Underwriter of the Future

Secrets to Success for Underwriters in the Commercial Insurance Market: 2012–2022

OLIVER WYMAN

Underwriting Faculty | 1912–2012 A CENTURY OF PROFESSIONALISM CII

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This is a joint report from Oliver Wyman and the CII Underwriting Faculty.

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Notices about the report

This report, and the elements included in it, do not necessarily reflect the views of any particular Underwriting Faculty Member.

The companies referred to in the report are entirely fictional.

Message from Oliver Wyman

welcome

The UK commercial insurance market is changing, both in the SME and large commercial segments. The drivers of change are many and varied. Some are already visible, such as the impact of technology in SME distribution, others are less well defined or are yet to emerge.

In this report we describe a scenario for the UK commercial insurance market in 2022 and consider the implications for CEOs, underwriting managers and underwriters. To bring the scenario to life, the report is written as a transcript of the 2022 investor day of Future Frontier Insurance, a fictional UK-based insurance company.

We developed this scenario with input from a wide range of industry participants, including insurers, reinsurers, brokers and other service providers. However, the scenario should not be mistaken for a confident prediction. There is much uncertainty about the nature and effect of change and we have sought only to describe a plausible 2022 scenario to provoke thought and debate.

In one area our industry participants were unanimous. They all agreed that the commercial insurance marketplace will change radically over the next decade and with it the role of the underwriter. This change poses a threat to underwriters who stand still. Those who invest in their professional development should see market disruption as an opportunity to broaden their role and influence in the company.

We hope that you find the report a useful tool for thinking about both your career and business strategy.

Richard Thornton
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Advisors:

Fady Khayatt
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Arthur White
Partner, Oliver Wyman

welcome

Message from the CII Underwriting Faculty

This year sees the CII celebrate the centenary of its Royal Charter. This presents us with an opportunity to look to the future and consider how the profession will help humanity meet the environmental, medical, technological and economic challenges for the next 100 years.

This report has been developed to help everyone in the underwriting profession. We believe it will be invaluable to a wide range of individuals, from CEOs to experienced underwriting managers to those just starting their careers.

We cannot guarantee that the future will look like the scenario described in the following pages. However, we are confident that there will be tremendous change in our profession over the next decade. Our hope is that the ideas presented in this report will encourage both senior and junior staff to consider the potential challenges they will face in the future and ways in which they can prepare for them.

The Faculty itself has launched a project on the back of the report's findings. We aim to support the development of training and skills in the industry by identifying the likely future career paths, and then tailoring an overarching programme around them.

We hope that this report helps you manage your business and develop your career.

David Williams, FCII
Chair, Chartered Insurance Institute Underwriting Faculty

SME

Our SME market scenario predicts that technology will have disrupted the market materially by 2022, with up to 80% of micro business being underwritten, largely automatically, in direct-to-customer channels. These include online brokers (the SME equivalent of personal lines price comparison sites) and telebrokers. For larger case sizes, we assume that offline brokers will continue to dominate but that 60–70% will be electronically traded on broker portals, and around 20% will be automatically underwritten. See section 1.1 for more detail on the market and 1.2 and 1.4 for detail on direct and intermediated distribution respectively.

These changes will require insurers to upgrade their interface to the market. Future Frontier Insurance, whose 2022 investor day forms the main part of this report, took on this challenge early. They transformed their SME division by reorganising into a customer-facing team and an SME Support Functions team, which included underwriting. This structure reflects our hypothesis that successful companies in 2022 will need to balance the technical underwriting objectives with broader customer experience goals. Sections 1.3 and 1.5 cover Future Frontier Insurance's structure in more detail.

Is this a threat to underwriters? Auto-rating certainly reduces the need for traditional underwriters, and the personal motor market provides a relevant analogy. However, disruption creates many new and attractive opportunities for underwriters in both customer-facing and support teams. Our scenario is therefore positive for underwriters who develop skills to seize opportunities. For others it could indeed be a threat. Section 3.1 covers training and skills.

Large Commercial

The drivers of change are less well defined in large commercial than in SME. However, the direction of travel seems to be clear.

We have seen corporates apply increasingly sophisticated risk management in recent years, particularly in asset-heavy industries such as energy and aviation. Our scenario predicts that this trend will continue, and companies will become much clearer about what constitutes an “on-strategy hold risk” and an “off-strategy transfer risk”. In other words, corporates will no longer think in terms of “insurance risks” and “non-insurance risks”, and become somewhat dissatisfied with many insurers, who are slow to adopt this new way of thinking.

In our scenario, Johnston Farrell, a fictional investment bank, sees opportunities to offer corporates more bespoke insurance-based risk management solutions. It buys Epsilon, a fictional Lloyd’s managing agent, where it implements an investment banking coverage model (an indisputably strong element of the investment banking model post crisis) alongside the technical skills of the “solutions professionals”, as it now calls underwriters. Johnston Farrell’s success means several insurers, such as Future Frontier Insurance, decide to adopt a similar structure. Section 2.1 describes large commercial market development, and 2.2 describes the new coverage model.

Our scenario also predicts significant technology enhancements to the underwriting process. We observed in our research that powerful software solutions are being developed for industries such as infrastructure and engineering. Insurers will adopt these kinds of tools to raise both the quality and efficiency of their risk assessment and underwriting decisions.

Pricing decisions will become more statistically grounded by 2022, driven partly by regulation, but also by managers’ desire to increase transparency. Underwriters’ ability to apply “judgement” and “experience” to determine prices will be severely reduced. That is not to say that they will not be able to deviate from the model price, but we speculate that the days of big discounts with no documented rationale will be long behind us in 2022. Section 2.3 describes the new risk assessment process.

Finally, we foresee a talent shortage in large commercial. SME has traditionally been the training ground for large commercial underwriters. However, as SME is increasingly automated, the “talent pipeline” will dry up, and large commercial must look elsewhere for its next generation of underwriters. Section 3.1 covers training and skills.

What this means for you today

Our 2022 market scenarios for SME and large commercial have significant implications for everyone in the organisation, from the CEO to the junior underwriter.

For CEOs the priority is to develop a robust approach for strategic planning and strategy execution. Perhaps the most important message from our scenario is that the future market **could** look very different to today, and we therefore strongly advocate running this process outside the technical team, whose thinking is likely to be constrained by current practice.

Strategic planning should include a clear vision of the future market, but include a structured "pivot" process given that market development is impossible to predict. Strategy execution should be a set of initiatives, which are likely to be strategic, operational and cultural, and designed in such a way that there is business benefit even if market development is different to expectations.

Technology, data, reorganisation

For underwriting managers we see three areas of focus. Firstly, underwriting managers should embrace technology. Technology offers a huge opportunity to raise underwriting quality and efficiency in both SME and large commercial, albeit in different ways. Secondly, they should develop an obsession with data, which we see as one of the key drivers of 2022 underwriting profitability. In SME, the obsession should extend to underwriting process clarity and efficiency. Lastly, the most successful underwriting managers will reorganise their underwriting departments to start developing future skills now. For example, they might introduce a Head of Customer Experience in SME to ensure they build those skills internally or pilot changes to their coverage model in large commercial.

For underwriters the imperative is to build specialist skills alongside their core underwriting skills. Our scenario foresees a promising career for underwriters who are able to extend their underwriting excellence into disciplines such as product development, portfolio management, pricing analytics or specialist referral underwriting in SME and complex "solution structuring" in large commercial. Underwriters who do not invest and remain under-qualified generalists risk being left behind.

More details on what this report means for you are discussed in detail in the final section of this report.

investor day transcript 2022

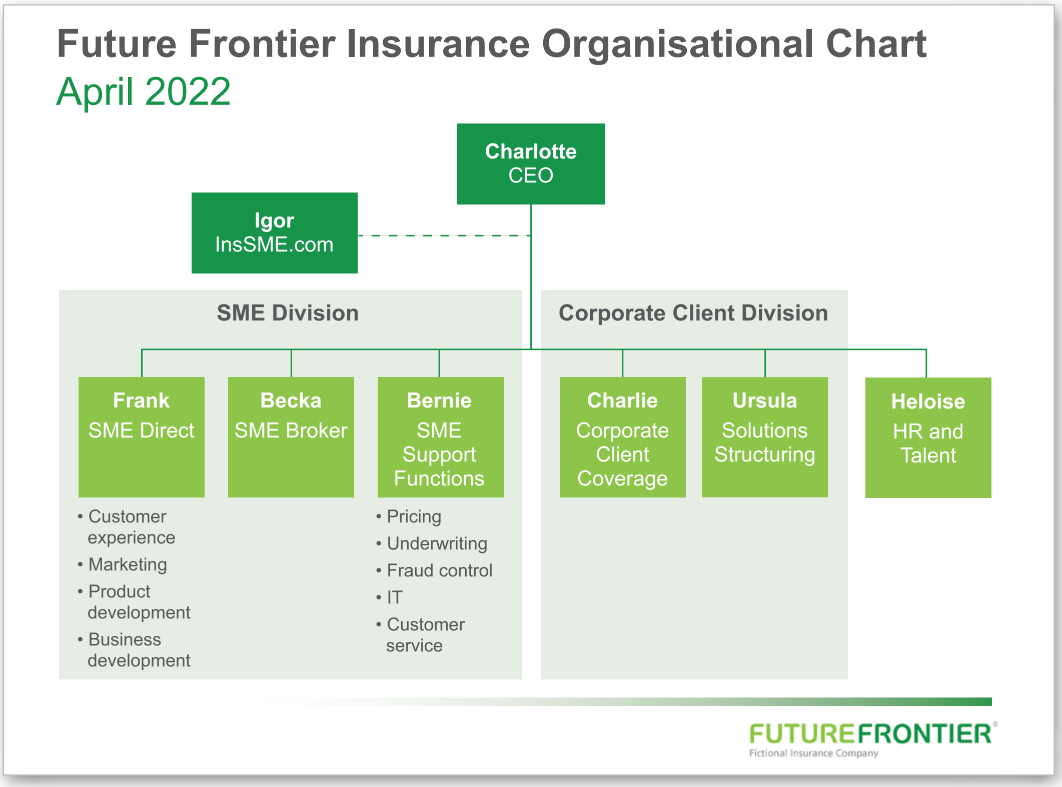
FUTUREFRONTIER®

Fictional Insurance Company

Speaker biographies

Eight members of the Future Frontier Insurance (FFI) management team will be speaking at the 2022 Investor Day. Their biographies are listed in the order in which they will present.

We have provided an organisational chart for the Future Frontier Insurance senior management team for information:



Morning session – SME

Charlotte, Chief Executive Officer

Charlotte started her career as a D&O underwriter in 1993. After various underwriting roles in the UK, she joined Future Frontier Insurance in 2002 and was promoted to CEO of FFI's Columbian business in 2005. She returned to London in 2009 as Commercial Director for SME Business. She was promoted to Director of Underwriting and Pricing in 2012 and became Group CEO in 2015. She holds a masters degree in engineering from Manchester University and is ACII qualified.

Igor, Managing Director of insSME.com

Igor joined Future Frontier Insurance in 2009 as a senior portfolio underwriter. In 2012, he was asked to lead an internal project to assess the SME direct opportunity for Future Frontier Insurance. This evolved into insSME.com, which is a joint venture with three of Future Frontier Insurance's competitors. Igor is now Managing Director of that business.

Frank, Head of SME Direct

Frank joined Future Frontier Insurance as Head of Marketing in 2014. Over the past five years his responsibilities have broadened from marketing to include Customer Experience, Product Development, Digital Marketing and Business Development. Frank joined from Zoomba, the leading social lending site, where he was Marketing Director.

Becka, Head of SME Broker

Becka joined Future Frontier Insurance as a broker relationship manager in 2014. In 2016 she was asked to assume overall responsibility for broker relationships. Becka has over 15 years underwriting experience in various companies, starting her career in Birmingham, but with experience of working in both London and internationally. She holds a degree in geology from Southampton University and is FCII qualified.

Bernie, Head of SME Support Functions

Bernie joined Future Frontier Insurance as an underwriter in 2005. He has held various posts within the company, including COO of the company's South American operations from 2012 to 2014. He returned to London in 2014 as an Executive Committee member and is responsible for Pricing, Underwriting, Fraud Control, IT and Customer Service. He holds a degree in mathematics from Bristol University and is ACII qualified and a Chartered Insurer.

speaker biographies

Afternoon session – Large Commercial

Charlie, Head of Corporate Client Coverage

Charlie joined Future Frontier Insurance in 2015 to build our Corporate Client Coverage team. He now leads a team of 16 professionals. Charlie joined from Johnston Farrell, the investment bank, where he led a coverage team focused on the oil and gas sector. He holds a mathematics degree from Oxford University, and is a CFA charterholder.

Ursula, Head of Solutions Structuring

Ursula joined Future Frontier Insurance on our school leavers' training scheme in 1990. After two successful years in our former Exeter branch as a package underwriter, she moved into our Corporate Client division in London and rose to become a senior liability underwriter in 2001. She has since assumed responsibility for all our Solutions Structuring activities. She is ACII qualified and also holds an Advanced Certificate in Financial Risk Management.

Heloise, HR and Talent Director

Heloise joined Future Frontier Insurance in 2017 from Taylor Black, the leading professional services firm. She is responsible for all HR and talent management issues at Future Frontier Insurance, across both the SME and Corporate Client divisions.

1.1 SME Market Overview

Charlotte, Chief Executive Officer

> Hello, and welcome to the 2022 Future Frontier Insurance Investor Day.
>
> I'm Charlotte, the Chief Executive Officer.

We've decided to do something a bit different today. As you know, we are one of the most successful insurers in the UK today, in both SME and large commercial. How have we achieved this? By defining a very clear vision and strategy back in 2012, and by being committed to implementation ever since. I thought we would use today to identify why we have been so successful over the last ten years.

First I will give you an overview of how the SME market has evolved over the last 10 years. Some of my colleagues will then give you more details on that business. In the afternoon we'll follow the same format for our Corporate Client division, and close with a session on skills and talent.

You can see who will be speaking from the speaker list and biographies we have handed out.

SME market overview

Back in 2012, you'll remember that everyone was talking about the increasing importance of technology in SME. They were right. Technology was the big disrupter in the SME market and manifested itself in two ways – direct distribution and broker portals.

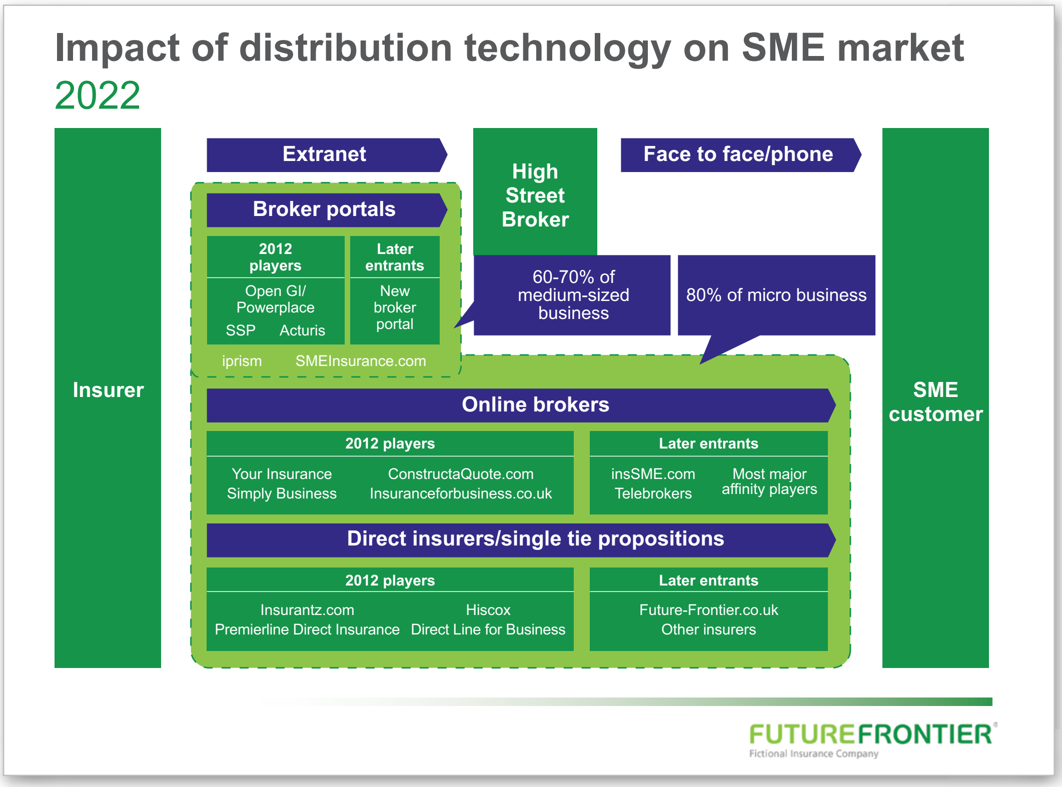
Direct distribution gained share at the micro end of the market, by which I mean SMEs with under 10 employees or premiums under £1,000. In 2012, direct distributors controlled no more than about 15% of premiums; now it's nearer 80%, and much of it doesn't touch the sides. This has been driven by a raft of new entrants, including our own distributor insSME.com, telebrokers and affinity schemes. Affinity schemes included some well known retail brands.

Igor and Frank will talk more about the direct market later.

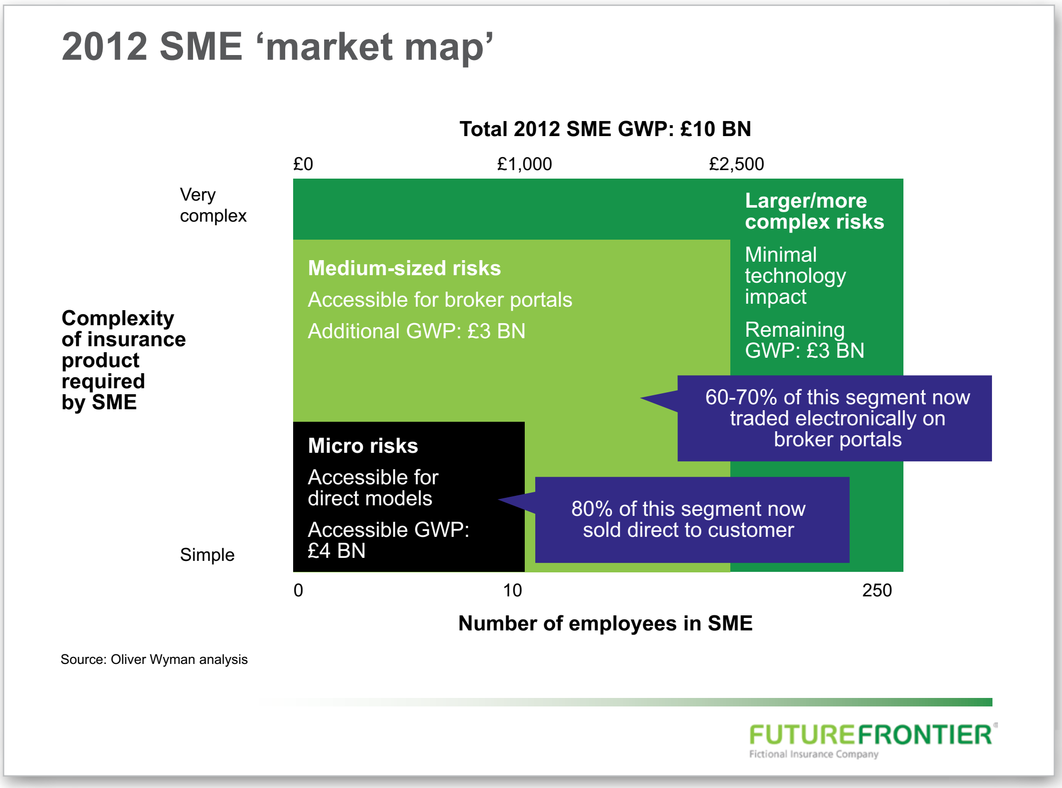
For medium-sized risks, which I define broadly as risks that cannot be placed direct, but still have fewer than 250 employees and are not complex programmes, broker portals became a big part of the value chain. I'd estimate that 60–70% of business in that segment is now transacted electronically on one of the broker portals and 20% is automatically underwritten on those portals. This has had huge implications on our product set and operational requirements.

Becka and Bernie will talk to you more about this later.

These two trends are shown on my first slide.



The growth of portals and direct distribution had a big impact. The whole 2012 UK SME market was valued at around £10bn and of this approximately £4bn was in the micro segment and a further £3bn in the medium sized risks segment. That means that approximately 70% of the 2012 SME market, £7bn in premiums, was materially disrupted by the emergence of new technology. This is illustrated in my next slide.



Distribution technology was, of course, only the tip of the technology iceberg. What the changes in distribution really meant was that insurers had to rethink their entire business model. Insurers had to build electronic interfaces to these systems, design products that were suitable for e-trading, develop auto-rating capabilities, anti-fraud analytics and so on. To make it all happen, we had to invest in our processes and people.

Pricing is perhaps one area that I should call out at this stage. A common impact of both direct and broker portals was that they created transparency in SME market pricing. This was a real problem for some insurers, who had traditionally taken a portfolio view of their SME book and had little insight into their profitability at an individual risk level. When market pricing became transparent, they quickly found that they were picking up only the business which they were pricing too cheaply. It was pretty scary for them as there was little they could do about it until they'd built their data sets, which took time, of course.

Why we've been successful in SME

We have been very successful in the SME market. I think there are three reasons for this.

First and foremost, senior management were committed to building a business that would be successful long term.

Back in 2012 we sat down and defined a couple of scenarios for future market development. We then developed a process to track actual market development against our scenarios, and to align our strategy to market developments. It was a highly structured process which was instrumental in shaping our business.

Second, we were clear about the initiatives required to achieve our strategy, and we were ruthless in executing them. These initiatives were strategic, operational and cultural.

An example on the strategic side was our decision in 2013 to launch a direct distribution platform, insSME.com. You can imagine that many of our brokers were initially unhappy about this, and some left us. However, we had done our homework, and had identified target brokers with whom we wanted to work long-term and offered them a white-labelled version of our platform. The result was positive for both sides. We were able to launch our direct platform and brokers got a tool to help them with their small case size business. As a result we've managed not only to win in the direct channel but to strengthen our relationships in the broking channel.

On the operations front, we launched various initiatives to improve our pricing, underwriting, fraud control and product development. This gave us a huge competitive advantage – many of our competitors left investment late and are now paying to heal the wounds we inflicted on them.

Cultural initiatives were perhaps the most challenging. We needed to move from being a traditional insurer to becoming the much-cited "e-commerce organisation that happens to sell insurance". We tried to tie cultural change to as many of the strategic and operational initiatives as possible – getting people involved and excited about what we were doing early on in the process. However, we had to work harder with some of the teams, such as underwriting and IT, who were experiencing such fundamental changes to their roles.

Finally, we really invested in training and skills.

As I mentioned, we identified early on that we'd need our underwriters to build functional skills alongside their underwriting expertise. So we launched a major training initiative that targeted some specific skills. This paid off. As our success grew, so did our reputation as an employer and we soon found we were attracting the most dynamic staff from our competitors. We are proud of what we have done for our staff and our industry.

With that, I'm now going to hand you over to Igor, who will talk more about the SME direct market, which has boomed over the last few years.

1.2 insSME.com

Igor, Managing Director, insSME.com

> **Good morning. I'm Igor, Managing Director of insSME.com.**
>
> **We are a joint venture between four UK insurers, of which Future Frontier Insurance is one, set up in 2013.**

Before I give you an overview of the business, why don't I briefly give you some background about me?

I joined Future Frontier Insurance in 2009 as a senior portfolio underwriter, looking after our relationship with one of the large UK brokers. During this period, I started to become interested in the direct distribution opportunity in the micro market. I could tell that it was going to be a huge space and was really frustrated that none of the insurers or brokers, Future Frontier Insurance included, had invested significantly to seize the opportunity.

I started to research the space informally. I networked both inside and outside the company and spent a lot of time reading up on e-commerce to understand how sites like online retailers and insurance price comparison sites had become successful.

Anyway, Future Frontier Insurance decided to take a proper look at the space in 2012 and were looking for a project leader. I got the role because I was the only candidate who understood both the underwriting and e-commerce sides of the business. One thing led to another and now I'm MD of the business.

So that's me. Let's move on to the business itself.

Future Frontier Insurance direct strategy and insSME.com

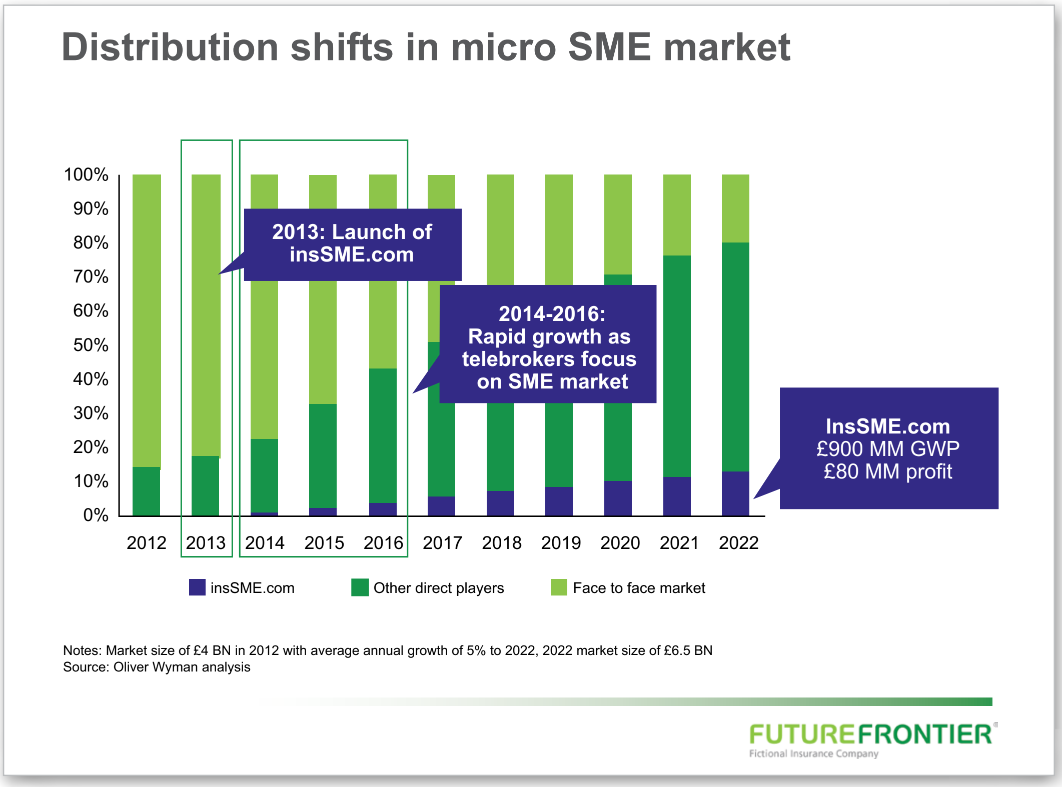
As I mentioned, insSME.com is a joint venture between us and three of our competitors. Why's that?

The Future Frontier Insurance 2012 market study contained two strong demand-side conclusions. First, most small business owners were very comfortable buying their personal insurance online and wished that it was as easy for their business insurance. Second, the dominance of price comparison sites in personal lines meant that people wanted a price comparison proposition in SME too. In summary, we could see potential for a new direct offering, but we could not do it alone.

On the supply side, we concluded that existing direct distributors were doing well but were far from "segment killers". Companies who might have been high impact entrants were mostly conflicted or did not have appetite for the segment.

So we decided to form a joint venture with some competitors. Our competitors were all similar to us – growing, ambitious and frustrated at the slow pace of change in the SME market. Apart from sharing development costs, the joint venture approach meant that we could guarantee that four insurers would be investing in their direct trading capability, and that we would therefore have at least four quotes for most of the business going through the distributor. It's not much good having a price comparison site if only one insurer is quoting, of course!

It's worked out very well. The chart below shows how the market and our business took off.



Our proposition to customers is very simple. We have built a brilliant customer journey, during which our site or customer service operators ask our customers a small number of relevant questions about their business. We gather the data we need to understand the customer, and, more importantly, at the end of the process customers feel like we really understand their business and their needs. Using this data we are able to give the majority of our clients a quote from over six brands. Clients love it, and we have high conversion rates.

Future Frontier Insurance and our other investors love it too.

Our investors write about 80% of the business on the site, which means that they will write about £180m each this year. And that business is very profitable: they have all invested in their SME pricing capability since 2013 and now have market-leading understanding of customer behaviour and profitability. Frank and Bernie will talk to you about this later. Finally, my investors love the dividend that I pay them every year – expected to be around £20m each this year.

Building the business

Building the business was the difficult bit and, for me personally, recruiting the right team. You can imagine we were looking for some pretty specific skills which didn't really exist – "an insurance product development specialist with e-commerce experience" for example. Well, it didn't take long to realise that few people fitted this profile. We had to be creative and hired our team from two main sources – e-commerce and underwriting.

On the underwriting side we found only a small pool of candidates but ended up hiring a large proportion of them. These folks were at different levels of seniority in their underwriting teams, but all shared a passion for innovation and market disruption, which they showed in various ways. Some had assumed responsibility for developing particular customer segments with new products and processes besides their general underwriting duties. Others had become interested in digital marketing and had done secondments to the relevant team at their previous employer, for example. The key for me was that they had shown evidence of a passion, and that's why I employed them.

Anyway, that's enough about insSME.com. I'm going to hand over to Frank now, who is my main counterpart at Future Frontier Insurance.

1.3 SME Direct

Frank, Head of SME Direct

Thanks, Igor.

Good morning ladies and gentlemen.
I'm Head of SME Direct, which means that I'm responsible for marketing our direct brand, and our proposition to direct customers.

We consider three channels to be direct. First, we have our Future Frontier Insurance-branded website and call centre. Second, we support single-tie affinity relationships. For example, we have deals with a few builders' merchants and support their web and phone proposition. Finally, we are the interface to online brokers such as insSME.com.

It might seem odd that online brokers fall under the direct business. However, the capabilities required to support them are almost identical to those needed to support the direct channel – for example a focus on the online customer journey, modular product set and so on. So it makes sense to service these two channels from the same team.

I'm going to talk through each of my four teams in turn, but before I do that, I'll just make a few introductory comments about the Future Frontier Insurance direct "vision" and my role at the company.

Future Frontier Insurance direct "vision" and business organisation

The context in which my team and I operate is an SME market that is nothing like it was ten years ago. 80% of the micro market is now transacted direct with very limited manual intervention. The shift has been gradual, however, which meant that for a long time many of our competitors could ignore it. In fact, many still run their direct proposition as a channel in their commercial underwriting team.

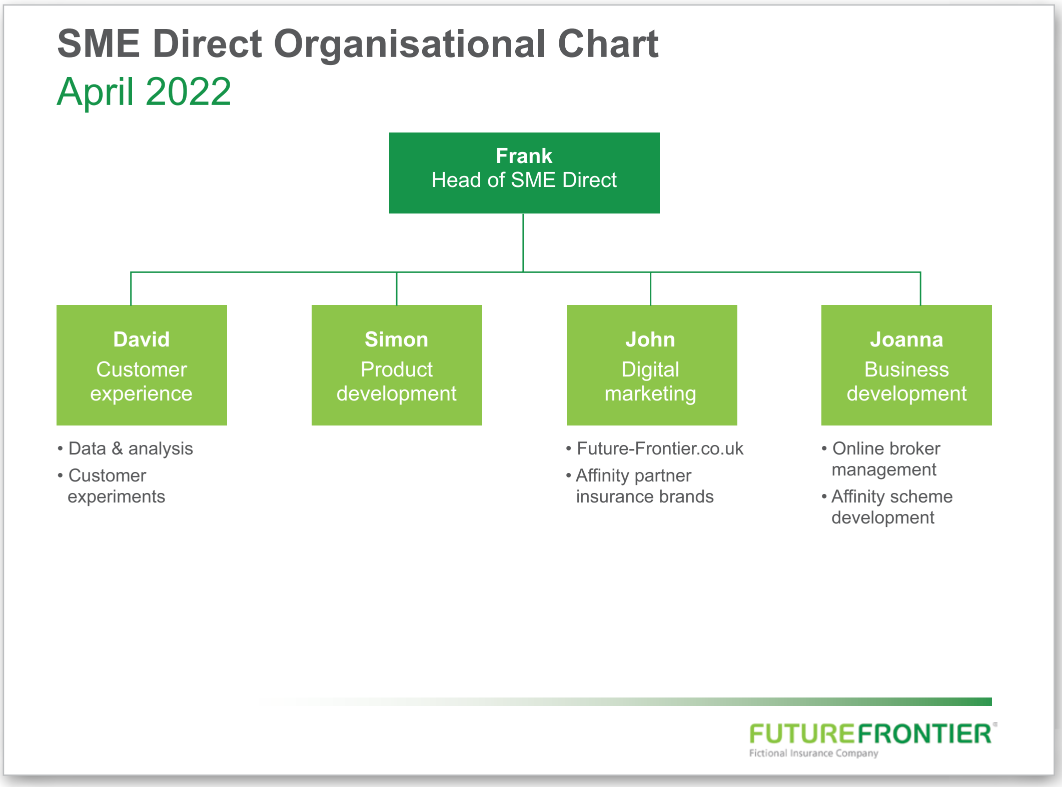
Charlotte has always been ambitious in the direct space. Her vision was that every potential customer who entered one of our direct sales channels would receive either a quote or a rejection from us. She did not want to lose a single potential customer because of weaknesses in our customer experience.

When I came into the business, I felt that we could only achieve Charlotte's vision if we turned the SME operation on its head. I felt that we needed to reorganise to be an "e-commerce organisation that happened to sell insurance" rather than to build a front end onto our underwriting operations. As a result, we re-organised the SME business. Becka and I lead market-facing teams for intermediated and direct business respectively, and Bernie supports with underwriting, pricing and other services. It was a huge challenge to implement this structure. Among other things, it meant transferring control of the customer and product from technicians to e-commerce people. However, achieving a balance between technical scrutiny and customer experience was central to our hypothesis about success in SME direct.

I joined from Zoomba, the social lending site, where I was the Marketing Director.

I understand that there were a few internal candidates at the time but that their skills were considered too narrow to achieve the transformation into a genuine e-commerce organisation. I guess a lot of the underwriters were very technical and professional in their field but had not really future-proofed their skills over the years.

Let me talk you through each of my four teams now. Here's an org chart to help.



Customer Experience team

David joined us from a large online retailer and brings a wealth of experience to our Customer Experience team. When he joined in 2014 he looked at our existing customer experience, ripped up the metaphorical insurance rulebook and started from scratch. It was dramatic at the time but exactly what we needed to move from being an insurer with a direct channel to becoming a successful e-commerce player.

David is obsessed with data and analysis. His team runs sample tests on customers every day – whether on pricing, question sets or just moving things around on the website. They analyse the results every day and then work with Bernie to get changes rolled out on daily or weekly cycles. As a result, we have a great customer experience and some of the lowest customer acquisition costs and highest direct volumes in the industry.

His team also works closely with insSME.com and the other online brokers we use to make sure that our experience and insights are implemented by our distributors too.

David has a team of six. He brought in a head of analysis from his previous employer, but two former underwriters also work in that team. They have very strong quantitative skills and are also sufficiently well grounded in insurance that they can design experience experiments very effectively. There are also three externally recruited designers and developers.

Product Development team

Simon's product development team is interesting. If you think back 10 years to 2012, much of the value in SME was in underwriting an "all-singing, all-dancing" product. The emergence of direct disrupted this: insurers need to be "top of screen", which means that having the best comprehensive product no longer works in your favour.

We realised we needed to rebuild our product set and asked Simon to move into the product development role full time. His background was in underwriting but he had always been creative in his approach which made him ideal for the role.

Simon's mission was to build a modular product set – a "skin and bones" core product that would appear top of screen on the online broker and a suite of tailored ancillary products. Not only do we now have a great set of products, but we also have great insight into who buys what and at what price.

There were challenges with this concept, however. First, many of our affinity partners request bespoke products which match their customers' needs. It was a challenge to balance the proliferation of bespoke products with the need to maintain control of our product portfolio. Our modular product approach helped this. Nevertheless, it has still been a difficult task.

Another challenge concerned selling ancillaries. The modular product approach had worked well in personal motor but that was because retail price comparison sites are merely lead generation tools for direct websites. By contrast, comparison sites in SME are online brokers, which fulfil the sale on their own site. We had to work closely with the portals to make sure that we could provide our own ancillaries to our core product customers. It worked out fine. Thinking these issues through and intervening early meant that we really stole a march on the competition. They moved late, when the online brokers had a much stronger negotiating position, and got worse deals as a result.

Digital Marketing team

Our digital marketing team consists of four people, and they look after both the **Future-Frontier.co.uk** brand and our affinity partner insurance brands. We've had to recruit externally for some of the roles. However, one of our former underwriters made it into this team. She had been very interested in the area and had pushed for rotations into the previous digital marketing function before the reorganisation. As a result, we were happy to move her into the team and inject some real insurance expertise.

Business Development team

Our business development team maintains all our relationships with online brokers and affinity partners. Joanna and her two assistants are incentivised not only to deliver volume targets to Future Frontier Insurance but also to deliver combined ratio targets. They spend a lot of time analysing data from our distributors and using this to manage their relationships.

Joanna and one of her team started life as underwriters, whilst the third team member used to be a broker. They are effective because they're great negotiators – not just good at wining and dining but also at leading evidence and data-based discussions.

I hope that gives you a good overview of what we do in the SME Direct team. I'm now going to hand over to Becka to talk about intermediated sales.

1.4 SME Broker

Becka, Head of SME Broker

> **Good morning, thanks Frank, I'm Becka.**

We've heard a lot so far at this investor day about direct distribution in SME. "Do brokers still exist?" you might ask.

Well, yes they do! If you think back to the market "map" that Charlotte showed earlier on, you'll remember three "blocks" of business. In the micro market, traditional brokers' share of business has been eroded significantly over the last 10 years. To be clear, I don't count telebrokers or online brokers as traditional brokers, and it is Frank that looks after these relationships.

In the other two segments, almost all business is still broker led, so there's still plenty of intermediated business that keeps us busy. And while direct will continue to grow, I don't expect the overall picture to change much.

I wanted to talk about three things today: our broker strategy, our broker management and branch strategy and broker portals.

Broker strategy

When Igor was formulating the Future Frontier Insurance direct strategy back in 2012, he did so with brokers in mind. He was aware of the reputational risk associated with launching a competing channel but was confident that this risk could be managed.

The first question that Igor asked was "with which brokers do we actually want to work?". He assessed each of the brokers with whom we had a relationship and categorised them according to how future proof their own business models were. This allowed us to identify a set of brokers in which we were willing to invest to maintain a trading relationship. These brokers ranged from very large to very small, but they shared one key characteristic: they were keen to align broking effort with customer value, and were willing to use technology to help them do this.

When we developed our strategy we were open with these brokers and encouraged them to participate in our strategy process. As a result, we developed a white-labelled version of insSME.com, which our key brokers can use to place their small case size business more efficiently. The brokers either ask their customers to complete the online application form or do it in branch. In either case, they benefit from a much shorter, consumer-oriented question set. We underwrite most of the business, so it's a good outcome for both our brokers and us.

I already referred to the fact that our target brokers range from very large to very small. This was a conscious decision. Today's broking landscape is highly consolidated. Until 2008 we saw brokers like Towergate, Oval, Jelf and Giles buying up brokerages. When that slowed, concentration was driven by the large telebrokers, who moved aggressively into SME with their cheap propositions built on low-cost operating models. All in all, we're nervous about the balance of power in the market, so we maintain strong links with all the big brokers but are also committed to our relationships with small and niche brokerages.

Broker management & branch strategy

I have a team of eight broker relationship managers. These guys spend a lot less time on the road than they used to. Instead, the job has become more analytical, looking at volumes and types of business we're getting from each of our brokers, and how profitable the relationship is. For the telebroker relationships in particular, we work closely with the portfolio underwriters in Bernie's team.

We closed all of our branches as part of the SME strategy implementation. Charlotte used to say that the reason many insurers retained their local presence was to apologise to their brokers for a poor fulfilment process. She wanted to invest in fulfilment so that we no longer needed to apologise. We have had really quick turnaround times on referral underwriting and service interactions, and a great renewal process for quite some time. We felt we were ready to execute our branch strategy from 2014.

When we executed our strategy, we were clear with our brokers about what we were doing and why. We also gave them guidance on what risks we wanted to see, and where we would invest manual underwriting time. Overall, our strategy worked well. Contrary to many market commentators' views, we not only avoided losing a significant amount of business in the short term but grew our relationship with our target brokers and increased our total GWP.

Broker portals

As you can imagine, we are big users of broker portals. We host all of our products on them, and we intentionally use all five of them. We are fearful of one becoming too dominant and gaining an excessively powerful market position. In fact, we regret that we could not get a market consortium together to invest in one of the platforms, like the life players did with Assureweb. That would have ensured that we remained in control of distribution and could never be held hostage by a key distributor.

This is particularly important to us because broker portals are now our only route to market for the broker sector. If a conversation is needed, we call the broker within 15 minutes, but we insist that all business is initially submitted via a portal so that we can make sure that it is directed to the right underwriter.

So to summarise, I think we're very effective in the SME intermediated space. We have a clearly defined broker strategy. We don't say yes to everything, but everyone knows what we do and we do it well.

I'll hand over to Bernie now to tell you more about how his team supports Frank and me.

1.5 SME Support Functions

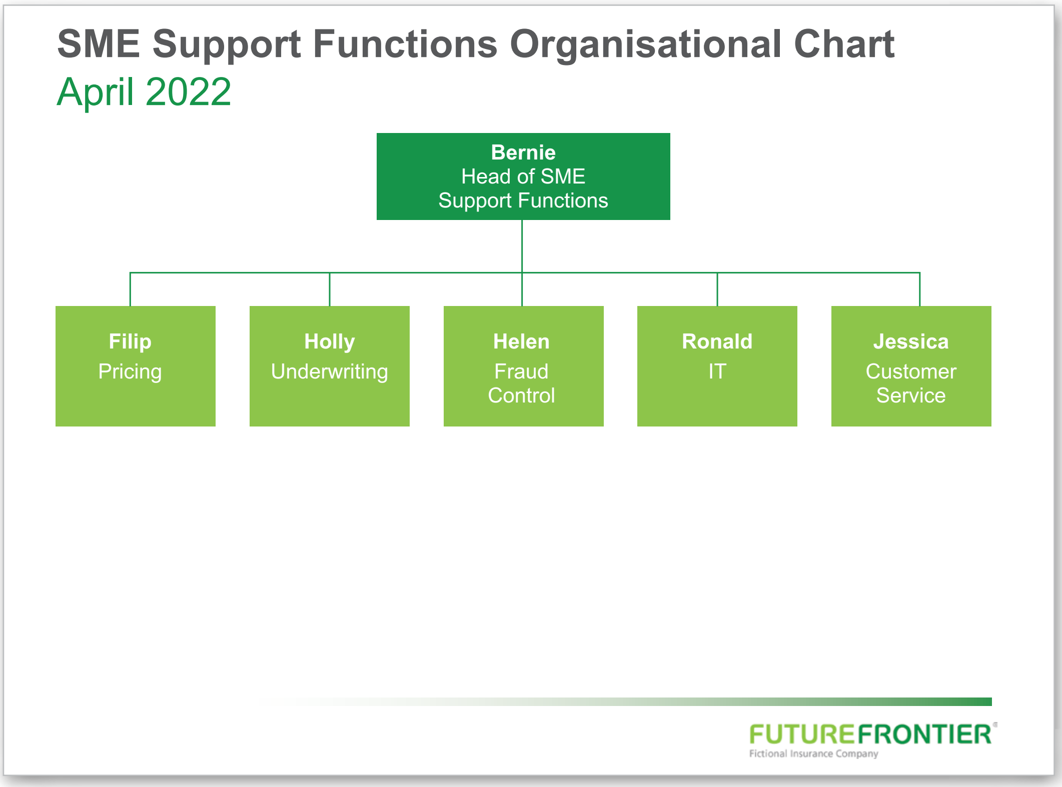
Bernie, Head of SME Support Functions

> **Thank you, Becka. Good morning, ladies and gentleman, thanks for your perseverance in the last slot before lunch.**
>
> **I'm Bernie, Head of SME Support Functions. I'm going to run this session as Frank did – I'll quickly introduce myself, and then I'll run through each of my five teams.**

I joined Future Frontier Insurance as a property package underwriter in 2005. In 2009 I got involved in an underwriting file review project, and developed an interest in systematic processes to improve operational performance. One thing led to another and I started to build a skillset that was at the intersection of underwriting and operations. I was COO of our South American operations from 2012 to 2014 and was made Head of our SME Support Functions in 2014.

In a way, SME Support Functions refers to what some might call the back office. We have intentionally not called it back office, though, because we wanted a constant reminder that we exist purely to support Frank and Becka to sell products through their channels. It required a big cultural transformation to achieve this, particularly for underwriting and IT.

So with that introduction, let me run through each of the teams that I manage: Pricing, Underwriting, Fraud Control, IT and Customer Service. Here's the org chart to help you.



Pricing team

We have invested a lot in pricing over the last 10 years. When Charlotte was promoted to Underwriting and Pricing Director in 2012, she identified pricing as a real achilles heel in our ability to realise our strategic objectives. We knew that whether direct or broker portals grew significantly, there would be increased price transparency in the market. This would punish those who did not have a good understanding of their true risk costs at the individual case level.

We therefore brought in Filip on a contract to put infrastructure in place to help us upgrade our capabilities. Filip had been a pricing actuary at a leading personal lines insurer and was therefore familiar with the task in hand.

We now have really good systems in place which populate stable databases. In particular, we use a lot of external data to augment our own dataset. For example, we use social network and credit rating data to help us price risk. We have also started to look at SME proposers' "commercial graph" – in other words the businesses they interact with. We find it all very predictive. Looking back ten years or so, it's amazing how little data we were actually capturing and using for pricing and underwriting. You wouldn't believe how much engineering data we were storing in dusty paper files in a warehouse, for example!

Filip ended up staying on as Head of Pricing. He loves the analysis, and loves thinking about new techniques and data sources that he can add into the pricing process. He also loves working at Future Frontier Insurance because we have data that allows him to do analysis that our competitors can only dream of. Given that he was a mid-level pricing actuary only ten years ago, it's impressive how he has moved into this broader technical pricing role so smoothly.

We also love the work that Filip is doing. When we put a price into the market, we are pretty confident that it's about right, and are able to adjust it quickly if we get unexpected conversion rates. Our competitors' prices are often miles away from our price, both up and down. It makes us think that they have very little insight into the true risk price and are bleeding pretty badly. Our SME combined ratios, in both the direct and broker channels, speak for themselves.

Underwriting team

Despite all the automation in the SME market, we still carry two teams of underwriters – portfolio underwriters and referral underwriters.

Our portfolio underwriters look after books of business where we give the distributor the pen or which is underwritten automatically – for example telebrokers, MGAs and insSME.com. We run a relatively small but high calibre team here. The underwriters are all extremely numerate graduates either from university or our new apprentice scheme, about which Heloise will tell you more later. However, what made them hard to recruit is that they are not just number crunchers – they are also critical in the relationship building and negotiation process with distributors and frequently accompany Becka's relationship managers to meetings.

We also have quite a large team of referral underwriters. I think our competitors sometimes look at this team and assume that it's just a gradual evolution of what an underwriting team was back ten years ago. That is not so. We have very strict referral triggers built into our processes. This means that every piece of business that is referred is being seen by an underwriter either because it has a specific, idiosyncratic feature or because the risk itself is so idiosyncratic that it cannot be automatically rated. Of course, we also continuously review the referral triggers to make sure we're picking up the right risks.

This puts three specific demands on referral underwriters.

First, they need to be highly skilled so that their scrutiny adds value to the automated process. Most of our underwriters are now specialists in either particular products or industries. In our world, specialist doesn't just mean that they underwrite predominantly in that industry – it means that our underwriters are really on top of what is going on in their clients' world, and not just with regards to insurance. They spend quite a bit of time at industry events, for example. The guys who were not able to become specialists have been left behind and are now mostly technical assistants on the customer service desk.

Second, referral underwriters need to be comfortable looking at specific features of the risk, rather than underwriting the whole thing like in the past. This was quite a tough transition for underwriters who traditionally wanted to control the whole risk.

Finally, underwriters need to have a real delivery mentality. This not only means giving the client great service by responding quickly, but also aligning underwriting effort with customer value. The new distribution model means that margins are slim and manual referral can quickly make a risk uneconomic for us. We've invested a lot in helping underwriters understand the economic implications of their work and our underwriters are now pretty good at deciding where to invest our time.

We probably refer more business than we need to and we also do some re-underwriting of a sample of risks that we've already accepted. This is not only caution on our part, but also a strategic decision. We need to keep developing underwriting talent, not only for our SME division but also for large commercial, and to do this we're making sure that we don't do all of our underwriting just through "the machine".

Fraud Control team

A really important function these days is Helen's Fraud Control team. As more business has become automated, the chance of fraud has increased. Over the last few years, Helen has deployed a lot of the techniques we use in personal lines in the SME business. For example, we updated our SME underwriting process to incorporate more information about the directors and senior management of a business. We found that rating commercial risks based on the social graphs of the individuals running it to be very predictive.

We have also developed predictive modelling to identify potential cases of fraud. We use this to identify which claims are almost certainly genuine and should be paid immediately and which cases merit further investigation. It helps us maintain a high level of service as well as control over our claims.

IT team

The fourth team that reports to me is IT. It was a huge challenge getting the IT team reorganised and refocused to support our new SME strategy. Ten years ago the team was a typical large corporate function which delivered a small number of large IT programmes, such as policy admin systems. That was the opposite of what Charlotte wanted the IT department to do in her strategic vision. Instead, she wanted a fast moving team which facilitated the transformation to the e-commerce organisation.

We therefore have an IT team within the SME business. The team is fantastic at building and rolling out solutions, with short development cycles, structured testing approaches and frequent, sometimes daily, release cycles. In the spirit of the whole "support" philosophy, the IT team is highly motivated to support Frank and Becka deliver great products and experiences to our customers.

Customer Service team

Finally, I look after the customer services team. This team provides support for direct customers and technical support for brokers looking at our products on broker portals. We have been successful at delivering differentiated customer service in the market. We built the function around detailed customer analysis, and designed a function that continuously delights customers. In particular, we made sure that our agents really bought into the idea of resolving calls, not just taking them.

That said, the customer service team was the career path for underwriters who were unable to step up into the new roles in Frank or Becka's teams, or indeed my other teams, after the reorganisation. The team has a much narrower remit than when they were underwriters. Some people like the routine of the role, of course, but there are plenty of others who are kicking themselves that they did not build their skills up in time.

Charlotte, Chief Executive Officer

> **"Ladies and gentlemen, thank you very much for your attention this morning. I hope you found the session informative. I look forward to continuing with large commercial and talent management after lunch."**

2.1 Large Commercial Market Overview

Charlotte, CEO

Charlotte, Chief Executive Officer

> **"Ladies and gentlemen, welcome back to the afternoon session of our 2022 investor day, during which we will focus on large commercial."**

I thought the best way to start the overview of the large commercial market is with a brief history lesson.

Since 2012, corporates have become much more sophisticated in their application of risk management techniques to manage their businesses. This is particularly true for asset-heavy industries, such as energy and aviation. This has had two implications for insurers. First, corporates are now really clear about what constitutes an "on-strategy hold risk" and an "off-strategy transfer risk". Second, they use overarching risk management approaches, which means that corporates no longer think in terms of insurance risks and non-insurance risks but instead require integrated protection against particular off-strategy events or scenarios. Quite often, this protection combines traditional property cover and financial cover, such as an FX hedge, and corporates are normally much more specific about what protection they need than they used to be.

This led to some dissatisfaction with existing insurers, who remained product-focused. Risk managers found that they could not cover all of their off-strategy risks, or that products did not provide acceptable remedies. For example, policies might not solve a liquidity crisis given all the legal wrangling about the interpretation of clauses, or event policy triggers and limits were not aligned with their true financial exposure. And then there were lots of scenarios for which it was difficult to buy the right protection.

Overall, there was an opportunity to innovate, and deliver more bespoke solutions to clients. The investment banks noticed this before insurers did, as it happened; you'll probably remember that Johnston Farrell (JF), the investment bank, bought Epsilon, the Lloyd's managing agent, back in 2014.

I remember the CEO of Johnston Farrell explaining what first got him interested in an insurance acquisition. He had been reflecting on the fact that investment banks made a lot of money for their shareholders and staff, whereas insurers competed in a low margin industry. He considered this strange, given that they served the same clients, but thought he had a solution. First, he wanted to improve insurance client relationships by implementing a banking-style coverage model. He observed that banks generally had higher level relationships with their clients and that this was one of the elements of the banking model that had escaped the crisis more or less untarnished. He saw no reason why insurance solutions could not be coupled onto these relationships.

Second, he observed that this coverage model could be used to build more of a "solutions culture" amongst insurers. He observed that the existing insurance set-up meant that insurers were pitching broadly commoditised products in a price-focused tender process. He reflected that investment banks avoided this way of working by using their relationships to generate insights, on which they could build bespoke solutions. These solutions could be pitched at higher margins. Again, he saw opportunities to move insurance in this direction.

Finally, JF's CEO pointed to two real case studies of banks successfully applying some of their expertise and techniques in the life insurance market. Goldman Sachs and Deutsche Bank had been active in the pension buyout market through their subsidiaries Rothesay Life and Abbey Life for several years. JF wanted to be the pioneers on the general insurance side.

Besides the "solutions culture", JF also introduced a genuine "trading" culture to the insurance market. You'll remember back in 2012, insurers only wrote risks that were either within their retention, were covered by reinsurance treaties or for which facultative reinsurance could be bought. Well, JF introduced more of an investment banking approach here too. Epsilon had excellent coverage and structuring professionals who knew exactly which types of risk Epsilon could hold or transfer to others. As a result, they offered a very broad set of solutions and managed their balance sheet actively.

In any case, it was this deal that really disrupted the large commercial market and forced us, and a handful of other forward-looking insurers, to move fast.

Why we've been successful in large commercial

We have been very successful in the large commercial market. What would I point to as the reasons for success?

First, I'd say we were very good at implementing the cultural change required to move from insurer to risk solutions provider. The management was focused on what we wanted to achieve, and we implemented the new Corporate Client organisational structure back in 2015, very soon after the JF deal. We did not shirk the investment required here: we had to hire in some expensive dealmakers, but it was a good investment in the long run.

Second, we were effective at implementing improvements to our risk assessment process. For example, we stole a march on our competitors by making several IT investments before them. They had not noticed back in 2012 that technology houses had built some amazingly sophisticated technology for industries such as infrastructure and engineering. It was obvious that this software could benefit both the quality and efficiency of underwriting, but for some reason few other than us had spotted it.

We also accepted that the pricing model would increase in importance, not least because of regulation. We decided to be early movers rather than actively fighting this trend. We invested in our pricing model, and are pleased with where it's got us. It's not perfect, and we don't think that any large commercial pricing model ever will be, but it's helped us be much more analytical in our pricing process.

Finally, we were very focused on our talent pipeline. It was difficult ensuring we always had enough talent coming up through the ranks in a world where SME was largely automated, and no longer a training ground for junior case underwriters. So, as Heloise will no doubt explain later on, we managed our SME and Corporate Client talent pools jointly and ensured that we are now in a much better position than many of our competitors.

Let me now hand you over to Charlie who will go into more detail about the Client Coverage side of the business.

2.2 Coverage

Charlie, Head of Corporate Client Coverage

> **Thank you Charlie.**
>
> **I joined Future Frontier Insurance from Johnston Farrell in 2015 to be Head of Client Coverage. Charlotte's explained how the commercial market has changed over the last 10 years, and so it's maybe no surprise that the job I do here at Future Frontier Insurance is actually very similar to the one I was doing at JF.**

Both involve building deep relationships with clients and understanding their risks and concerns. I spend a lot of time with the CFO, Treasurer and Risk teams to do this. The only real difference compared with JF is that I now have a broader set of risks that I look at. Back at JF we only really looked at financial risks, but Future Frontier Insurance can offer both financial and traditional property and casualty insurance risk solutions, and most interestingly for our clients, a combination of them all.

How the new coverage model works

I thought I'd use this session to give you a bit more colour about how the new coverage model works. The Client Coverage team is responsible for maintaining relationships with all of our clients, with individuals usually focused on industry verticals. When we identify a lead, we bring in the right people from Ursula's Solutions Structuring team to develop and then pitch solutions and ideas to the client as part of a deal team. The deal team is then responsible for closing out the deal. We may or may not be involved at that stage – it depends on how big or technical the deal is. But that's the nice thing about the deal team structure – it's very flexible.

By the way, I've referred to our "clients", so it might be worth clarifying what that means. One of the problems that we found with our new structure was that we had lots of good ideas but these were not having as much impact as we wanted with insureds – we were finding it difficult to communicate our ideas. The problem was most acute with small generalist brokers who could not afford to build in-house solutions expertise.

Deal teams helped us overcome this problem. When we work with one of the small generalist brokers, we tend to have a very active role in the deal team. The broker sources the opportunity and continues to manage the relationship, but we lead the solution shape and design process and are present in all client interactions. We are quite aggressive on commission in these deals – we do make sure that we're paid for the significant input we provide. By contrast, global brokers tend to share our "solutions culture" philosophy. When we work with them, their own coverage guys tend to define the shape of the solution, and we tend to have a more technical role in the deal team. But the bespoke nature of the deals means that even in this role, we are rarely out to tender.

When we implemented this structure, there was some nervousness about putting the relationship person between the customer and the decision maker. However, once we got the system bedded down, this problem went away. I think the point is that when insurers were trading a commodity, clients demanded an answer to many questions on the spot. Now that we're trading solutions, they appreciate having someone there who understands what they need and comes back with sensible suggestions. And in particular, having the relationship person means that we're not just pitching the same old products, but really responding to our clients' needs with bespoke solutions.

Why we're successful

My team is highly skilled. As I mentioned, they need to understand our clients inside out. They then need to understand the universe of solutions that are available to our clients and be able to talk credibly about them in discussions with senior clients. As a result, I have some of the brightest people in the company in my team. This is far away from the wine and dine relationship management job that people sometimes imagine.

Of the sixteen people in my team, four used to be financial analysts and all of those are CFA qualified. A further six are former commercial underwriters, who have been able to build a broad skill set on top of their underwriting foundations. Two are risk engineers who built the insurance expertise on their technical background. The other four are former brokers, who had good relationships and also a good, broad understanding of risk management solutions. All of my team have outstanding interpersonal skills. In particular, they are leading credible relationships with senior executives at our clients.

Where are the underwriters?

I'm often asked why more underwriters didn't make it into this team, so I'll just finish by pre-empting that question.

First of all, underwriters often did not have the right relationships or profile in their client organisations. They were selling a traditional, commoditised product and the buying point was often not as high up in the organisation as it was for other risk management products. Also, many underwriters didn't even get exposure to the end-buyer but only interacted with the broker. Don't get me wrong. I'm not suggesting that insurers should try to circumvent the broker, but as a former investment banker, I'm always amazed that insurers did not insist on attending pitch meetings together with their broker, for example, to build a strong market profile.

Second, underwriters were often too narrow in their focus. They were often specialised in their particular product but did not have the breadth that my team needs. This did make them very suitable for Ursula's Solution Structuring team, however.

On that note, I'll hand over to Ursula.

2.3 Solutions Structuring

Ursula, Head of Solutions Structuring

> **Thank you Charlie.**
>
> **I'm a somewhat rare commodity at Future Frontier Insurance. I have a lot of letters after my name but none from a university.**

I joined on our school leavers' training scheme back in 1990, as a package underwriter in our Exeter branch. Since then I've moved through the organisation and gravitated towards London, and now run the Solutions Structuring team. It's been a tough career track – I wish I had benefited from the great school leavers' programme that we have these days, which I think Heloise is going to talk about later on.

My Solutions Structuring team comprises much of our pre-restructure underwriting team. Each member of my team is a leader in their field. Some are specialists for a particular product or industry, whilst others are experts in solution structuring. This means that they have a broad understanding of insurance and capital markets risk management tools which they are able to fuse together to create bespoke solutions for our clients. In fact, some of these guys have a financial analyst background, recognising the fact that we now trade a lot more financial risks than we used to. They replaced some of our weaker underwriters who were either unwilling or unable to make the step up to this higher performance environment.

How the new Solutions Structuring model works

The way it works is this. When one of Charlie's coverage team identifies an opportunity to pitch formally to a client they draw in the relevant solutions professional from my team. "Solutions professional", by the way, is what my people are called – we don't use "underwriter" any more because we consider it a bit of an old-fashioned term.

They then work together jointly, sometimes with the broker, to develop the right solution. Don't get the impression that my guys just sit in the office, however. Quite the opposite, we are active members of the deal team and as soon as there's a live opportunity, we are involved in all the client calls and meetings. It's important that all of my team are comfortable with this.

When it comes to developing solutions there are four things that are new compared to the old underwriting approach.

First, we no longer have a product development function in the Corporate Client team. You might remember that in the past large commercial insurers periodically released a product that had a particular new feature: "Future Frontier Insurance's D&O product now includes EPL as standard". Well, we don't do that any more; we really focus on building a solution around a customer which means that we avoid shoehorning clients into standard products.

Second, we don't just offer solutions that we are able to carry on our own balance sheet. These days, we offer many more solutions, for example, interest rate and FX solutions to help insureds manage their global exposures more dynamically. As a result, we have much more of a trading culture, which means that we often assume risks on our own balance sheet before laying them off in the capital markets. We work closely with our Balance Sheet Management team to do this. They monitor the exposures we are writing and choose when they need to trade positions in the capital markets to reduce these exposures. It's something that Johnston Farrell introduced to the market when they bought Epsilon.

Third, we use much more technology in the risk assessment process than we used to. When I assumed responsibility for property underwriting risk in 2015 I became familiar with the sophisticated technology that was being used in industries such as infrastructure and engineering and was really impressed. These industries were using things like virtual reality to tour facilities at various stages of construction and were working with external organisations to use huge datasets to understand the impact of geological features on particular sites. I was amazed we were not making better use of this technology in our underwriting. We therefore invested in technology and have now both improved the quality and efficiency of our property underwriting in particular.

Finally, the pricing decisions we make are much more quantitatively grounded than they used to be. You'll remember that back in 2010, underwriters tended to use the pricing tool to generate a benchmark price, to which they then applied often very significant discounts or loadings. Well, we now use the model much more rigorously. This is partly because of regulation, but also because we are structuring much more complex products and have more data available. Of course, we recognise that it's still impossible to model a lot of insurance exposures but we do insist on understanding how our structuring experts calculate the price and make sure that we're not systematically under-pricing low frequency risk.

So that's the overview of the Corporate Client Division. I hope that this presentation has given you a good understanding of how we have built our market-leading position. After a decade of change, business models are beginning to stabilise and look similar to ours. I am very pleased that I am here today to tell you how we moved early and put ourselves in such a strong position, rather than presenting my crisis plan.

I'm now going to hand over to Heloise who will talk about HR and Talent.

3.1 Talent and Skills

Heloise, HR and Talent Director

> **Thank you, Ursula. Good afternoon ladies and gentlemen, my name is Heloise, and I'm the HR and Talent Director for both the SME and Corporate Client divisions.**

We've spent a lot of time today talking about market developments and Future Frontier Insurance's successful strategy. However, we've not spent much time so far discussing what really made us successful – our people. I'm going to cover Future Frontier Insurance's skills and talent strategy across the business.

I'd argue that the single most important thing that we did at Future Frontier Insurance over the last ten years was invest in our people. When we developed our market scenarios back in 2012, one of the biggest questions the board had was how to ensure that we had the right talent to execute the strategy. As a result, HR was at the top table during all the strategy discussions and helped the board and senior management shape a strategy which we had a realistic chance of achieving. HR was also responsible for building a culture, skills and talent strategy to support the overall strategy. We focused on four elements: setting the culture, defining the skills and talent we needed, building an implementation plan, and recruitment and career development.

Set the culture

It was clear to the entire management team that a substantial cultural change would be needed to deliver the strategy.

First, we needed the organisation to become more client-focused and more agile. In the SME division it meant an ethos of continuous learning and innovation to keep one step ahead of the competition – whether to serve customers more effectively, drive costs out of the business or select risks better. In the Corporate Clients division this meant being more creative at developing bespoke solutions to match our clients' needs.

Second, we needed a greater degree of analytical rigour in our business processes. In SME it meant ensuring that pricing and underwriting processes were built off a strong base of claims experience; it meant that customer journeys were optimised based on validated experiments, and it meant that all our cost drivers were tracked and systematically minimised. In the Corporate Clients division this was key in persuading the board to broaden the risk appetite, which in turn allowed us to structure innovative client solutions.

Of course, cultural change always has to come from the top and it helped enormously that the Board and Charlotte were such passionate believers in our strategy. The HR team worked tirelessly with the board to articulate our cultural values – a document which the whole executive team signed up to. We then made sure that this statement of our cultural values was embedded in a set of HR processes including recruitment, training and annual appraisals.

Define the skills and talent inventory

The previous speakers have already talked at length about how the new way of doing business required very different skills from the past. Our job in HR was to build an inventory of the skills we needed and make sure that this was the basis for an implementation plan.

Some of the skills we identified were common across nearly all roles. For example, stronger numeracy was a key enabler of the analytical rigour we sought across many functions and stronger commercial skills were key to helping staff understand the wider business impact of their actions.

Others skills were more specific. These included technical skills, such as statistical modelling, "soft" skills like relationship management and functional skills like user experience optimisation. I have included one of the many slides we produced during that project as an example.

Skills Inventory
SME Division

Skills	Type	Reason needed
Statistical modelling	Technical	• Pricing team: to build understanding of pricing at case-level • Fraud team: to build models for underwriting and claims to identify propensity of fraud
Relationship management	Interpersonal	• Direct team: to build close ties with distributors (e.g. direct platforms, telebrokers) to ensure that we are developing capabilities in step • Broker team: to build professional ties with traditional distributors
User experience optimisation	Functional	• Customer experience: to build market leading user experience in all our remote channels, particularly online
Product development	Functional	• Product development: to revamp our product set, particularly for remote channels, where we need to be "top of screen" rather than "bells and whistles"

FUTUREFRONTIER®
Fictional Insurance Company

Build an implementation plan

Our next task was to develop the implementation plan to move the business to the new model. Our approach was to transition gradually over the course of two years. To do this we created small teams to seed each of the functions which would ultimately become the new business. For example, we started with a small SME pricing team of just three people, and only grew it to its present size over time. For each of these teams, we developed role profiles for the team leaders and, once they were recruited, worked with them to develop profiles for the team members.

We also created a learning programme to help us fill as many of the newly created positions internally as possible. We introduced three main mechanisms to help us do this. First, we introduced training programmes, supported by self-study courses. For example, we developed a great programme that allowed underwriters to study online customer experiences in both insurance and more broadly. To "graduate" from the course, underwriters have to present some insight to senior management about what we can learn for our own online experience. Second, we introduced a secondment programme, where underwriters could work in another department like marketing or risk engineering for a period of time, either full time or just a few days each week. Finally, we have externship programmes that allow underwriters to develop a deep understanding of a particular function or industry by working in another organisation for a few months. For example, the head of our Product Development team, Simon, was seconded to a personal lines insurer for six months and came back overflowing with ideas for how we could improve our auto-rating processes in SME.

We also introduced a mentoring programme; this was key to embedding many of the softer skills. For example, Charlie explained the changes we made to the client coverage model in the Corporate Client division and the up-skilling that this entailed. It turned out that a theory-led approach didn't really help to achieve this. Instead, we ended up recruiting a number of experienced client relationship managers from other sectors – particularly banking and insurance broking. These guys ended up leading their own client relationships but also mentoring the underwriters who moved into this role.

Recruitment and career development

Finally, we redesigned our career development and recruitment.

On the entry-level recruiting front, we are much more aggressive than we used to be. For example, we go to all the best universities and recruit high calibre graduates into some of our key roles. For example, our pricing team comprises many high calibre maths and statistics graduates and the calibre of our coverage team is comparable to that of any investment bank.

However, we also have many entry level roles where we do not need expensive graduates and here we have been very successful with the industry's new school leavers' programme. We introduced this as a response to the falling number of UK graduates, to strengthen technical skill in the industry and modelled it on the "Azubi" system they have in Germany and Austria. Broadly speaking, the programme can be described as a vocational degree, where school leavers work for a particular company but also attend several months of training which is organised and run centrally. The programme lasts for five years, is very intense and challenging and participants receive a recognised and respected qualification on graduation. In fact, you'll see that several board members of leading German and Austrian insurers have *Kauffrau* or *Kaufmann für Versicherung* on their business cards.

On the large commercial side, we have an additional skills challenge which is where to find our future large commercial underwriters, or solutions professionals as we prefer to call them. In the past, we had always used SME case underwriting as a training ground and even today most of our Solutions Structuring team started their careers underwriting SME risks. But with the rapid growth in auto-rating, we know we don't have enough SME case underwriters to keep the talent pipeline filled.

We have addressed this in three ways. First, we implemented an SME underwriting process that probably engages more underwriters than is strictly necessary. This was made possible by managing the Corporate and SME division's talent from one point, even though their strategies are very different. Second, we have started recruiting greater numbers of individuals out of our client industries and training them on underwriting and insurance skills. Third, we are trying to increase mobility between our risk engineering, claims and underwriting functions, recognising that although they come at it from different angles, all three teams are looking at the same set of risks. However, I think this is one problem to which we still don't have a compelling answer.

So that's a quick run through our HR and talent strategy over the years. Looking at our peers in the industry, I think many of them underestimated the scale of the HR changes that they would need to make. With hindsight, I think having a clear vision for the business strategy was crucial: it enabled us to navigate our way through some turbulent waters and gave our staff a clear goal. With this in mind, most of them were excited by the career development opportunities we offered them and happy to come on the journey with us.

And with that, I'm going to close the main part of the investor day and hand over to Charlotte who will take your questions.

The scenario we have constructed will certainly not be exactly how the market looks in 2022, but we hope that it at least takes the right direction. This being the case, we see a number of actions for everyone in the organisation.

Chief Executives

SME

1. Define and execute a clear SME strategy

Based on a robust but flexible strategic planning process and ensuring that the "house view" of market development is unconstrained by existing practice or capabilities.

All too often we see insurers using existing strategy and operations as the basis, which does not do justice to the materiality of changes that could occur in the SME market and creates operational legacy problems from the very start.

2. Review the distributor strategy

Many insurers are comfortable with their market position because of the strength of their broking relationships. We are not so comfortable with this. If you take the view that technology will be disruptive, then you can argue that volumes will shift amongst distributors. The personal motor market offers a relevant warning: there was little long term value for insurers who had the best personal motor broking relationships in 1980.

3. Reposition organisational thinking

Whatever your view of the future, it is undisputed that the SME market is changing, and that increasing volumes are going through electronic trading platforms. In the e-commerce world, it is broadly accepted that long term success is achieved through an early focus on customer development. In other words, successful e-commerce organisations tend to develop an obsessive interest in collecting data and running test and learn cycles before they become obsessed by revenue. We strongly advocate putting in place structures and management techniques which allow insurers to build the knowledge to succeed in an e-traded environment.

4. Review the engagement model of support functions, especially IT

Many support functions need to deliver a different kind of service for the SME business to be successful. We particularly point to the role of the IT department. Until now, IT has been asked to deliver large programmes, like new policy administration systems and periodic release updates. The SME function of the future needs short development cycles, structured testing approaches and frequent (perhaps daily) updates to help deliver an outstanding customer and distributor experience.

5. Invest in training and skills

Investment in training and skills is critical to implement the future strategy. We have argued that the underwriter of the future will require a much greater level of specialisation than today and we have also argued that today's underwriters need to develop a secondary skillset to be considered for many of the positions in the SME organisation of the future. We see the need for a real budget commitment to training to fund both market and company initiatives.

Large Commercial

1. Focus on developing a solutions culture

We have argued that the most successful large commercial insurers will be those who deliver bespoke "solutions" for their customers. CEOs might consider organisational change or selective hiring to deliver this, or something more radical such as an acquisition or strategic partnership with an investment bank.

2. Support technology innovation

We have argued in the paper that technology developed for other industries such as infrastructure and engineering could have a huge impact on both the quality and efficiency of large commercial underwriting decisions. Given that there is currently limited cross-over between technology development houses and insurance, the precise applications of this technology are not yet clear and require the steer of some underwriting visionaries. We argue that CEOs need to be strong supporters if not visionaries of technology adoption, in the large commercial underwriting process.

3. Secure the next generation of solutions professionals

Last but not least, CEOs need to think about how they will keep their talent pipeline stocked. We argue that there are two broad ways of doing this:

- First, CEOs should think about the SME and large commercial talent pools in combination. Identify ways to prepare SME underwriters for the step into large commercial even in a broadly automated world. Much of the answer will lie in the training and development opportunities that are given to the best SME underwriters.
- Second, CEOs can start preparing the ground for recruitment from outside the insurance market. For example, think about how attractive career paths could be created for specialists in your client industries who could be trained on the underwriting skills.

Underwriting Managers

SME

1. Embrace technology

Our top item for any underwriting manager is to embrace technology. Technology innovation cannot be stopped, nor will the 2022 market leaders have wanted to stop it. We urge all underwriting managers to consider how technology will change their business and how they can create value for their business by being early adopters.

2. Focus on process innovation

In the SME underwriting function of the future process will be king. We urge underwriting managers to position themselves as the guardians of process. They can identify and implement early process improvements today and use these pilots as a valuable basis for making decisions in the future.

3. Develop a data obsession

If process is king then data is queen and we believe underwriting managers should develop an obsession with data. Starting to use data more routinely in the business now will be the best way to identify gaps in quality or quantity of data and to build the data culture in the business. Additionally, it will illustrate that, whilst IT is important, major improvements can be made to performance without infrastructure upgrades.

4. Develop future skills

We have emphasised the importance of developing specialist skills numerous times in this report. We believe the underwriting manager should start building these skills soon, looking both internally and externally.

Large Commercial

1. Implement the solutions culture

Implementing the solutions culture needs a strong advocate, and we see the underwriting manager as being well placed for this. Indeed, we see a risk for underwriters who do not do this in our scenario, as they could be marginalised by brokers and financial analysts who may be better placed for senior roles in underwriting organisations.

2. Implement a quantification culture

We believe that underwriting managers can drive development of a quantification culture. First, they can identify ways to integrate technology and vended data into the pricing process. Second, they can implement processes that prevent solutions professionals bypassing or gaming existing pricing models to start building an accurate basis for the future.

3. Develop future skills

We have emphasised the importance of developing specialist skills in the large commercial business. We see opportunities both to train existing staff and to recruit selectively.

Underwriters

SME and Large Commercial

1. Develop specialist skills

The key for underwriters is to build their own scenario of the future and identify areas where they would like to end up. They should seek opportunities to build skills to prepare them for that function. In SME this might be a secondment to the personal lines pricing team or marketing team or it might be an externship to a broker or insured. When underwriters return to their underwriting function, they should find opportunities to demonstrate their expertise, for example, by pushing to lead projects in their chosen field.

In large commercial, underwriters should build skills that allow them to deliver the "risk solutions" culture. Those with ambitions on the relationship side should build their network and particularly try to raise the seniority of their relationships. They will also need to build broad technical understanding as well as interpersonal skills to demonstrate that they truly understand the insured's risks and concerns and are able to think creatively about risk management solutions. To achieve this, they might consider an externship to risk engineering or an insured's risk management team. Underwriters with a more technical orientation should build skills that complement underwriting, such as financial risk management.

2. Develop interpersonal skills

All underwriters need to develop interpersonal and sales skills which will allow them to stand out in a crowded value chain. In SME this is important to develop the strongest relationships with distributors; in large commercial it is important to be differentiated from brokers and other insurers pitching ideas to your clients.

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