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Year in review: 2020 - the year of the black swan event

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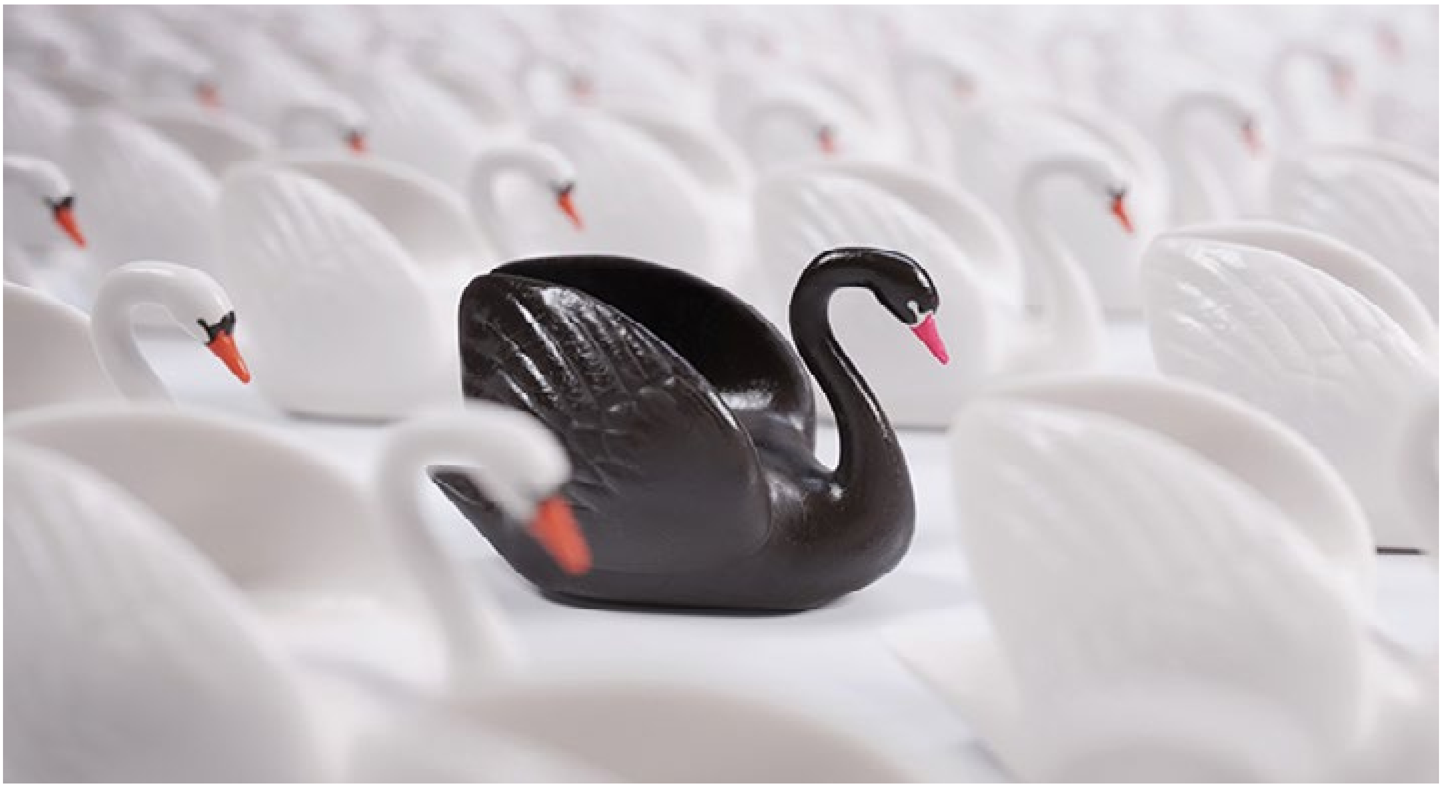

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As re/insurance leaders look back on 2020, they share their thoughts on the unprecedented past 12 months with Intelligent Insurer and consider how this will affect the year ahead. In exclusive insights, they also reflect on the debate over whether it was a black swan event, or more of a 'grey rhino', recognise the critical nature of advancing technology and express a real desire to return to face-to-face negotiations, as well as setting out their stalls for 2021.

The acceptance and accelerated advance of technology has been one of the standout stories of 2020, so what do more traditional insurers and technology firms think about this unexpected positive that has come out of the pandemic. Intelligent Insurer speaks to industry leaders for their views on this and the other impacts of 2020 more generally, as well as their expectations for rates and the market in 2021.

Simon Williams, SVP & active underwriter, Syndicate 1955, Arch Insurance International

The coronavirus pandemic is one of the most significant events to impact the insurance industry - its scale and scope are unprecedented and many view this as a black swan event, says Simon Williams, SVP, chief strategy & distribution officer & active underwriter Syndicate 1955 at Arch Insurance International.

However, he says, the insurance industry has stood firm. “At Arch, we have remained productive and responsive throughout, maintaining service levels to our brokers and customers, and in some cases enhancing that service. A good example of this is our claims team who really stepped up in anticipation of the potential increase of claims, such as in business interruption, and are working proactively with brokers and clients to manage these claims.”

There are multiple market developments during 2020 with the potential to alter the industry moving forward, according to Williams. For example, he says, video technology has taken Arch’s levels of engagement with its brokers to new heights. The market-wide adoption of electronic placing initiatives, such as PPL and Whitespace in the London market, has seen Arch transition rapidly to a very different and much more efficient trading environment.

Also, the move to remote working has led to a reassessment of the work/life balance. “We are working to optimise this balance and will be maintaining a remote-working strategy while also having teams operating from offices to ensure we can service our brokers and clients in the most effective way possible.”

In many ways, Williams adds, these developments have refreshed the market during a very challenging period. “The pandemic has acted as an accelerant on numerous fronts, hopefully pushing the market forward and seeing us achieve new levels of performance, productivity and efficiency in many areas.

“We cannot go back to the pre-COVID-19 environment in the London market. We must embrace the new norm, as it evolves, and capitalise on the potential it creates to further enhance the customer experience, attract more business to the market and win that business.”

With 2021 now in sight, Williams says that as the market has undergone a significant period of dislocation over the past 12-24 months, adding that “we may well see a settling of this market fluctuation in 2021”.

“Looking specifically at the London market, there are significant amounts of capital seeking to enter the market either in the form of support for existing businesses or to back new start-ups. This clearly demonstrates a market in good health as we enter 2021. At Arch we will continue to embrace and build strategic partnerships with our capital providers.

“The hardening market conditions, following an extended soft market, are also contributing to that robust health. While we are seeing a hardening market in a few lines, what we are generally seeing is more of an improving market. Yes, we are moving in the right direction- but there is still some distance to travel.”

He says there is significant momentum in the Lloyd’s and London market to enhance efficiencies, improve processes, reduce expense ratios and deliver improved performance to boost its global standing. The latter is a key objective that Arch is committed to, he adds. “Within Lloyd’s, we are likely to see continued focus on enhancing efficiencies within the lead and follow dynamic. We must continue to focus on the placement process and how we can improve responsiveness and shorten placement time. A key part of this will be our ability to segment business more effectively and improve the customer journey – both for the end client and the broker.”

Williams adds that the insurer is “fully supportive” of the ongoing drive to ensure greater diversity and inclusion within the insurance market. “We have appointed a diversity and inclusion executive to accelerate our efforts on this front. Creating and embedding diversity is key to fostering the dynamic and creative culture that will enable our marketplace to thrive.”

His company also continues to focus on building its platforms to be responsive to these developments, he says. This will ensure the insurer is ideally positioned to best support its brokers and clients by bolstering its market relevance through increased capacity, establishing a more prominent position in key markets, elevating its broker engagement and providing greater clarity around Arch’s risk appetite.

Asked about Arch Insurance International’s ambitions for 2021, Williams says: “Since 2018, our gross written premium (GWP)has more than doubled. Key acquisitions have contributed to approximately half of this growth, with the remainder of our increased GWP reflective of our strong organic growth driven by investment in talent and our push to enter new lines to further build our stable and address the needs of our brokers.

"In 2021, we will continue to build up from these sturdy foundations as we strengthen our position in existing business lines while capitalising on growing market opportunities."

For example, he says, the company recently announced a key contingency appointment and will be "building out our position in this sector".

The insurer has also expanded its product offering within its UK regional business with recent product launches in marine and terrorism. And the firm will also continue to focus on securing leading positions in what it views as key lines for Arch.

"In addition to expanding our product stable and boosting our client relevance, we will continue to articulate our risk appetite more precisely. By combining our spectrum of products with clarity of appetite and quality of service our aspiration is to be the 'first call' for our brokers when bringing business to market."

In 2021, the company will also introduce a split stamp strategy for Syndicates 2012 and 1955 across a number of insurance lines. "This will allow us to achieve greater flexibility and improved efficiency for both our brokers and clients.

"This also links into our drive to reduce our overall expense ratio. This is a perennial problem for the London Market and at Arch we have made tangible improvements in our expense ratio in recent years, but we must do more to ensure that as an industry we run as efficiently as possible," Williams explains.

He says his resolution for the New Year is to maintain the momentum the insurer has created by continually challenging itself to build higher. "Whether that is through finding ways to be more responsive to our brokers, more relevant to our clients, or more efficient in how we operate. We have achieved a lot in the last few years but there is plenty more to come," he concludes.

Roger Spicer, group head of broking, Oneglobal Broking

Roger Spicer, group head of broking at Oneglobal Broking, tells Intelligent Insurer that 2020 "was an uncomfortable and unpredictable year for the insurance sector".

He says: "As the year draws to a close, there have been many aspects of our business lives which have adapted and developed, as much as they have in our personal lives."

For him, the key change, as for so many others in the industry, has been the need to work from home. "Brokers, underwriters, MGAs, everyone has been affected by this in one way or another all having to learn to make business happen from home.

"If it's taught me one thing it's the vital role that communication plays in our industry."

For many years there has been a focus on how the re/insurance industry might reduce the role of face-to-face communications to improve efficiency through digital innovation, he says. "What COVID-19 has taught us is that combining technology with personal communication is the key to broking complex risks in the interests of our clients.

"At Oneglobal we've been picking up the phone, whether on Teams or the old-fashioned telephone. Some found this approach harder than face-to-face discussion, but I can confidently say we are using every resource available to maintain the usual level of communication with our clients and to negotiate on their behalf."

Spicer says that in the near future, he would like to see the use of technology aid peoples' work rather than take the lead. "I want to return to face-to-face negotiation, but with the transactional elements taken online, which the last nine months have proved is something we can do effectively."

Spicer says that 2020 will be remembered at the broking firm for more than just the pandemic. "It's the year that we came into being with our rebrand announced right in the middle of the year. Since then, we've been pushing forward with growing the business, opening in Hong Kong and Singapore and recruiting new members of the team.

"Although we can't wait to get back to seeing each other, our clients and market colleagues in the flesh, I'm incredibly proud of what the team has been able to deliver while working remotely."

Asked about his expectations for 2021, he says insurance rates will rise by a minimum of 10 to 15 percent across the board. "It's difficult to narrow down what specific rate rises will look like in the individual classes of business but there are certain sectors where substantial increases are likely.

"That's not the whole story either, as many underwriters have significantly changed or reduced their appetite for risk and so as brokers, we are having to negotiate hard and be innovative in the way we advocate on behalf of our clients."

Spicer also expects ongoing change in 2021 as the economic impact of COVID-19 and the transformation to working practices comes through across the year. Companies will carry on reviewing the need for office space in large cities and how functionable working from home has been for their business, he adds.

"For Oneglobal this will mean finding the right balance between remote working, office working and meeting with clients. The news of an upcoming vaccine will mean we will soon be able to travel internationally and see more of our clients and our own team and that's something everyone at our company is looking forward to."

The launch of two overseas operations in 2020, in Hong Kong and Singapore, heralds the announcement of more locations due to come on stream early in 2021, he says. "We'll also see the recruitment of more high-quality people in London and around the world."

Spicer adds: "In the market as a whole although we will see continuing rate rises, that is likely to be balanced and mitigated by competitive new capital coming into the market with an appetite to grow, such as the recently announced Inigo.

"Over the course of the year, the economic impact of the pandemic will begin to be seen and we will be focused on making sure we can support and help clients through this period of uncertainty."

In terms of New Year resolutions, Spicer wants to see his firm continue to build out globally. "I believe the broker market is too concentrated into the hands of the big players and if we want a flourishing insurance sector, able to innovate and support economic growth it's important to have genuine competition and choice available to clients."

On a more personal note, he says his family has decided that to do more for the environment in 2021. "We've moved to an electric car and have had solar panels installed at home. Our next step is to look at the products we use at home such as detergents and where possible move to more eco-friendly versions."

He concludes: "We have had an exceptional year, including launching the new Oneglobal brand in lockdown and opening international offices, and although the pandemic has been extremely challenging for everyone, everywhere, I feel optimistic about the recovery that 2021 will bring and our part in that."

Justin Davies, head of EMEA, Xceedance

The acceleration of digital placements, brought about by the enforced changes to working practices as a result of COVID-19, has been a key development of 2020 for Justin Davies, head of EMEA at Xceedance.

He says this change was only right and had been long overdue. "It is my fervent hope this will, in turn, drive companies to further review their wider business workflows, consider optimisation of processes, and apply technologies to create efficiencies across the entire insurance value chain.

"At Xceedance, we are doubling down on similar reviews ourselves and believe digital enablement can result in huge benefits for both our partner clients and for our operations."

But he says there is one "under-the-radar initiative" that could bring great gains to the industry. "This is the exposure data interoperability initiative being driven by the Risk Management Steering Group in Europe and by the Catastrophe Modelling Operating Standards Group in the US. Both are seeking to drive a definition and standardisation of exposure data so that statements of values can easily be passed between stakeholders, who can then easily transform them into relevant formats.

"Such interoperability has the power to create massive benefits for underwriters and risk modellers, and I would urge all organisations to review and adopt those standards when they are available."

In terms of where rates are heading for 2021, Davies says that in general they look to be increasing. "Certain lines had a capacity squeeze and others had an influx through various capital raises by carriers, and start-ups, as they saw rates hardening and opportunities arising. As ever in the insurance world, each line of business will have its own pressures and demands driving rates."

He is hopeful that digitisation initiatives will continue into 2021 and that companies will not just drift back to where they were in 2019, as life returns to normal once vaccinations take effect. "I am seeing increased interest from companies who wish to make better use of the data they have collected over the last few years. Overall, companies are better at understanding how they can use application programming interfaces (APIs) more effectively within their businesses.

"We've seen a number of start-ups at the tail end of 2020 and we should expect to see more in 2021, especially if rates continue to harden."

Davies says that many companies are likely to move towards a hybrid office/home working model, with more reliance on video conferencing, which has proven to be generally effective. "At Xceedance, we are looking at ways to extend video and other forms of remote communication across our global workforce — and potentially creating more localised hubs for team members who are far away from our corporate offices to get together face-to-face."

The pandemic has also given organisations good reasons to re-evaluate business continuity, he says. "We all know it is essentially impossible to plan for black swan events, because by their very nature they are 'unknown unknowns'. However, COVID-19 was more of a 'grey rhino' — an event everyone knows is possible but is so far outside of people's thinking that almost no one explicitly plans for it. I believe risk managers and executive teams will now spend more time thinking about those sorts of events and planning accordingly.

"It is also very likely we will see the development of new insurance products to address such emerging risks."

Davies concludes that it is his firm belief that closer collaboration is needed across the market and he is hopeful the events of 2020 could be the catalyst to make this happen. "There are many areas where multiple insurers each undertake the same, often fairly basic, tasks which I believe can and should be undertaken by one entity under a single market initiative. Significant amounts of time, energy, and money can be saved through collaborative initiatives without any loss of competitive advantage. I am hopeful 2021 is the year in which we can see more industry cooperation."

Kevin Cleary, group chief commercial officer, Optio

Although COVID-19 may have interrupted planned modernisation initiatives in 2020, says Kevin Cleary, group chief commercial officer at Optio, the pandemic has in fact been a real catalyst for change.

"The need to rapidly adopt and depend on technology quickly created unprecedented levels of acceptance and trust in it. The whole market took a significant step forward together this year. This proved not only that we are much more adaptable and resilient than we realised, it has made large-scale technological change seem less daunting and far more attainable."

Cleary says that Lloyd's publication of Blueprint Two in 2020 places the market need for digital transformation "front and centre" for 2021.

"Application programming interfaces (APIs), which are mentioned throughout Blueprint Two, are set to play a significant part in enabling both Lloyd's and the wider market to realise the shared aspiration for digital transformation."

The potential benefits of API technology are huge, he adds, but not all companies have grasped the nettle in using them to connect platforms and applications. "With the ability to radically improve efficiency and accuracy, APIs could prove to be the single most important technology in driving transformational change at a market level."

As an electronic means of enabling systems to connect and interact, APIs allow content to be communicated and embedded between platforms or applications efficiently and accurately, Cleary explains. "The implications of this for insurance are far reaching. With multiple disparate systems connected via APIs, all kinds of processes would be vastly improved. This technology is already eliminating the inefficient and error-prone practice of re-keying data between two platforms used by the same company."

He says that establishing an API between carriers or MGAs and producers of business allows much more efficient and greatly improved access to customers and revenue. "Using APIs in conjunction with analytics further expands the possible benefits to underwriters who want to understand more about the risk they assume.

"This can help inform risk selection and also educate clients who can then take action to improve their defences, which could ultimately yield loss-ratio performance improvements."

Above all else, he adds, the transformational power of APIs lies in the fact that they allow businesses to modernise and gain enormous benefits using the systems and platforms they already have.

"Insurance adoption is still at an early stage but, with many API trials and experiments already producing results beyond all expectations, it promises to be a game-changing technology for early adopters and potentially the market as a whole."

Toby MacLachlan, managing director, Ignite Insurance Systems

The desire to switch to online self-service driven by the pandemic and the realisation that legacy technology often won't allow for this due to monolithic architecture and lack of APIs, is the stand out shift of 2020 for Toby MacLachlan, managing director at Ignite Insurance Systems.

He also points to the UK Financial Conduct Authority's ban on "price-walking" - the practice of expecting customers to pay higher premiums when they renew. He says this will have a big impact next year. "We've already seen some insurers pushing back other projects because of a pressing need to give time to their pricing arrangements.

"We've seen a big move away from the notion that a business should have one system providing their whole back office, rating mechanisms, policy management and finance systems, to realising the benefits of having modular systems that fit together and allow best of breed in each area."

MacLachlan says that Ignite has many clients who use different aspects of the firm's systems. For example, Jensten uses Ignite for its mortgage insurance and accounting functions, and for another client, Freeway, the company just provides back office policy management, he says.

"This modular approach lowers the barrier for entry into the insurtech arena for smaller companies that may not be able to provide end-to-end processes but can add great value in particular areas."

With 2021 finally on the horizon, MacLachlan believes customers will want automated tools to auto-switch their insurance for them. He says that aggregators have made their money historically by causing market churn, but with auto-switch in other industries like energy leading the way, and with price-walking reducing new business volumes, he thinks aggregators will look towards a retention model and customer ownership. “I also see self-service becoming the norm, with customers demanding an integrated digital experience, and a certain demographic increasingly moving companies based on service more than price.”

Taking a view on rates in 2021, he says the consensus is that they will harden, and he agrees. “An unprecedented year will be hard to use to set precedents for future; couple that with reduced capacity, insurers exiting certain business lines, and tech enabling more and better direct offerings, and the market looks set to harden.”

He adds for 2021, he is most looking forward to “getting my excellent team back in the office and enjoying themselves as a company”, as well as re-establishing the firm’s identity. “The team has been great, but it feels like we’re profiting from our strong ethic and culture from 2019, not 2020. We do innovation days every month where all teams down tools and work on whatever cool new idea tickles their fancy, and we get best results on those days when people are talking in person, collaborating and being creative together.

“On an industry level I’d also like to see regulators take the lead in 2021 by focusing on areas where customers are exploited, such as add-on products, premium finance, and high commissions in low competition niches.”

He concludes: “Lots of brokers have come out of COVID-19 with improved processes, a lower staff count, stable policy volumes, and a bit more money than they expected to in mid-April. The one area they haven’t yet tackled, which is fair enough with everything else going on, was their underlying tech. 2021 is going to be the year for that.

“Ignite already has a very full order book for the year ahead and we’re expanding to cope. I’d advise brokers to move fast to keep pace with the rate their competitors are investing in new tech.”