

In the micro-risk segment, we predicted the further rise of web-led direct-to-business insurer propositions and web-led broker propositions. These were already present in 2012 but we saw them capturing up to 80% of premiums from micro and small business customers by 2022, especially in the segment with fewer than ten employees. These changes would be driven by growing SME interest in simple, online transactions, and some knock-on effect from the predominance of online buying in personal insurance. We saw the customer looking for the ability to initiate transactions online, but with well-structured online journeys that felt tailored to their situation, and the ability to access phone help where needed. The expectation was these shifts would be supported by increased auto-rating (such as model-based pricing with little or no direct underwriter input at the case level) and electronic trading (straight-through quoting, placement, and binding).

For more complex risks, it was predicted that online models would be less prevalent, and that the broker would still retain a strong role – but increasingly via telephone rather than face-to-face models, and also increasingly where the broker used automated, straight-through placement rather than manual models. The expectation was that, behind the scenes, up to 60–70% of more complex risks would be handled using e-traded models by 2022 (as in the risk would be presented and bound electronically) and that up to 20% would be automatically priced and underwritten (with no manual intervention from underwriters).

In 2012 our expectation was that for SME insurers to succeed in this new environment, they would need to redefine themselves as "e-commerce organisations that happen to sell insurance". We also predicted that there would be new insurer-backed entrants into direct distribution and brokerage, and significant investment in data-driven pricing, underwriting and fraud control. The data produced by the new front end would in turn provide deep insight into risk-adjusted performance at the individual policy and portfolio level.

This would fundamentally alter the traditional role of underwriters, by creating new and attractive opportunities for both technical and customer-facing teams. The rise of auto-rating would reduce demand for traditional "hands-on" case underwriter roles in SME, but would increase new demand for the value-added roles such as the development of statistical rating models, performance optimisation, and portfolio steering. We foresaw that some underwriters would move to customer facing teams, where they would be able to bring their insurance expertise and analytical capabilities to improving customer experience, marketing and product development.

2012–2018 – What's happened so far?

Exhibit 3: In aggregate, online and automation continuing to grow, at the expense of the traditional broker model

	Aggregator, Direct, Web broker	E-Trade broker	Traditional broker	Affinity
	Low cost, online, direct	**Automation**	**Consolidation**	**Experimentation**
Future pattern	• Move of micro SMEs to direct/online • Consumers used to dealing direct for personal lines transfer behaviour to their businesses • Web brokers close advice gap for small businesses	• Auto-rating and e-trading move beyond micro-risks • Broker platforms increase efficiency	• Less in-person underwriting • Consolidators expand to control mid-market and intermediated small end	• Likely to remain a niche channel • Useful for accessing specific but limited customer sets
Likely growth trend	↗	↗	↘	→
What does it take to win as an insurer?	Low cost	Low cost		
	Superior customer relationship	Automated platform	Differentiated products	
	Strong and trustworthy brand	Strong broker network	Strong broker network	Strong partnership relationships
	Customer data and analytics	Customer data and analytics	Deep broker relationship	Customer data and analytics

In the UK there has been notable progress in SME towards web-based distribution for micro-risks since 2012, with auto-rated e-trading (mediated by broker software and trading platforms) in use for more complex risks. The demand for true direct propositions, and for online interactions (whether with insurers or brokers) remains strongest in organisations with less than ten employees.

Micro-risks and Van Insurance Lead the Way for Online in the UK

The changes in micro risk have been most dramatic: data suggests 30-40% of micro-risks[1] are now buying through one form or another of online proposition (direct or on-line broker), compared to 10–20% in 2012. This headline figure includes both insurer direct-to-customer propositions from insurers, and online broker offers. Indeed, insurer and broker online propositions for micro-risks have a very similar “look and feel” from the end-customer’s point of view. Both have to trade off the need for simple customer journeys with few questions, with the need for “just enough complexity” to reassure the customer that they are getting the right type of insurance for their specific business.

The most extreme effects have been seen in UK motor van insurance, which is now predominantly sold online through the same price comparison websites that dominate personal lines motor because of its relatively simplicity of the product and its similarity to standard motor insurance. Outside van (most typically sold as a standalone policy for a tradesperson), SME insurance for larger business is much more typically sold as a more complex combined policy. However online, straight-through propositions have made big inroads here also, both via insurer direct propositions such as Direct Line for Business, Hiscox, and AXA, and by online brokers, such as SimplyBusiness (recently purchased by Travelers).

No Single Dominant Model in the UK

However, players have taken a wide range of approaches to moving away from face to face and manually underwritten models, even in the UK. For example, even when a customer starts their journey online, many will still require offline completion, more often than not via a phone call to a broker or insurer call centre.

At the same time, even when the customer wants to deal directly with a broker, there is a range of ways the broker can deal with insurers to get quotes and place the business. A critical determinant of what differentiates brokers’ and insurers’ responses is the degree to which they have embraced automation and how they have applied it to the underwriting process. Insurers have tried to steer brokers towards proprietary portals; broker platforms are increasingly steering business towards multi-insurer quotations on comparable policy wordings. Even inside a given insurer there is typically wide variation in the extent to which prices for a given product can largely be auto-rated (such as primarily model-generated) versus primarily case underwritten, and in the extent to which the binding transaction is automated (such as completed, bound and issued “straight through” or requiring additional administration and/or underwriting work)

1 Sources differ, likely due to differing samples and segment definitions (and the fact that some transactions started online complete offline e.g. with a phone call. However, multiple sources estimate that >40% of sole traders use online channels, and between 30-40% in micro SME.

This wide range of approaches and business models reflects the fact that the evolution of online customer service and the concomitant automation of the various aspects of underwriting is still very much a work in progress – and that this journey has a very long way to go.

The development of new models has gone less far in other markets than in the UK, though we see a lot of experimentation in the US in particular:

- In Germany, the majority of SME business is still transacted manually or via insurer portals, though with some experiments with innovative "low-cost fast-service" online propositions,
- In the US, there has been a lot of experimentation across a range of models including direct-to-customer models (for example biBerk, NextInsurance), SME platforms (for example Dovetail, Attune), and better insurer portals (for example AllianzGO). As yet it is unclear which of these will be the long-term winners, though we believe in general there will be a major role for platforms, including a small number of large platforms for standard risks and a large number of more niche platforms for specialised risks. Insurers will need to play across multiple platforms and be able to "plug in and out".

Less Automated for Larger Risks

At the larger end of SME and in the mid-market, person-to-person processes typically still play a bigger role in shaping sales, underwriting and policy processing. Nonetheless, even in this segment, cost pressure means interactions are increasingly being managed remotely (such as by phone) and policies traded and administered electronically. We estimate that e-trading has risen to 15–20% of GWP in the mid-market segment, reflecting steady progress towards a fully automated quote/bind/place chain in this segment.

In the UK, these trends are being driven hard by a unique combination of circumstances: the desire of insurers and brokers to move away from the high costs of historical branch-based model in tandem with the push by leading broker platforms (such as Acturis and OpenGI) to expand their product and customer footprint.

However the progress here is slow. There are obvious long term attractions for brokers and insurers to moving away from reliance upon branch networks for underwriting and processing – offering opportunities to reduce costs and increase productivity through centralised call centres, and "lower touch" underwriting processes. Yet first movers have found it easy to add new costs (for example for new platform investments) but hard to escape legacy costs in branches, or to change commission economics.

Customers have also not universally rushed to adopt a more digital and online model, with many continuing to value the advice and personal service element of a person-to-person model and the reassurance that this provides them.

Broker software platforms such as Acturis and OpenGI, which are increasingly embedded in the UK SME market, offer even the smaller brokers a standardised and easily comparable product set and tried and tested method for automating their internal processes – and a clear transition path starting with the simplest risks, before growing into larger and complex segments. The largest broker platforms also now have sufficient volume to have strong negotiating power with insurers in pushing further automation.

By comparison, in Germany the broker software platforms have not yet been able to achieve such dominance and hence the process has been driven more by insurers. The pace of change here is therefore slower – but nonetheless steady, with several leading insurers taking the opportunity to replatform legacy IT infrastructure towards a more standardised and modular product architecture. We expect this over time to catalyse the availability of significantly more automated "platform-ready" business, especially in smaller risks.

Winners and Losers

The UK has seen strong innovation and experimentation in the SME space. However we have seen these consolidate towards a small number of winning plays:

- In the **direct insurer** space, a handful of the strongest established players are well positioned to expand rapidly, having invested in platform maturity to underpin product innovation and scale economies. This in turn has helped secure further investment to expand their product set and improve technology. By contrast insurers who also have larger broker books have typically found it politically difficult to expand direct SME business, and risk being "stuck in the middle" with insufficient volume on one side and insufficient margin on the other,
- In 2012 there was a wide range of experimentation with **online SME brokerage models**; this has now shaken out with the demise of many small but innovative players. The small number of remaining players has established strong, defensible positions with a strong customer-facing proposition and web journey, an efficient trading interface with strong product coverage from their panel, and increased use of advanced analytics and data processing capabilities pioneered in personal lines. Such firms are now benefitting from network effects via strong customer pull and insurer lock-in,
- As in SME brokerage, the **broker software and trading platform** space has consolidated towards a small number of scale plays with very strong strategic defensibility, deeply embedded within the SME insurer-broker ecosystem. The platforms have a number of features in common: they provide "broker-in-a-box" technology that enables full front-to-back process automation inside the broker operation, while also providing the trading infrastructure and standardised products to enable automated quoting and straight through binding (plus other attractive features, such as enabling online front-ends and premium financing). The strongest businesses in this space have strong lock-in due to their embedding in core processes, the network effects of strong share with both brokers and insurers, and a hard-to-replicate (and growing) portfolio of established online-tradeable products with insurer backing,

- In the broked space, some of the **larger insurers** are developing their own broker trading and policy-hub systems. This clearly allows them to control their own platform and offer differentiated propositions – and the reduction of cost for the insurer for new marginal business can be very significant. However, it is hard to see any single insurer-owned proprietary platform winning a dominant position, implying some proliferation of portals thereby reducing potential efficiency gains for brokers.

As previously noted, some of these models are also emerging in other markets – insurer portals in most markets as an obvious incremental evolutionary step for insurers, and a range of broader experiments with direct-to-consumer and platform models in the US in particular. It is too early to see definitive winners and losers as yet.

The Next Ten Years in SME – Where Next?

We expect that the next ten years will see the present trends pushing towards their logical conclusion. Automation will continue to make inroads in underwriting and placement; there will be significant growth in the direct, telephone mediated, and online customer propositions; and there will be growth for various flavours of broker platform. However, there will be differences in how this plays out in smaller versus larger SMEs, and how fast automation spreads in different geographies.

Small and micro SMEs can increasingly expect that all their needs will be met online. For the near term it will be the customer's choice about whether to trade in that way or through "analogue" means, though over time we expect the incentives to be clear for them to move online into self-serve and lower cost channels. Larger SMEs can continue to expect some degree of person-to-person sales and advice, but will demand much more in terms of price transparency and faster turnaround times.

On the insurer side, the established players in these spaces will continue to drive the pace of growth. By this point, the strongest of them have robust, well-tested business models that have largely overcome the initial constraints of scale. Recent cross-border M&A activity in this space suggests that several established players harbour global ambitions for their platforms, which will place further pressure on lagging players.

Hard Choices

Established insurers and brokers face a number of complex and difficult – but high-stakes – choices around how to succeed in SME. All the options (including defending the status quo) imply significant costs and operational complexity given the high investment cost for the new platforms, the significant cost of the integration and modularisation of legacy systems, and the cost trapped within existing branch networks. Success in a more automated world also requires significant behavioural and cultural changes for individual brokers and underwriters.

The accompanying table lays out some of potential strategic responses and choices for today's insurers and brokers over the next ten years. All will entail difficult decisions and a complex transition path.

Exhibit 4: Choices in SME

Bet	Pure online commodity business only	Online sales direct to customer	Phone sales direct to customer	Broker sales through third party platform	Broker sales through own label portal/ platform	Branch or F2F sale
Description	• Single product online sales • E.g. Commercial van sold through price comparison website	• Online direct sale of package/ bundle to end customer • Web broker or insurer direct offer	• Pure phone sales to end customer • Broker-to-customer phone sale from central call centre	• Broked sale, serving broker through market platform • Insurer trading with broker via trading portal	• Broked sale serving broker through single-insurer platform • E.g. own-brand insure portal for brokers	• Broker/agent sale though branch/F2F • E.g. Broker regional branch serviced by insurer branch
Pros	✓ Simplest products ✓ Robust to rise of price comparison and online ✓ Synergy with personal lines	✓ Direct relationship with consumer ✓ Big efficiencies at scale	✓ Accepted customer process	✓ High value proposition to broker (easy comparison) ✓ No disruption to end customer experience	✓ Highest proposition and process flow control for insurer	✓ Uses scale of existing branch network ✓ High service quality for the customers that value it ✓ Some automation possible
Cons	× Limited to the smallest segments × Low barriers to entry of insurers or intermediaries (e.g. PCW)	× Demand still limited (today) to micro end × Need to develop brand presence and compelling customer journey	× Higher cost than online, fewer scale economies	× Lack of insurer control over customer proposition × Loss of strategic control	× Lowest control/ convenience for broker	× Highest cost; tends to be least automated
"What you have to believe"	• Price comparison and online for SME • Customers will be willing to buy more simple/ unbundled product	• Demand for online buying will continue to grow • Sufficient direct marketing spend to drive demand • Limited desire from customers to compare	• Branch sales are dying but not enough customer want to trade fully online	• Brokers still the dominant channel • Platform convenience/ scale benefits sufficient to offset loss of control	• Power of single insurer proposition can overcome inconvenience to broker	• Enough customers still value in-person service proposition

Impact on the underwriter

Today's underwriters in particular will need to work out how they can add value in a much more automated SME world. There will still be a role for expertise-based case underwriting but the demand for this will lessen, as it focuses in on a small number of exceptional cases rather than the norm. By contrast there will be increasing demand for the statistical, data analytics and data engineering skills required to build portfolio-level technical underwriting and "street pricing" models, and to integrate increasing amounts of external data sources. Culturally there will be need to be a move away from a more "artisanal", localised, case-by-case approach, towards a more mass production, analytics-led environment that also incorporates some space for "test and learn" experimentation.

As propositions evolve from a pure risk transfer model to a blend of risk transfer and service/ risk management, there will be opportunities for those who best understand the risks today (the underwriters) to continue to develop deep customer insight into how to manage and avoid risks altogether. The nature of this work will be very different to the role of an underwriter today, but many of the core skills and insights will be transferable.

Large Corporate and Wholesale

Recap of the 2012–2022 vision for large corporate and wholesale

2012–2018 – What's happened so far?

The next ten years in large corporate and wholesale – Where next?

Impact on the underwriter

Large Corporate and Wholesale

The headline news in large corporate and wholesale over the past half-decade has been the over-abundance of capital which has driven seemingly permanently low prices. In turn this has driven significant broker and insurer consolidation, and a range of new experiments in how to configure the traditional insurance value chain.

Recap of the 2012–2022 Vision for Large Corporate and Wholesale

The 2012 report envisaged changes to both supply and demand in large corporate/wholesale sector and (as in SME) major impact on the nature of underwriting.

On the demand side, we predicted much more risk management sophistication in client organisations, leading to more retention of risk, more emphasis on risk management rather than risk transfer, and more demand for integrated solutions rather than product-based offers.

On the supply side, we predicted insurers would move towards a more radically client-centric and service-based model, including a more holistic risk management and advisory proposition across both insurance and financial risks, and using much more technology and risk analytics. We also predicted a more active market for risk-trading, with increased capacity from capital markets. However we also foresaw that traditional insurers would find it difficult to move away from their current product-centred setups, and hence envisaged the entry of more bank-based competition into more complex advisory business.

Cumulatively, we expected this to significantly change the nature of underwriting, with some of today's underwriters moving away from traditional roles into a range of client service, solution structuring and technology/analytics roles.

2012–2018 – What's happened so far?

The big news is that we did not go far enough in our predictions of the scale of the impact of the changes to the supply side of the industry – in particular the degree to which capital has become a commodity, and the degree to which broker pressure and low pricing is catalysing both innovation and consolidation in the traditional supply chain. Demand from the end customer has shifted less far than we predicted, but we see early signs of a fundamental reshaping here too.

Supply side – Capacity as Commodity, and Reshaping of the Value Chain

Over the past six years, changes already underway in 2012 have become a permanent fixture of the market. In particular, capital is in structural oversupply and the traditional value chain is fragmenting – driving seemingly endless low pricing, weak returns and insurer consolidation, even after the significant losses of the 2017 season.

The conditions were already present for capital oversupply in 2012, but few could have foreseen how long these conditions would persist. In short, the barriers to capital entry to the industry have permanently come down, and this has meant steady and ongoing growth in levels of available insurance capital relative to exposure – both in the form of capital directly deployed in today's carriers and vehicles, and in "dry powder" able to be deployed post-loss. P&C risk has become a "mainstream alternative" allocation for capital markets investors such as pension funds, accessing the market through a wide range of vehicles and instruments including direct investment, quota shares, cat bonds, industry loss warranties, sidecars and various private entities/JVs. At the same time, brokers have also innovated with instruments such as facilities which (in effect) provide a way for capital providers to get index-fund-like exposure to P&C risk.

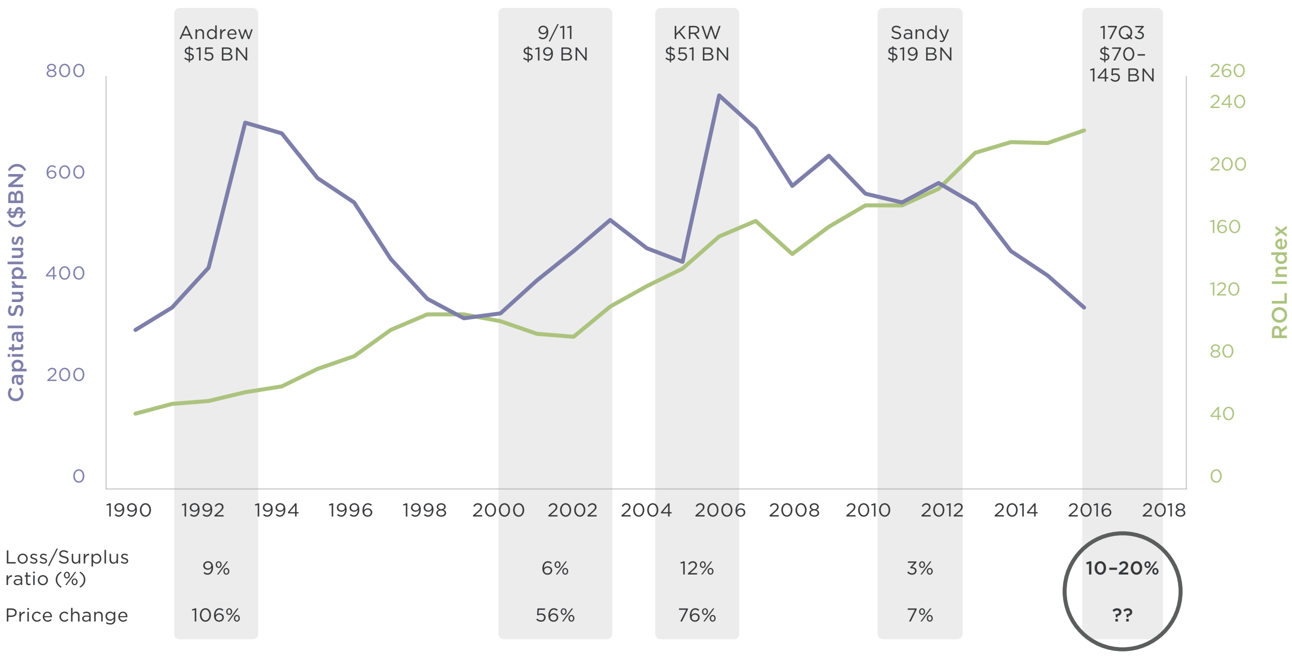
One of the most notable impacts of this increased capital availability has been an unusually prolonged and sustained period of low pricing. This, in turn, has led to the breakdown of the usual cyclical market behaviour that has historically been witnessed across all classes of insurance, and upon which much of the industry has relied to buoy up profits over the longer term. Although alternative capital has been most aggressively deployed in the P&C catastrophe risk space there have been ripple effects across the corporate and wholesale space as insurers and reinsurers redeploy capital and hence also drive down prices in adjacent spaces.

There remains a perennial (and faintly masochistic) hope among some players that the major 2017 losses will finally catalyse a market-wide pricing upswing of the likes seen in the 1990s (with Hurricane Andrew) and the 2000s (with the dot.com bust and 9/11). However the evidence suggests this is a forlorn hope: the lowering of barriers to entry and the ongoing wave of interest from investors have catalysed a "parallel shift" in pricing, where upswings will be small, temporary and localised.

Exhibit 5: Industry capital surplus and US Property Cat rate-on-line index 1990–2017

IN PAST CYCLES, WE SAW SIGNIFICANT PRICING SPIKES IN COMMERCIAL PROPERTY FOLLOWING LARGE CAT EVENTS

Capital surplus and US Property Catastrophe ROL Index[1]
1990–2017[2]



1. All ROL Index data measured at 1/1 and index to 1990 (1990 = 100). Sources: Guy Carpenter, SNL, Property Claim Services
2. 2017 is preliminary data for ROL Index

The second major trend has been the increased fragmentation of the traditional broker-insurer-reinsurer value chain. This is partly catalysed by the appetite of the capital markets to deploy risks at what would previously have been seen as unsustainably low levels of return on capital (at least with traditional insurance cost structures). This is clearly stressing the traditional integrated insurer model – with some innovative insurers showing willingness to separate capital provision from risk selection and underwriting, and some non-insurer players (brokers, MGAs, reinsurers) in effect starting to bypass traditional primary insurers to create their own new hybrid models.

In general, distributors and outsourcers are seeking to expand and monetise their roles in the value chain. For example, since 2012, we have seen the emergence of more savvy, tech-enabled MGAs seeking to expand beyond their previous advisory niches, leveraging their ownership of their customers by offering superior propositions, high quality analytics, and low-cost platform distribution – in return for significantly increased commissions and margin capture from insurers. It is possible that regulatory scrutiny may eventually limit the further growth of brokers and MGAs into this space, but this is unlikely to come soon enough (or go far enough) to allow the survival the traditional underwriting operating model – and certainly not its traditional cost base.

Insurers have been caught between the pincers of cheap capital and distributor encroachment. This has already catalysed significant consolidation – in some ways a traditional insurer response to crisis, but rarely before seen on this scale. The “minimum efficient scale” is rising rapidly.

Some more innovative corporate and wholesale insurers have also started testing the potential for much more extensive automation and digitisation in their operating model. This is, however, hard – and a significant culture shock – for in an industry that has rarely focused on cost as a constraint, and has prided itself on maintaining an “artisan”, decentralised approach to the selection and management of complex risks, rather than looking for scale efficiency and standardisation.

Demand side

Counter to our predictions, supply side upheaval has largely forced the pace of change in the large corporate and wholesale market in the last six years. As a result, customers have not had to significantly change their behavior to realise significant price reductions or improvements in terms and conditions. We have seen some shifts in buying behavior – for example the willingness of some very major corporates (especially in the energy space) to radically reduce their insurance buying in favour of internal retention[2] – but this has not spread as widely throughout the sector as we might have expected.

Elsewhere, clients continue to buy cover largely in the traditional product categories. There is ongoing innovation in product (such as in providing satellite based crop insurance) and service (such as in some usage of drones in claims management), but as yet still relatively limited demand for complex multi-country/multi-product covers such as supply chain. Newer forms of cover such as cyber risk garner a lot of headlines and are growing in size, but global insured volumes remains very small to date compared to any reasonable estimate of the potential exposure. Even in the US (the most advanced cyber insurance market so far) businesses do not yet buy as a matter of course, and insurers remain sufficiently nervous of the potential for aggregation risk to push it harder.

However, longer term, the current wave of technological change will reshape wide swathes of industry – for example, increased automation and robotisation of processes in both manufacturing and service industries, the proliferation of “internet of things” (IOT) sensors, and the concomitant proliferation of data, and potentially other technologies such as blockchain (though fewer concrete use cases have been proven as yet). This will inevitably change the shape of demand for commercial and corporate insurance worldwide, as we explore in the next section.

2 One major executive commented “I discovered I had a larger balance sheet and a better credit rating than most of my insurers. Shouldn’t I be insuring them?”

The Next Ten Years in Large Corporate and Wholesale – Where Next?

Trend 1 (supply side): Capacity will remain a commodity

The industry has been reshaped by unprecedented levels of available capital. Despite the fond hopes of some traditionalists that the long “soft cycle” might be over, we believe former barriers to capital entry are gone for good, and the interest of the capital markets to back P&C risks will outpace the supply of available risk for the foreseeable future. This will continue to drive innovation in ways of sourcing and packaging P&C risk for capital providers, and will guarantee an ongoing supply of new capital.

The impact will continue to be profound. Over the next ten years, we expect a continued low price environment across all lines outside short-lived and localised spikes – less price cyclicality, less cross-line price correlation and smaller/shorter price rises post major losses. In other words, it is doubtful that corporate and wholesale insurers will ever again be able to rely on an industry-wide “hard market” (the proverbial rising tide that lifts all boats).

At the same time we fully expect distributors to continue to find new and innovative ways to connect capital to risks without necessarily bringing traditional insurers into the chain. Reinsurers are already looking to find innovative ways to deploy capital directly and find distribution that does not involve primary insurers (such as via B2B2C partners and fintech players), and we could envisage risk managers within the most sophisticated corporates becoming even more willing to unbundle the insurance proposition.

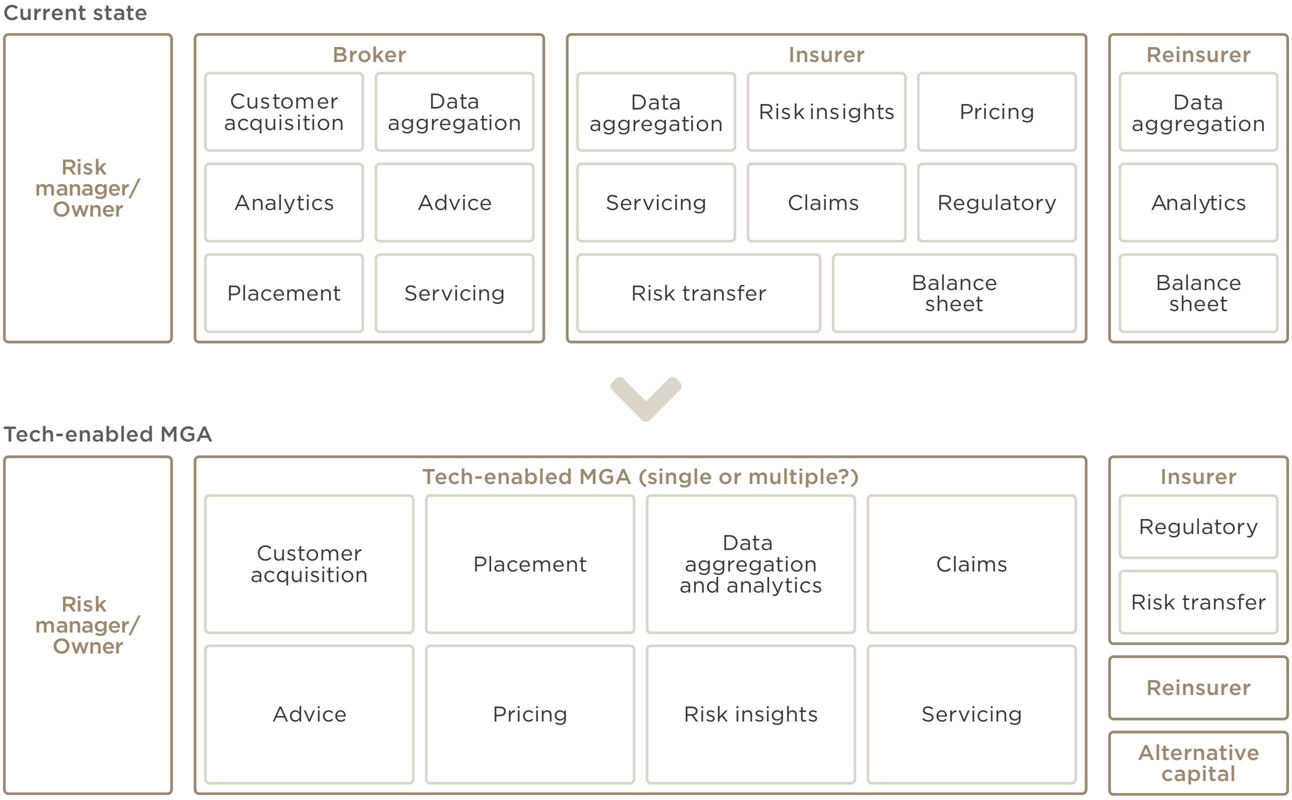
Trend 2 (supply side): The value chain will stay fragmented

We also see the fragmentation and modularisation of the value chain as a permanent shift. Not only will it be ever more possible to outsource any and all activities – existing and new players (such as brokers/MGAs) will continue to force change by competing for customer relationship activities, and for additional services in return for more margin capture.

This reshaping of the landscape will make it possible to create many new configurations of the value chain, and innovative propositions – but not ones where the insurer is necessarily in control. This will continue to squeeze insurers between their distributors, on the one hand, and their reinsurers and other capital providers, on the other.

At the same time, independent (often privately backed) third-party service and network organisations will continue to aggressively compete for business in insurance administration and claims. Increasingly the paradigm for insurers is not complete outsourcing but selective outsourcing of low-value/low-risk activity, with more extensive and more nuanced use of triage to keep key customer contact points in-house but minimising cost/hassle for the others.

Exhibit 6: Major opportunities to reshape the value chain of the industry



Trend 3: Corporate insurance demand will change – slowly but inevitably

As previously discussed, although many aspects of insurance buying remain on the surface the same as five years ago, radical changes are underway. Automation (robotisation) and connectivity are fundamentally reshaping how manufacturing and service industries work – which will in turn radically change the risks they face and the way they buy risk coverage. For example:

- Shifts of risk: Automation of manufacturing should fundamentally reduce operator risk as safety improves – but there will be corresponding increases in product-defect types of risk (and a shift from B2C exposure to B2B),
- Technology should enable better risk protection and fewer claims, at least for high-frequency/low severity losses – but may render historical loss trend/development data invalid,
- Interconnected systems will introduce new, highly concentrated risks – driving demand for new types of “liability catastrophe” cover but requiring new and as yet radically untested loss models,
- Existing legal frameworks may not (yet) be sufficient to determine liability in complex cases, potentially driving up the complexity and cost of obtaining cover.

Hard choices

How should large corporate insurers respond to these challenges? As in SME, the reality is that there are no easy answers, merely a spectrum of difficult choices – some more closely resembling today's business model (but which may involve painful choices around cost reduction and automation), to ones that appear more radical (that also imply major disruption to the today's business and profit model). All choices involve significant change and risk. We lay out some of the main options below:

Exhibit 7: Choices in Large Corporate

Bet	Like today, but leaner/faster	Move towards the customer	"Narrow underwriter"	Risk warehouser/ packager	Risk trader
Description	• Radically automate today's model to reduce cost and increase effectiveness: "smarter, better, faster"	• Increased focus on direct relationship with customer • Proposition innovation to de-commoditise • Potentially move away from being the main capital provider for the risk	• Focus on specialist high-return product areas • Structure & service the other parts but cede the risk cover	• "Originate to distribute": look to source and select risk, but package up for third party capital	• Be prepared to move in and out of segments and radically reallocate capital year on year to high-return segments
Pros	✓ If successful, still recognisably the model of today (just leaner)	✓ Potentially higher returns and lower capital model	✓ In theory focusing on what you are good at	✓ Plays to core underwriting and claims skill set while escaping commoditised capital provision	✓ Focus on high return segments
Cons	× Likely to imply painful cost reduction × ...And still may not be enough to recapture former margins/ROE	× Contested space: up against your key brokers/ MGAs	× Unclear there are many sustainable high-return niches × Lower volumes but still subject to fixed costs of operation	× Change risk: radically smaller organisation, with very different philosophy × Need to convince customers, capital providers, regulators	× Needs radical flexibility in culture and cost base, and rigorous management for incremental return
"What you have to believe"	• That there is enough "fat reduction" to recover margins • That you can successfully automate a manual industry	• Enough demand for high service and innovative product that can command price premium • That you can compete for the customer without knock-on impact from today's distributors	• Enough niches to sustain the cost base • Enough access to data/flow to maintain pricing edge	• Possible to execute major risk • Enough origination capabilty to meet demand • Rigorous management of residual risk exposures	• Enough demand for "disloyal but highly flexible" solutions in a world of excess capital and persistently low pricing in conventional market

Impact on the underwriter

It is clear that the large corporate world will still need underwriting skills in some form – there will still be a supply of large, complex risks that will need sophisticated assessment and measurement. But the way they are underwritten – and the nature of the work needed to do so – will change:

- As the nature of corporate risks changes, the nature of the analysis required for underwriting, loss control and prevention will change: the skills required to assess the portfolio exposure from cyber risk – and the skills required to help companies shut down and manage risk after initial breaches – is very different to historical underwriting paradigms,
- Process automation will not necessarily reach the extent of the personal lines or SME world, but in a world of consolidation and cost pressure, underwriting leaders will have to think very hard about where today's complex, fragmented workflows are genuinely adding value or just complexity and cost,
- And, while machines will not take over all the analytical tasks the underwriter undertakes today, there will be real need to use far more data driven analytics and sophisticated modelling to improve outcomes. This will require a statistical mindset – but also a deep familiarity with data engineering approaches to stop using legacy data structures and IT systems as an excuse for poor practice,
- At the same time, there will be opportunities – the underwriters that first work out how to put sophisticated and ubiquitous sensors to work to genuinely understand, predict and manage risk cost will benefit enormously. And the underwriting leaders who manage to get ahead of the curve in deploying newer, more flexible technology effectively will increase the efficiency, effectiveness and profitability of their operations,
- And – even if pressures such as automation, cost pressure and faciltisation pushes some types of traditional underwriting roles to the margins or even out of the industry altogether – there will still be a premium on the skills of underwriters who have managed to adapt and learn. Indeed, a fragmenting value chain should lead to many more opportunities for entrepreneurial underwriters with genuinely differentiated insight to profit from it – even if it requires working in businesses and vehicles that look and feel very different to the traditional corporate/wholesale carrier.

How to go Bionic – Technology in the Future of Underwriting

Our report makes clear that in many areas of corporate and commercial insurance, much of the current "artisan" business model will get a "bionic upgrade" – not 100% machine, but an inseparable blend of digital technology and human capabilities. What are the technology implications of such a shift?

In SME, efficiency, automation and e-trading will be a pre-requisite. Fortunately, it will become much simpler to acquire these capabilities through microservice-enabled "software as a service" (SaaS) solutions and API-based services. These already exist today in banking – it is possible to build a fully functioning modular bank system completely from scratch in a matter of weeks – and are currently being introduced in retail insurance by players like IBA or Guidewire.

However, it is not enough to simply just acquire capabilities. Many insurers have so far taken an incremental approach to implementing digital via a series of point solutions. This raises the very real danger that they will end up with a "spaghetti architecture" that will be the next decade's legacy IT problem. Firms need to design their new "bionic architecture" now.

The state of the art in SME will move to a number of areas such as:

- Zero data-entry underwriting: risk information collected manually today will become available online via public or private databases, and/or managed profiles,
- New tech-enabled risk factors: for example it will become possible to assess management quality from a business's digital footprint on portals or its performance in supply markets,
- Risk tracking: quick discovery of changes to risk driven by more nimble trend assessment,
- Better assessment of exposures: for example understanding contingent and cyber risk by better assessing the interconnectedness of a business within its ecosystem,
- Earlier and better discovery of new fraud patterns.

All of the above requires agile experimentation, a very different capability from digitisation and automation. For technology, this will require much more in-house agile coding based on a microservice-enabled SaaS core alongside third-party APIs.

In the large corporate world, there will be some similar moves. Some changes will be required (though not necessarily easy), such as moving away from labour-intensive manual data collection, cleansing and analysis to “one click portfolio transparency”.

However the leading edge will be elsewhere. For example, we see advantages for insurers who:

- Can scale up their development efforts in multinational business across borders while still being able to interact with data/API providers in all local markets,
- Can participate actively in the formation of emerging risk trading markets and “digital cat” markets covering interconnected risks or concentrated risks from common technology components. This will require new technologies comparable to algo trading in investment banking today.

Summary and Wrap-up

In the six years since the publication of the first edition of our report on “The Underwriter of the Future”, it is clear that some predictions are playing out largely as expected in the UK (especially in SME); some changes are playing out faster and more extensively than anticipated (such as the ongoing reshaping of the supply side of the corporate and wholesale industry); and some changes have yet to fully play out (in particular the way digitalisation and ubiquitous sensors will reshape the economy, and in turn how enterprises manage risk and buy cover).

In UK SME, there has already been transformation in the underwriting of micro-risks, and a progressive undermining of the economics of the traditional branch-based model. The change in demand from larger SME companies has been less immediately obvious, but behind the scenes, automation is making big inroads even here. Mature markets outside the UK such as the US and Germany have not progressed as far down this road, but are developing (and facing hard choices) in ways that look very familiar to those faced in the UK.

For SME insurance over the next ten years, we can expect to see these trends strengthen both in the UK and in other major markets. Automation in SME will continue to make major inroads, as well as significant growth in direct, telephone mediated, and online customer propositions, especially for the smallest SMEs. Platforms should start to dominate – likely with a small number of major plays for large risks, and a wider range of niche offers. Existing strong plays will continue to pull ahead – but alongside significant attempts to innovate.

In large corporate and wholesale worldwide, the ongoing abundance of capital continues to put the traditional industry under major pressure in such a way that we think will drive permanent change. Traditional pricing cycles have disappeared; the traditional industry is under major cost and competitive pressure. For the next ten years there will be no going back on the capital and supply side changes of the past half-decade in large corporate insurance/wholesale. Across all markets, the future is likely to be dominated by the continued abundance of capacity, the fragmentation of the supply chain (to a greater or lesser extent, depending on the geography), and the reshaping of insurance demand. We expect that today’s low-price environment will continue for the foreseeable future, continuing to put major pressure on cost.

The insurance supply landscape will also be reshaped. Insurers will be increasingly squeezed between their distributors and their reinsurers and capital providers. More broadly, new technologies will ensure that enterprises continue to make radical changes to the ways they work and these changes will inevitably impact and reshape the demand for insurance.

In short, established insurers and brokers face a number of complex and difficult choices over the next few years. There are no easy answers for how to achieve this. Established players need to be willing to tackle the major costs and disruption required to create new platforms and propositions, and moving away from legacy systems and distribution assets. If they do not find new ways to compete, they risk remaining lumbered with declining volumes and high trapped costs – and with their value-added being slowly but steadily eroded.

Individual underwriters will need to adapt their skills and outlook to this radically changing world. Some may choose to see this as a threat – and it is true that some traditional underwriting roles will disappear, or at least shrink in numbers. But there will be also significant opportunities for those willing to be entrepreneurial, to learn new skills and to embrace change.

Appendix A – Perspectives from other markets on SME

SME USA

It is clear that the SME market in the US is behind the UK in terms of an increase in automation and the use of direct-to-consumer channels and electronic trading. However, the direction of travel is surprisingly similar once you zoom out – there is similar experimentation around various new business models – online direct-to-customer, SME platforms, insurance portals and distribution platforms. This includes, attempts by established players and startups to sell to direct to customers online (such as biBerk, Next Insurance), rise of SME platforms, such as Dovetail and Attune, and better insurer portals, such as AllianzGo.

Even though the business models are quite varied, the underlying technology approaches used by leading players will be nimble enough to shift models as they learn more. We believe that the future landscape will be dominated by platforms, including a few broad platforms that dominate in standard risks, and a larger set of niche platforms for specialised areas.

Unlike UK, the US SME market is not yet close to consolidation into a few winning models. If we had to predict the future, we will see a few mass-market platforms dominating the landscape and a large collection of niche platforms. We predict the demise of point-to-point connections/solutions (pure play insurer portals). Winning insurers will either have a unassailable position on the dominant platforms or will be nimble in plugging in/out of all the different platforms to create value.

SME Germany

In Germany, where the majority of commercial SME business is still transacted paper-based through traditional tied agent and broker channels, various incumbent insurers have developed standardised online-ready products and package policies for the micro enterprise. These products, although still rarely sold online to SME customers directly, provide an easy sales journey with auto-rating and straight-through placement for generalist agents and brokers. Whilst large brokers and broker pools are steering business towards their multi-insurer quotation systems, some leading insurers have also launched advanced straight-through brokerage solutions, such as AXA's *Profi Speed* platform.

We see a wide range of experimentation from InsurTech providers with online SME brokerage models, such as *Gewerbeversicherung24* and *VersicherungsCheck24*, and software providers with plug-in comparison portals for traditional brokers. Some specialist brokers, such as *FINLEX*, have also opened their platforms as an enabling proposition to other brokers. This space is still highly dynamic and fragmented and most insurers are still pursuing pilot and multi-platform approaches, rather than placing big strategic bets.

Over the next ten years, we expect a further accelerating pace of change. Several leading insurers will re-platform legacy IT infrastructures and shift to modular product architectures which (although never quick to implement) should enable much more auto-rated platform business in future. We expect that in 2027 up to 50% of all risks from micro and small business customers can be handled by using auto-rating and electronic trading. There will likely be some strong winning online brokerage and platform models with defensible positions and strong insurer lock-in.

Appendix B – Perspectives from other markets – large corporate and wholesale

Large and corporate and wholesale – US perspective

Large corporate and wholesale market trends are largely similar across the world, unlike in SME where the UK has moved ahead in some key areas.

So, in many ways the view from the US in large corporate and wholesale is rather similar to the picture outlined for the UK. Abundant capital and low prices are here to stay, even after the big catastrophes in 2017 and capital providers are actively working to find new pathways to reach corporate risks. Incumbent insurers are facing significant cost and efficiency pressures. Looking forward, the competitor ecosystem will have to reconfigure, with capital/balance sheet no longer needing to be tied to core insurance operational activities (such as in MGA-like structures). At the same time the plumbing between capital sources and insureds may shift service platforms.

On the demand side, sensors will become ubiquitous, providing a rich stream of data from machines, buildings and workers. And increased automation will also change the nature of insured risk – most claims today are driven by operator errors; in the future they will drive by product defect issues. If sensors can be combined with “actuators” they may be able to help bend the loss curve (such as shut off leaking water pipes, bring a computer system offline). This will drive a greater need for sophisticated business risk advisory, loss curve management and concierge-type services.

If we had to predict the winners in the future, we see two archetypes:

- A few dominant players, who take unassailable position in the services space, such as own large MGA platform that offloads more risk directly to capital sources (could be brokers or insurers), or building large utilities (such as a global property information platform)
- Some nimble and disciplined players, who actively seek well-priced risks.

On the other hand, we see many losers as we believe the risk-adjusted profitability of the large corporate space will be significantly under pressure compared to the SME space.

Large corporate and wholesale – German perspective

As elsewhere, the supply side and competitive environment in Germany is causing more pressure on large corporate insurers than changes in customer demand.

In particular, we see a battle for upper mid-market from both larger and SME insurers, and brokers also extending their service activities, wordings and facilities. Wholesale intermediation through MGAs is becoming more prevalent, as insurers become willing to use them as a flexible route to market and as a quasi-outsourcing vehicle to variabilise costs.

Digitalisation is also having an impact[3]. Multinational insurers are directing investments towards digital solutions for client and broker interaction and analytics, while regional players are focusing more on the kind automation of processes previously seen only in SME.

Over the next ten years, we predict the winning large corporate insurers will be those that manage to push line between semi-automated case underwriting and bespoke solutions. While at market level capacity will still be commoditised, there will be growth opportunities along an extended "value chain of risk" in large industry ecosystems like the German manufacturing sector. Digitalisation will be a pre-requisite for success over the medium term.

3 Marsh/Oliver Wyman survey: „State of play: digitalisierung in der deutschen industrieversicherung"

CII

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