

## **[The customers' perspective on insurance]**

**We live in interesting times! A fast paced and connected world full of threats and opportunities.**

Thank you for inviting me to talk to you this lunchtime. I have the privilege of being the CEO at Airmic where our aim is to build risk and insurance management capability, through our membership, to make UK businesses resilient and successful. Our members are some of your biggest customers – Airmic members place approx. £8bn insurance each year. As such an important part of our role is representative, ie to speak on behalf of corporate policyholders when we feel there are areas that can be improved. But more often than not our relationship with the insurance market is collaborative: it's about bringing insurers, brokers and businesses together to facilitate best practice for all. We believe we have a shared interest in helping you have happy customers. Today my role is to be the proxy for large corporate customers of the insurance industry, giving you an informed customers' perspective on insurance today.

I hope to help you understand that your success is dependent on your ability to ensure successful outcomes for your customers. Today I'll;

- highlight the importance of putting the customer first amongst stakeholders in your decision making so that you can add strategically to the customers' value chain, making what you offer more valuable and
- I'll promote embracing digitally enabled change both to improve shared knowledge and to achieve operational efficiency.

After my talk today I would ask that you let me know what it is that Airmic and our Members can do to help you succeed. I care passionately about the future of the London Market and the future of the risk and insurance professions. Whilst today it may seem that I

am calling upon you all to change, my message is every bit as relevant to our members and you can help me develop and deliver this. Our future success will be defined by our relationships and the culture we build together.

**Firstly, let's consider our shared global context:**

Technology has typically been used to drive efficiency and effectiveness with a focus on process. Today we are in the throes of digital revolution and technology is enabling opportunities for radical business model disruption. Business are often both being disrupted and being the disruptor. It often feels as if everything is changing faster than ever before and that the old controls we rely upon to keep business safe, will be useless.

Technology has enabled long-term global economic development which has been magnificent, although 2019 has seen some softening, progress over the decades has pulled many millions of people, mainly in Asia, out of poverty whilst business, mainly in the West, has seen an enormous growth in intangible assets. However, this has left us with some less attractive and unintended consequences:

Greater disparity of wealth

Climate change, a loss of bio-diversity and pollution

Geopolitical tensions

We all need resilience and sustainable success, in life and in business, and so we need to align our objectives, particularly the outcomes we all want to see, work together and see things as others see them.

To do this well we all need to develop our understanding of how different events effect each of our stakeholders in different ways. This is an important point so let me explain it further and give an example.

Perhaps not surprisingly, Insurers tend to see impacts from a financial perspective, but risk managers look at events through three different lenses:

Physical – Commercial - Emotional

When I was at IHG the business transformed from hotel ownership – through hotel management to brand ownership enabled by technology.

I can still vividly remember the moment when I realised that managing the physical and financial aspects of safety for my business was no longer enough. To make my business resilient I needed to care more about how stakeholders, particularly customers, felt about their experience. I needed to help risk manage the emotions of millions of people – how people felt about our brand. This is an entirely different type of risk – a risk that is hard to quantify and hard to insure. This example epitomises the challenge facing today's insurance market: how do you underwrite emotion, experience and reputation?

I don't have all the answers, but what I do know is that the market won't be successful in meeting this challenge by new products alone. Product innovation remains vital, but what is also needed is a change in mindset: a redefining of the client relationship.

Let me explain.

Managing Risk is about 'the effect of uncertainty on objectives': effects can be negative and positive, and it's the job of our members to view risk in its entirety – upside risk, downside risk, quantifiable, intangible, emerging and so on. The insurable risk is just a proportion of the total risk. What we are seeing today is that, due to the changes described above, the percentage of risk that is insurable is shrinking. The market isn't yet coming up with the answers for the problem.

At the moment, insurance seems wedded to the concept of making good the financial effects of negative perils. The insurer-buyer relationship remains, for the most part, transactional. But if you want to keep insurance relevant to your commercial customers, you would do well to align insurance with risk in its widest sense, and to more closely align your services to our customers objectives. Invest in long term strategic relationships – especially in the context of the current harsh market.

Your customers have many new assets and needs! We need to focus on these for relevance, value and long-term growth tomorrow.

The growth in new assets has come about because technology driven global economic development has resulted in the growth in value of commercial networks that offer new capabilities, assets and corporate brand reputations. As with my IHG example, these are typically intangible assets which are vulnerable to the new risks that feature in our new world.

In addition, the drive by equity markets for better returns on capital has seen the separation of physical assets and heavy balance sheets from our listed businesses resulting in an increased need for liquidity. These asset-light, listed businesses no longer have the protection of traditional assets when things go wrong, these are typically owned by non-listed businesses such as Private Equity, REITs and Sovereign Wealth funds. Put simply today's corporate customer needs to protect different assets from different risks and they need policies that pay out in a timely manner.

Corporate customers need insurers to walk with them on our journey enabling us to take new risks, to add and protect new value to our businesses, not simply to trade the financial consequences of risk they already understand.

My first question to the market is:

- Can we invest in risk management relationships, focused on risk and insurance, delivering on customer needs by protecting the new vulnerable value? What is standing in our way other than ourselves?

**Now let us consider the main threat:**

Reduced relevance of insurance to corporate risk is accelerating, in some instances, calling into question the reason for higher pricing currently being demanded. The use of captives and self-insurance will increase – for example with D&O, sides B+C and Bonds will pass out of the insurance market to treasury and on to the banks.

Old ways of working of traditional and commoditised well understood risks, combined with a failure to make markets truly global in scale has resulted in poor profitability for insurers.

So, my second question to the market is:

- Can you embrace technology for a low-cost/high volume insurance market? Whilst this is primarily for personal lines and smaller businesses than the typical Airmic member, there are of course many aspects of our work that can benefit from automation and standardisation, freeing up costs to reinvest where bespoke solutions can add value.

In addition to these challenges I believe that we need to:

**Overlay the reality of the Harsh Market**

Let me be clear, Airmic is your critical friend, it is part of our mission to ensure that insurance is viewed positively by business. This is our common cause. However, having conducted a number of interviews as part of my preparation for this talk today, we have seen:

- Poor communication, commercial insensitivity, loss of relevance, alternative solutions and weakened relationships.

Communication at the beginning of the harsh market from Brokers was late initially but now good

Insurers were and still are passive in their communication  
They stand accused of being commercially insensitive to customer needs

- giving a lack of notice of major changes
- potentially caused by the centralisation of decision making – but what of our relationship I heard them cry?
- the withdrawal from lines of business without notice also broke some global programmes
- we have seen reduced capacity in a market famous for capacity
- reversal of joined up solutions(life/non-life)
- aggressive pricing – people looking for hooks – over pricing
- silent cover on cyber being removed

None of this helps the perception of insurance in many businesses, which is poor

- Grudge purchase – D&O the focus
- Lack of relevance to the strategic agenda
- Commoditisation of capital – the lack of value
- Lack of joined up thinking - Siloed disciplines

Whilst in some others, the perception is better

- Value adding – strategically enabling, aligned and integrated
- Enables risk taking
- Informs risk understanding
- Enables the development risk mitigation capability
- Avoids the financial consequences of unintended risks

However, even in these healthier relationships we feel that the conversations about doing something different for new risks have

dried up. The soft market enabled innovation – hard market is killing innovation because the easy money is in existing lines.

Not wanting to innovate in a hard market is short sighted – when the market softens the door will be shut.

If customers go elsewhere for today's solutions, they won't be back so when the market softens you need to be ready with new more relevant products.

### **Oh, and one last thing!**

We must all watch-out – how complex will Brexit make placing a global programme in London?

The London Market in particular, needs to refresh its purpose and points of differentiation in the insurance world to defend and build upon its global leadership position in speciality insurance.

So that concludes the ear bashing, let me move on and discover the solution.

### **Our challenge:**

Our challenge is to make insurance more relevant, efficient and effective. That means embracing intangibles, reducing costs, leveraging technology and building relationships to create shared knowledge and capabilities.

To do this we need to step change; investment in risk management, collaboration, innovation, pace, customer focus;

- Invest in solutions for customers – not just for the market - conduct insurance in the context of;

- risk, business and society – making it a strategic purchase

- aligned to their new assets and needs

- Invest in a culture that is fit for purpose and deserving of societal support
- Invest in customer relationships and ways of working for complex risks and innovation – do not over rely on the brokers
- Invest in people for the jobs they will need to do; tech, data, risk and business acumen
- Invest in technologies with customers to enable new and better ways of working

Expect the C-suite and risk managers to work together with insurance managers to build comprehensive risk strategies which you can underwrite and price properly

Actively help us promote co-creation and collaboration between insurer, broker, risk advisors, technology providers and clients!

(do not stop at brokers!)

Don't be afraid to talk to us!! Airmic's major theme this year is leading, learning and working together. We will know when our relationships are fit healthy when we have; focus, cohesion, simplicity, pace and greatness in our work.

We need to take our business relationships to a new level.

**How can we work better together develop sustainable and valued relationships with the insurance market?**

I think we need to have different levels of relationships for different parts of the market:

- A single point of contact for simple and commoditised risks leveraging technology for efficiency and effectiveness.
- A tripartite relationship for complex insurance solutions, leveraging technology to enable joined up working.

- A dynamic strategic networks of connected businesses using technology to better understand each other's needs, thus enabling innovation and change for future strategic value.

Think of the shape of these relationships as they develop to be what they need to be for each part of the market – a straight line between two parties, a triangle illustrating the need for direct relationships with both brokers and insurers and lastly a round table discussion between diverse parties seeking to work together to discover and create new solutions together.

Together we need to build a better future than we have at present.

And now it is your turn to tell me what you want from our members to enable this to happen or perhaps to ask a burning question!

Thank you

## Q&A

Climate change is a great subject for a question thanks .... It is up there on the risk registers this year and will impact supply chains, channels and markets. It may also impact a firm's own operations as well. BCM and Crisis Mgt are really important now with both climate and cyber threats and vulnerability but so too is long term and strategic risk management planning of the business model.

Re relationships: I only know of what we did at IHG where we respected each party in the tripartite relationship but also understood the purpose of each meeting/relationship and therefore knew who should be in the room for any given meeting. Ultimately the insurance manager is managing outsourced suppliers and capacity. It is a team game and players have roles to play and should not want to be everything and everywhere.

## Culture

I think the FCA have missed a point in their recent letter to CEOs– it is not just about leadership, rewards, governance and “purpose” it is also about behaviours – companies – or rather the people in them need to identify the behaviours that are going to bring support from all stakeholder groups. This is a point of real competitive leverage. The insurance industry (being a relationship business) should know this!

- leadership;

- purpose; (and behaviours)
- approach to rewarding and managing people; and
- governance, systems and controls.

IHG's use of setting desired behaviours for everyone to hold each other to account. We had "celebrate the difference", "show you care" and "work better together" as the three main D&I/collaborative behaviours.