Everyone’s a winner?

What’s next for the UK insurance industry

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Welcome

Change. The market knows it is happening at an unprecedented rate and that more is to come. It has to respond but is it equipped to meet the challenges and exploit the opportunities that will open up?

The UK insurance market has spoken: it is confident and well-placed to thrive amid the global tide of technological and economic disruption.

But another UK insurance market has also spoken: this one has severe doubts about its efficiency, its diversity, and its cultural and technological fitness to face the future.

DWF is delighted to bring you our future of insurance report, highlighting the results from our survey of insurance executives. Join us as we look into what the market is focusing on right now and scan the horizon to see what the market expects to be its focus in five years’ time.

Our aim in commissioning the survey was to gain a clearer view of how insurance market participants envisage the evolution of their marketplace. The report reveals strongly held and clearly articulated views, but also apparently irreconcilable differences and some perplexing inconsistencies with widely reported trends.

A crucial theme in our findings is the opposing visions that market participants have for their respective roles and strategies, and the different perceptions they have of each other. Each type of market participant — insurance companies, brokers, Lloyd’s managing agents and MGAs — expects to be the most potent force in the marketplace of the future, in particular by harnessing technology to their own advantage.

The results tell us that insurers are seeking to ‘disintermediate’ the distribution process, and deal with insureds direct; conversely, intermediaries are looking to expand their risk management and product development offerings to insureds, leaving insurers as providers of capital for risk.

Logic and experience suggest that somebody’s confidence must be misplaced. Will each of the participants really experience the success they expect? Or could we be on the cusp of a paradigm shift in the market, as the economic power or relevance of one or more types of participant is diminished?

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Executive summary

The UK insurance market seen in this survey reveals itself to be in a confident mood, aware of the many challenges it faces but feeling the solutions are within its grasp.

All insurance market players believe they know where their greatest opportunities lie and what they must do to realise their full potential.

Just behind this purr of optimism, there are nagging doubts. Can everyone be a winner? The answers to that question are complex but in many areas each type of participant believes it is or will be in a more advantageous position relative to other market participants. This will produce tensions within the market as brokers, underwriters, Lloyd’s managing agents, MGAs and service providers strive to ensure they have a secure future and are well-positioned to serve customers.

Future-proofing

There are areas of consensus, especially around the major challenges that the market must address as it works towards a better future for itself and its customers. These areas hold out the prospect of collaborative solutions that have the potential to benefit the entire industry (see Conclusion: collaborating to win).

Market participants admit a key barrier to their future success is the culture of the industry and the often defensive mindset of senior people in their own organisations, especially when faced with regulatory pressures. The market needs to strive for greater diversity and learn to reward innovation as it meets technological and regulatory challenges to its longstanding operating models (see Culture: the road to renewal and The regulatory challenge). Distribution costs are recognised as being too high but identifying where and how they can be reduced not surprisingly produces different answers from different market participants. This issue is also on the radar screens of regulators, with the Financial Conduct Authority (FCA) last November launching its own market study to assess how competition is working in the wholesale broker sector (see Distribution and causes for concern).

Technology is seen as enabling better customer service and administrative efficiency, as well as being a driver of product innovation, although the market is unsure which technologies to prioritise for investment. Customer-facing technology is identified as essential but most firms indicate that a clear strategy for unlocking the opportunities is still pending.

There is widespread recognition that technology will create some disruption, with automation and bots in particular seen as key technological threats to employment (see The tech conundrum).

“There is plenty of evidence of the market’s belief in its ability to embrace change and create new opportunities out of it. There is also clear evidence of material doubts.”

A difference of opinion

Another key theme to emerge from the survey is the sharply differing perceptions of brokers and their future role. Brokers and insurers are often shown to have divergent views on the future of the sector and their respective roles within it.

For instance, insurers do not currently see themselves as being centres of underwriting excellence, in itself a surprising revelation. Brokers, however, do see insurers in this way and look to underwriters to provide high-quality solutions to their clients’ needs. Yet their respective positions when the same people were asked to look five years ahead were completely reversed.

Also, insurers, far more than brokers themselves, see brokers’ future profitability as dependent on the brokers’ deployment of MGAs and facilities (see The brokers’ perspective).

As mentioned above, there is plenty of evidence of the market’s belief in its ability to embrace change and create new opportunities out of it. There is also clear evidence of material doubts. It is the market’s struggle to reconcile the self-belief with the self-doubt that provides the deepest insights.
Introduction: the big picture

No one doubts the insurance market is facing a period of unprecedented change. This has been a truism for more than 30 years. But each sector has a very different view of where the biggest changes will be over the next five years.

Customer expectations, technology and regulation have been key drivers of the relentless change in the insurance market: the pace and scope of that change have never been greater.

Most market players believe they are well-equipped to face this whirlwind, and, rather like the fearless Captain MacWhirr in Joseph Conrad's Typhoon, who chooses to face the storm head-on, they are confident they will come through it — if not unscathed, at least in charge of their own destinies.

This optimism is tempered, if not undercut, by several profound uncertainties and potential conflicts.

Each sector has a sharply contrasting view of where the biggest changes will be over the next five years. Insurance companies see themselves building stronger direct relationships with clients, potentially elbowing intermediaries aside as they do. Lloyd’s managing agents, MGAs and never market players place greater transparency firmly at the top of the list with greater scrutiny of intermediary relationships with insurers and their remuneration. Brokers are dismissive of the potential impact of these changes and believe that the key battleground will be control of and access to risk and customer data, and that they will win that battle.

Not surprisingly, these different responses to what market players think will be the biggest single change over the next five years lead them to take different views of its potential profitability, or at least the potential for underwriting margins to improve.

There is a school of thought across all market participants that these changes will have little impact on premium rates. There are some sectors that stand out from that consensus. There are many brokers looking at a market they believe will soften further, a view also to be found, although with less emphasis, among the underwriting community, and a significant minority remains optimistic that rates will harden. The most bullish participants are to be found among Lloyd’s managing agents and MGAs.

Insurers vs brokers

There is far less consensus over the impact on the roles insurers might perform in this radically changed market. Insurers — both companies and Lloyd’s managing agents — see their roles as providers of risk capital to becoming much more important. Where the biggest divergence of opinion is to be found, however, is over the role of insurers as underwriting centres of excellence. This is where self-belief most obviously collides with self-doubt.

Brokers believe strongly that insurers fulfill this role effectively: indeed, they have rather more confidence in insurers’ underwriting expertise than insurers themselves (60% vs 32%). In five years’ time that picture is almost reversed with brokers seeing it as a much diminished role, replaced by product manufacture as the new principal role of insurers (down to 44%). Insurers too believe product manufacture will grow in importance but also clearly see themselves as reasserting their role as centres of underwriting excellence (up to 68%). Nevertheless, brokers do back the London Market in five years’ time to be known for underwriting unusual and complex risks.

Change can mean many things to such a diverse group of businesses. This was explored when participants were asked for their definition of a “changing global insurance market”. The changes being driven by digital innovations with “an increase in demand for risks to be placed and managed digitally” and “an increase in demand for claims to be managed digitally” feature as the most prominent answers. Technology drives change from end to end of the insurance proposition.

The way the different sectors are responding to the digital challenge will start to answer the question: Can everyone be a winner?
02. Culture: the road to renewal

The greatest threat to insurance firms as they embark on the transformational journey they know they must take is their own culture.

The most commonly cited number-one barrier to achieving strategic objectives is “the culture and mindset of the organisation and resistance to change” (by 34% of all respondents). This weighs especially heavy among MGAs and TPAs (40% and 44% respectively). Lloyd’s managing agents were alone among the various sectors not ranking it as their principal barrier to achieving their strategic objectives over the next five years.

Diversity is not the only solution being pursued by the industry as it strives to break the cultural impasse it faces.

Attracting new talent

Improving the diversity of workforces is seen as essential. This is a familiar theme across the insurance industry, and especially in the London Market. A wide range of initiatives is in place across the market and in individual firms to recruit, retain and promote more women, ethnic minorities and younger people. This is not being done merely to move away from the ‘male, pale and stale’ image it has, but also to address the fears that lack of diversity is holding the industry back and denying it the energy and creativity it needs to meet its future challenges.

All sectors place this as the top solution to their cultural problems, although brokers are focusing on this area more than other market participants.

34% cite the culture and mindset of the organisation and resistance to change as the top barrier to achieving strategic objectives

Diversity is not the only solution being pursued by the industry as it strives to break the cultural impasse it faces.

Partnering with other entities, especially the new generation of start-ups, features prominently as another solution being prioritised, especially among brokers. There is markedly less enthusiasm for working with the new kids on the block among Lloyd’s managing agents and MGAs.

This does not mean that either group is resistant to new ideas and influences. MGAs stand out from the rest of the market in their belief that the solution to the cultural impasse they face lies in hiring people with skills and experience from outside the industry. Along with Lloyd’s managing agents, they also share a focus on merger and acquisition as a way of removing barriers and helping to stimulate organic organisational change.

62% of brokers would consider partnering with other entities, especially the new generation of start-ups

Culture and mindset of the organisation/resistance to change

Increased competition (from existing players and new entrants)

IT complexity/legacy systems

Existing or increasing regulation

Brexit or other geo-political unrest

Lack of in-house skills or experience

Figure 4. The biggest barriers to achieving strategic priorities over the next five years

“The insurance industry has to address the fears that lack of diversity is holding the industry back and denying it the energy and creativity it needs to meet its future challenges.”

There is less consensus around the need to change remuneration structures to focus on new values such as innovation and customer service. Insurance companies are the most likely to feature this as a key element of their cultural change strategies as they strive to attract talent from other industries and new businesses with remuneration packages that could incentivise innovation.

Within the overall context of the survey, the market’s responses could indicate a confident willingness to increase the diversity of personnel, systems and ideas, or a nervous acceptance of the need for such increase. The overall responses on the problems with distribution strategies (see Distribution and causes for concern) and lack of coherent direction on technology (see The tech conundrum) suggest that the market feels more needful than generous. Given the pace of technological – and in consequence recruitment and employment – changes in other industries, especially other financial services, the insurance industry may struggle to achieve the deep-rooted change it seeks to make through attracting ‘new blood’.

61% who cite culture and resistance to change as one of their main barriers, believe they can overcome this by increasing the diversity of their workforce
03. Distribution and causes for concern

The focus of concern on the costs of distribution is evenly spread across the market with brokers very aware of the need to control them.

Perhaps the most likely economic explanation is that while the insurance market remains an attractive destination for investment – while claims in general are relatively low – risk-carrying capacity will continue to increase. Insurers will also be forced to continue to chase market share on risks they can currently only access through intermediaries, thus allowing the intermediaries to charge based on their necessity or unavoidability in the risk and premium acquisition process. As indicated in the terms of reference for the FCA’s market study (see Executive summary), there are potentially challenging legal and regulatory questions on the extent to which that charge is falling on insureds rather than insurers, and whether insureds actually appreciate this.

“IT is not clear if anyone inside or outside the market has been able to determine how the various forces in play relate to the high and rising cost of distribution.”

Top of the list of priorities for insurers, Lloyd’s managing agents and MGAs is increasing the chargeable value of existing services provided to other market participants. Brokers, perhaps sensitive to criticisms of their existing fees and commissions, focus instead on developing new services for which they can charge as a strategic priority.

How these competing forces play out over the next five years will be a key influence in shaping the future of the London Market and its position in the global insurance market. Technological change, and harnessing that change, will be vital in determining the success of distribution and other business strategies. However, The tech conundrum chapter shows that it is far from clear which participants can realistically expect such success.

It is not clear if anyone inside or outside the market has been able to determine how the various forces in play relate to the high and rising cost of distribution.

Of insurance brokers see reducing the cost of distribution as of strategic importance.

Of respondents view increasing the chargeable value of existing services to other market participants as the principal strategic priority.
The tech conundrum

The potential inconsistencies, if not conflicts, between respondents’ perceptions of the risks and opportunities in technological change give the impression of a lack of clarity for the market as a whole around the current and planned investments in different technologies.

Overall, the survey reveals that insurers take the most positive view of technology and see themselves as benefiting far more than brokers from technological changes, in particular by using data to supplant brokers’ client relationships. The view from the broker perspective challenges this, exposing the collection, ownership, control and effective analysis of data as one of the key battlegrounds between different market players.

It is not only over data that insurers, brokers and others reveal diverging opinions – possibly even a degree of confusion – over which technologies will have the greatest impact and where. Customer apps, claims handling and employment are all areas where the market as a whole seems uncertain of the future.

Insurers believe they will increasingly have a direct relationship with clients without the involvement of intermediaries. This will be driven by their investments in customer apps, allowing policyholders direct access to their underwriting expertise. Brokers, on the other hand, are strongly of the view that they will have more access to and control of risk data, especially client data.

There is a significant school of thought among market participants, especially InsurTech businesses (although not so for brokers) that greater transparency as to intermediaries’ dealings with insurers and others will drive the greatest change in the industry over the next five years. As such, it may be that technology will be used to increase this transparency.

If views on how technology will drive change lack any market consensus, views on the overall impact of different technologies in terms of risk and opportunity show a remarkable level of agreement.

The greatest fears in terms of technologies that will present a risk over the next five years are dominated by automation – and with it the growing use of bots – and blockchain. Some of the concern around these technologies could be driven by the fear of the unknown because all market participants place them low down on the list of technologies they are currently using but high on the list of technologies they are planning to invest in over the next five years.

“Alongside customer apps, the big opportunities are expected to emerge through a greater use of the Internet of Things, Artificial Intelligence and big data.”

Risks and opportunities

Alongside customer apps, the big opportunities are expected to emerge through a greater use of the Internet of Things (IoT), Artificial Intelligence (AI) and big data. Mobile technologies and the modernisation of legacy systems are also opening up opportunities for new and more efficient ways of doing business, although there are also many who feel that modernising legacy systems carries a significant risk.

The single biggest change in the insurance industry over the next five years for insurers and brokers

45% of insurance firms say the biggest change over the next five years will be to increasingly have a direct relationship with clients, without involvement of an intermediary

52% of insurers say they will increasingly have a direct relationship with clients, without the involvement of an intermediary

52% of brokers say they will have more access to and control of risk data

52% of the market plan to invest in blockchain in the next five years, whereas only 11% are currently using the technology

The MGA market will be significantly larger and more powerful

Insurance brokers will have more access to and control of risk data, especially client data.

Insurance companies say the biggest change over the next five years will be to increasingly have a direct relationship with clients, without involvement of an intermediary

Insurers will increasingly have a direct relationship with clients, without the involvement of an intermediary

There will be more transparency on intermediaries’ (i.e. brokers, MGAs) dealings with insurers and their remuneration

Brokers will have more access to and control of risk data

The MGA market will be significantly larger and more powerful

Insurance companies

Insurance brokers

Internet of Things

AI/machine learning

Big data

Mobile

Customer apps

Modelling legacy systems

Cloud tech

Automation/ bots

Blockchain

Drones

Currently using

Plan to invest in in the next 5 years

45%

16%

22%

15%

18%

52%
Everyone’s a winner?

What’s next for the UK insurance industry

There are some contradictions throughout the responses to the questions about technology, which suggest a high degree of uncertainty about how technology is affecting insurance and whether internal investment in technology will have the expected impact. More than three-quarters of respondents say the IoT is a technology they are currently using and place it at the top of the list of technological developments they expect to have the greatest impact. Yet every type of participant places it at the bottom of the list of technologies they are planning to invest in over the next five years, perhaps indicating they believe its transformational effect is outside their control, or that they will have largely harnessed its benefits by then.

The overall impact of technology and automation on employment in the industry produced a relatively reassuring picture for those employed in the sector, although this may seem at odds with wider studies of the impact of AI and automation on white collar and professional jobs.

Every type of firm expects to employ more people in specific areas of the business but the overall impact on the numbers of people employed is predicted to be virtually neutral. Of course, this masks significant shifts in emphasis with greater reliance being placed on IT, data, marketing and customer relationship roles, probably at the expense of administrative jobs and roles that can easily be taken over by AI.

The unstructured responses to a question about what will be the benefits delivered by increased use of technology laid the greatest stress on improving data quality, greater administrative efficiency, faster processes and, in claims, better fraud detection.

Where the question is raised on disruption to claims services by new entrants, there is a reluctance to accept that fundamental change is taking place. Many respondents dismiss new entrants entirely, saying they would have little or no impact. Others focus on the automation of existing processes as the way to respond.

The overall impact of technology and automation on employment in the industry produced a relatively reassuring picture for those employed in the sector.

There are some wide discrepancies across the market in terms of how firms believe technology will affect employment. Insurers see an impact across the board – more people in IT, customer relationship management, regulation and compliance and a de-skilled claims function. Lloyd’s managing agents and MGAs see the de-skilling of claims as being the area of biggest impact on employee numbers, while brokers see greater regulatory and legal burden as being the biggest driver.

There is a consistent emphasis on automating existing processes, rather than transforming them. Less than one-third of respondents predict an increased demand for digital claims management over the next five years, while document production and storage is seen as an area where technology will have a major impact, especially among Lloyd’s managing agents.

Only a minority – mainly from insurance companies and loss adjusters – say the claims proposition would have to be reinvented, especially to become more customer-focused.

<table>
<thead>
<tr>
<th>62%</th>
<th>18%</th>
<th>16%</th>
<th>14%</th>
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</thead>
<tbody>
<tr>
<td>More employees in specific areas or types of business</td>
<td>More employees in all areas</td>
<td>Fewer employees in specific areas or types of business</td>
<td>Fewer employees in all areas</td>
</tr>
</tbody>
</table>

Figure 9. Changes to employment in the insurance market in five years’ time

18% of respondents plan to invest in the IoT over the next five years despite 76% currently using the technology.

62% of those surveyed think there will be more employees in specific areas or types of business in the insurance market in five years’ time.

2/3 of those involved in product sales regard the greatest impact from technology being in customer service and distribution.

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The overall impact of technology and automation on employment in the industry produced a relatively reassuring picture for those employed in the sector.
05. The regulatory challenge

One of the greatest threats that insurance executives see to their careers in five years’ time will be personal regulatory sanction in respect of their firm’s compliance breaches, although the threats of redundancy or consequences of poor financial performance are also significant concerns.

The fear of regulatory sanction gnaws away at senior executives. They feel they cannot ignore it as a threat to their careers but when pressed to identify one factor as the biggest risk they will face, taking the blame for poor financial results comes out as the top concern for executives in every sector, except MGAs where regulatory sanction is most likely to keep them awake at night.

Senior managers are unlikely to be sitting back waiting for one of these risks to emerge and derail their career. They will be evolving strategies and tactics to deal with them. This comes through in the responses, which produced a mixture of defensive and proactive actions.

For the proactive executive, being seen to challenge assumptions and plans at the highest level offered the best way forward, with brokers the most likely to adopt this as their first-line strategy. However, as many who offered this as their top response also marked it as their least likely response, showing a clear polarisation between the bold and the cautious.

For others, it will be by contributing to the effective running of a business by having a good general understanding of all operations, although a similar proportion say they will adopt a ‘stick to my knitting’ strategy by maintaining their expertise in a key area.

Across the board, however, there is also a consistent desire to have a precisely drawn contract of employment and scope of responsibilities.

Regulatory and compliance pressures are clearly keenly felt by individual executives but that is not to say that the industry is passively accepting that is the way it has to be. Firms show a strong appetite for greater government lobbying, especially in order to manage the costs and claims exposures from legal and regulatory change.

“Firms show a strong appetite for greater government lobbying, especially in order to manage the costs and claims exposures from legal and regulatory change.”

61% of the insurance market sees changing the claims landscape as a way a firm’s claims service strategy will change.
The brokers’ perspective

On many issues, brokers seem to take a different view of the future of the industry.

The broker community has a clear sense of where it wins influence and shapes the future market but this is often distinct from the view taken by the risk-carrying community, even, on some issues, appearing to bring the two communities into conflict.

When asked for an overview of the state of the market, brokers are the respondent group mostly likely to predict that the market will soften over the next five years. This is in sharp contrast to the bullish expectations of a hardening market among Lloyd’s managing agents and the “more of the same” view among insurers.

By contrast, brokers are exceptionally bullish about their role in the industry five years from now.

A confident approach

While every sector takes a predictably optimistic view of its ability to exert influence over the others as the market changes in the next five years, brokers have the most robust view of their ability to influence change. TPAs also place a lot of confidence in the ability of brokers to exert influence over a changing market. To a lesser extent so do Lloyd’s managing agents.

Brokers also say they will be seeking to extend their influence over individual claims decisions by having greater in-house claims expertise than others have, even if it is more expensive. They will find themselves up against insurers and MGAs who give similar weight to this aim. The best opportunity for brokers deploying their claims offering might be in the Lloyd’s market, where managing agents showed little enthusiasm for expansion of their resources in this area.

As a result of their confidence for handling a wide variety of business challenges, brokers are taking a discrete approach towards change. Brokers demonstrated stronger preferences than the rest of the market in key areas to overcome barriers to success.

Brokers are planning to increase workforce diversity further and faster than the market as a whole, partner with other entities and bring in talent from beyond the industry. They also share with insurers a willingness to change remuneration structures to focus on innovation and customer service.

Collectively, these results convey the impression of a sector that acknowledges it has to change and already has a clear sense of how it is going to change.

62% of brokers aim to overcome cultural challenges and resistance to change by partnering with other entities

73% of brokers aim to overcome cultural challenges and resistance to change by increasing the diversity of their workforce
07.

The end of the boom for MGAs?

One of the key trends in the UK insurance market over the past decade has been the significant growth of the MGA sector. As the numbers have grown so has the range of risks they seek to intermediate. Could this boom be about to come to an end?

The survey responses suggest that the MGA boom has run its course. Less than a fifth of all respondents think MGAs will be significantly larger and more powerful five years from now. Even MGAs share this view as only a quarter of them believe their sector will be significantly larger, although this does not necessarily mean that they do not see scope for modest growth.

MGAs do see growing pressures on themselves as insurers build closer direct relationships with clients and greater transparency is demanded around MGAs’ dealings with insurers and of their remuneration. By contrast, brokers, which one might imagine are subject to the same pressures, are almost dismissive of them.

MGAs also reveal some doubts about the strength of their business model.

Strength of strategy

The overwhelmingly number-one strategic priority for MGAs is reducing overheads (93% compared with 56% for the market as a whole). This is also a challenge other market participants are facing but to nowhere near the same extent as MGAs. At the same time, they are the market participants who see increasing the chargeable value of existing services provided to other market participants as holding the key strategic importance.

This clear focus on reducing costs and raising new revenues might be common to most businesses but it enjoys a very clear priority for MGAs.

MGAs also see consolidation as helping to solve their business challenges. 54% point to the strategic importance of mergers in improving efficiency, compared with only 39% of all respondents. This feeds through to the potential of mergers and acquisitions as a way to drive organisational change. Three-quarters of MGAs see this as a key benefit of M&A compared with less than half of all respondents.

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<tr>
<th>Strategic Priorities</th>
<th>MGAs</th>
<th>Overall</th>
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<tbody>
<tr>
<td>Reduce overheads</td>
<td>93%</td>
<td>56%</td>
</tr>
<tr>
<td>Improve efficiency</td>
<td>67%</td>
<td>60%</td>
</tr>
<tr>
<td>Transforming business</td>
<td>67%</td>
<td>55%</td>
</tr>
<tr>
<td>Reduce overheads</td>
<td>60%</td>
<td>53%</td>
</tr>
<tr>
<td>Responding to Brexit</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>Invest in both</td>
<td>30%</td>
<td>18%</td>
</tr>
<tr>
<td>Focus on competition</td>
<td>20%</td>
<td>11%</td>
</tr>
<tr>
<td>Explore new markets</td>
<td>18%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Figure 14. Strategic priorities over the next five years

| "The overwhelmingly number-one strategic priority for MGAs is reducing overheads. This is also a challenge other market participants are facing but to nowhere near the same extent as MGAs." |
Lloyd’s: specialisms to the fore

Lloyd’s managing agents take the view more strongly than insurance companies or brokers that intermediary remuneration and transactional transparency will be the biggest change in the insurance market over the next five years. As a sector dependent on the broker market, this has clear implications for their business model.

When it comes to the underwriting cycle, managing agents are the most optimistic set of market participants about the market hardening. This is linked to their perceptions of how their role as centres of underwriting excellence will grow significantly over the next five years.

Lloyd’s perspectives might not be fully aligned with the rest of the market in other areas, however. Overall, respondents said the future of the London Market will be in deploying broking and underwriting expertise to intermediate risks for insurers and reinsurers outside the UK, especially so for managing agents.

Full of energy

The lines of business that will be most successful are a key area where Lloyd’s managing agents’ attention might be focused in different places to the brokers, who will be expected to bring them business. Asked which out of a selection of product lines will the London Market be a global leader in five years from now, energy risks is the line most favoured by Lloyd’s managing agents (82%) with excess layers and emerging risks, such as cyber, also featuring strongly.

Other players see the strengths of the London Market going forward in other areas. Insurers and brokers both look to the London Market as retaining its global leadership as a reinsurance market, although they share the view of Lloyd’s underwriters that energy will also remain important. Of course, there are global reinsurance companies with a significant presence in the London Market and these must feature in the thinking of brokers and insurance companies when they say they will continue to rate the London Market highly as a leader in reinsurance.

“Asked which out of a selection of product lines the London Market will be a global leader in five years from now, energy risks is the line most favoured by Lloyd’s managing agents.”

62% of respondents say innovation and entrepreneurialism is what the London Market will be known for in five years’ time.
Where customers fit in

‘The customer is king’ is an oft-quoted mantra of marketing gurus. In a subscription market with a complex supply chain, there is often a difference as to who is the customer of whom from commercial, legal and regulatory perspectives. Nevertheless, the ultimate policyholders must necessarily fit into the picture.

The market acknowledges policyholders as being influential, although with differing degrees of influence.

When it comes to commercial policyholders, insurance companies, brokers and MGAs all view them as exerting some influence over the market. Market participants might not regard policyholders as quite as influential as the participants themselves but, with weightings of between 24% and 30%, the views of commercial policyholders are going to be influential in shaping the industry’s response to change. However, for Lloyd’s managing agents, commercial customers are seen as far less influential.

‘The customer is king’ is an oft-quoted mantra of marketing gurus. In a subscription market with a complex supply chain, there is often a difference as to who is the customer of whom from commercial, legal and regulatory perspectives. Nevertheless, the ultimate policyholders must necessarily fit into the picture.

Transparency as to where gross premium is allocated – an explicit issue for MGAs and tech (and implicit for distribution) – is seen as the key area where commercial policyholders will be influential.

Personal lines policyholders are seen as being less influential by the market, except by Lloyd’s managing agents where 27% believe they will exert more influence over the market as a result of more transparency, compared with 18% overall. This is in sharp contrast to Lloyd’s managing agents’ expectation of commercial policyholder influence, which they only put at 9%.

It is the anticipated investment in technology that will empower consumers because it will give them greater control over their data. Wherever you look, data is a key battleground.

“...
10. Conclusion: collaborating to win

Market participants might have contrasting views of how change is going to affect them but they all see a role for themselves and each other, at least over the next five years.

There is no sense that one group in the market wants to use this era of rapid, profound change to eliminate, as opposed to dominate, another group.

There are challenges that are specific to some sectors and these have been highlighted in this report. However, there are also many common challenges that the market faces and which can be best tackled through collaborative rather than competitive action.

Calls to action

- Accelerate the changes required to transform culture. Every firm in the insurance market needs to reinvigorate its culture by wholeheartedly embracing diversity (see Culture: the road to renewal). The image of insurance as a whole has not changed substantially over time, but there are a number of initiatives to address this, such as the Dive In Festival, Independent Women in Insurance Network, the Chartered Insurance Institute’s New Generation programme and via The Brokerage Citylink. If the market is to achieve the change it wants to see, the pursuit of these initiatives needs to be supported and expanded, and the principles behind them embedded in the culture of every firm in the market.

- Develop deeper understanding of how technology will impact businesses, both at the customer interface and in terms of skills required. Everyone recognises that this is a digital revolution but many firms are uncertain of how to respond to that (see The tech conundrum). There are opportunities to engage with tech innovators to ensure they develop solutions that are relevant to the insurance industry and its customers, especially around accessing, managing and analysing data. It could turn into a battleground and that would benefit no one.

- Market participants should engage with each other to identify how distribution costs can be reduced. The sense that the cost of doing business, especially in the London Market, is too high is widely shared (see Distribution and causes for concern): the solution should be shared too.

- Identify and focus on developing core strengths that are valued by other market participants. Added-value services feature prominently in many responses. Developing a clearer sense of where real value is added in the insurance transaction process will help firms focus on developing the right services.

- Develop an agenda for lobbying government for further reforms to control claims exposures and costs. There are already several reforms making their way through Parliament but, once these are enacted, what next? The market needs to come together to identify the reforms that will help it reduce costs and serve customers better (see The regulatory challenge).

“There are many common challenges that the market faces, which can be best tackled through collaborative rather than competitive action.”
About DWF

DWF is a pre-eminent legal service provider to the insurance industry, working with insurance companies, Lloyd’s managing agents, brokers, managing general agents and corporate policyholders/self-insureds.

We deliver excellence in helping our clients pursue their objectives and overcome their challenges. As a full-service legal business, we provide sophisticated and effective solutions, focusing on innovation, technology and a multi-disciplinary approach.

We handle the full spectrum of insurance coverage and defence work – from the most strategic, sensitive, complex and high-value cases, to entire books of outsourced motor, casualty, property and professional indemnity claims.

Our corporate insurance expertise covers all phases and features in the life-cycle and operations of an insurance business, including:

• product design and development;
• data management and protection;
• financing, authorisation and start up;
• senior appointments and governance;
• conduct and prudential supervision and enforcement, including investigations;
• international licensing and cross-border business;
• outsourcing;
• acquisitions and disposals; and
• restructuring, run-off and legacy issues.

Whatever unfolds for the insurance market, we are able to help participants with all aspects of their operations. As we extend our reach internationally, DWF is a truly global business partner for our clients.

Beyond borders, sectors and expectations

DWF is a global legal business, connecting expert services with innovative thinkers across diverse sectors. Like us, our clients recognise that the world is changing fast and the old rules no longer apply.

That’s why we’re always finding agile ways to tackle new challenges together. But we don’t simply claim to be different. We prove it through every detail of our work, across every level. We go beyond conventions and expectations.

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