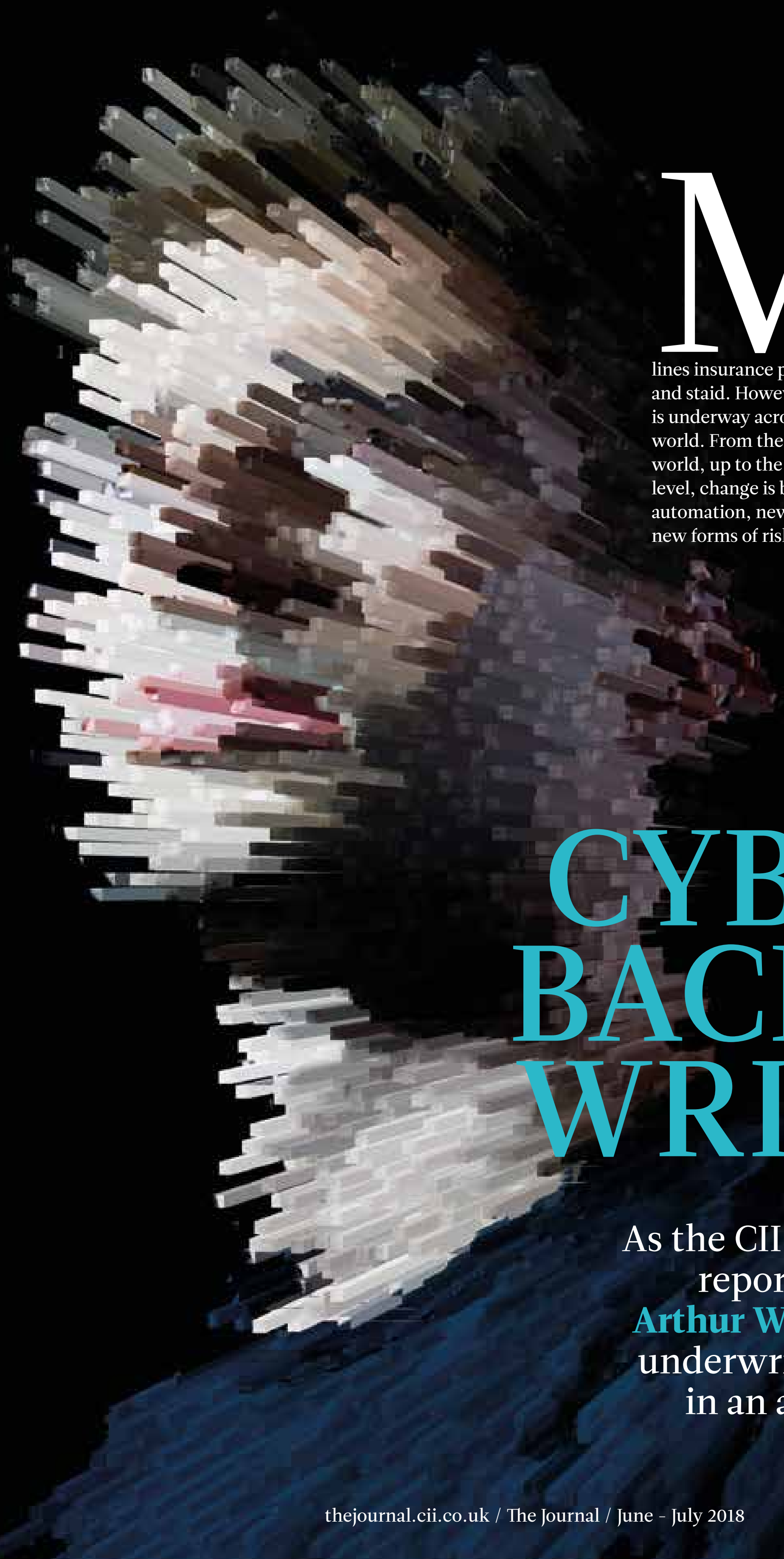

CYBER-BACKED WRITER

As the CII publishes a new report on the subject, **Arthur White** looks at the underwriter of the future in an age of disruption

Media buzz about change and disruption in insurance usually focuses on insurtech and personal lines, with commercial lines insurance perceived as more traditional and staid. However, important transformation is underway across the commercial insurance world. From the small and microbusiness world, up to the large corporate and wholesale level, change is being fuelled by digital automation, new forms of competition and new forms of risk.

Disruption is already high on the agenda in most boardrooms, with all sectors starting to feel the implications of factors such as increased automation, continuing cost and pricing trends, and the rise of data-driven analysis. The capabilities, tools and the skills necessary to build winning business models will change and, although the role of the underwriter will not vanish, it will evolve radically. Simply put, insurers cannot afford to stand still.

In 2012, the CII partnered with global management consultancy Oliver Wyman to publish a report: *The Underwriter of the Future: Secrets to Commercial Success*. This study painted a picture of what the UK's commercial insurance market might look like in 2022.

This year, 2018, passes the halfway milestone of that first study, so our recently published report *The Underwriter of the Future: Understanding Rapid Transformation on the Road to 2027*, takes stock of the current market. It looks at which predictions played out as expected and where there have been new developments, asking what this means for the insurance executives and underwriters of today. It also takes a cross-country view, looking at trends in the UK and comparing and contrasting these with market experiences in Germany and the US.

STATE OF PLAY IN 2018

In the UK, the SME market has been developing largely as forecasted. There has been notable progress towards direct and online distribution for micro and small risks. At the larger end of SME, person-to-person relationships still predominate but the economics of the traditional branch-based, manually-underwritten model continue to deteriorate. Insurers are using significantly more automated placement and model-based pricing, and broker and insurer platforms (with full end-to-end automated processing of placement) are gaining share.

All these trends will go further during the next 10 years. Customers will demand more price transparency, faster turnaround times and lower costs – forcing insurers to significantly re-engineer their service proposition and operating model. Outside the UK, similar trends are also beginning to play out in Germany and the US, meaning insurers in these markets will soon also be facing similar tough choices.

In the large corporate and wholesale markets worldwide, customer needs have evolved less rapidly than was predicted in 2012. Some corporates are retaining more risks, although fewer than expected. Markets for 'new economy' risks, such as supply chain and cyber, have not reached their full potential yet. However, their longer-term impact will be significant, as 'Industry 4.0' changes the risks companies face and how they manage them.

Instead, the real pressure in large corporate and wholesale has been on the supply side, with the ongoing abundance of capital continuing to put the traditional industry under major cost and competitive pressure. The traditional broker-insurer-reinsurer value chain is fragmenting, with innovative insurers showing willingness to separate capital provision from risk selection and underwriting.

Likewise, some non-insurer players – such as brokers, MGAs and reinsurers – have been starting to bypass traditional primary insurers to create their own new hybrid models. Traditional insurers have been caught between the pincers of cheap capital and distributor encroachment – catalysing some major consolidation moves, alongside attempts to digitise the traditionally artisanal, decentralised approach to selecting and pricing risk.

TECHNOLOGY IMPLICATIONS

These changes in the commercial insurance sector will continue to add business and operating-model complexity. Technology in particular

EXHIBIT 1:

SUMMARY: OUR PREDICTIONS FOR THE "FUTURE OF THE UNDERWRITER" IN SME

WHAT WE PREDICTED LAST TIME FOR 2022

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

WHAT'S HAPPENED FIVE YEARS IN?

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

OUTLOOK TO 2027

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

will create a barrage of issues as products, customers and channel experiences evolve. Established players need to be willing to tackle the major costs and disruption required to create new platforms and propositions. At the same time, they must also undertake the unenviable task of moving away from legacy systems and distribution assets. The industry will also need to work out how to embrace the productivity and effectiveness unleashed by technology and analytics advancements. The role of the underwriter will need to be significantly enhanced by technology. This could be termed the 'bionic' model, combining the best of man and machine.

In short, we see the future as an inseparable blend of digital technology and human capabilities. In SME, efficiency, automation and e-trading will be a prerequisite. Fortunately, it will become much simpler to acquire these capabilities through microservice-enabled software-as-a-service solutions and API-based services. These already exist today in banking and such solutions are currently being introduced in retail insurance by players like IBA or Guidewire.

> BY 2027, THE BEST UNDERWRITING TEAMS WILL BE A HEADY MIXTURE OF STATISTICIANS, ENGINEERS AND TECHNOLOGY DEVELOPERS

However, it is not enough to simply acquire capabilities. Many insurers have so far taken an incremental approach to implementing digital via a series of point solutions. This raises the very real danger that they will end up with a 'spaghetti architecture', which will be the next decade's legacy IT problem. Firms therefore also need to design their new bionic architecture today. This will require agile experimentation and a very different capability from digitisation and automation. Much more in-house agile coding will also become essential.

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

REMAINING COMPETITIVE

In short, CEOs of established insurers and brokers face many harsh choices during the next few years. Worst case, if they do not find new ways to compete, they risk being burdened with declining volumes and high trapped costs – and with their competitive advantage slowly but steadily eroded.

There are also major implications for individual underwriters and for underwriting leaders. We see far less traditional, case-based underwriting in regional offices for SMEs – but more automated, portfolio-underwritten business that may open up opportunities for those willing and able to fit into teams combining sophisticated analytical, data engineering, technological and entrepreneurial skills.

In the large corporate world, there will still be demand for those able to understand, select and price complex risks – but with much more technological and analytical sophistication. There will also be significant pressure to reduce the cost and complexity of today's fragmented and artisanal process flows.

Underwriting leadership will need to work out how to source the capabilities needed, whether and how to upskill existing staff; and how to make their departments an attractive place for new kinds of talent. They will need to help underwriters be more creative and openminded in their ways of assessing, pricing and limiting risk for clients. By 2027, the best underwriting teams will be a heady mixture of statisticians, engineers and technology developers.

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

***Arthur White** is partner at Oliver Wyman*

EXHIBIT2:

OUR PREDICTIONS FOR THE "FUTURE OF THE UNDERWRITER" IN LARGER CORPORATE & SPECIALTY

WHAT WE PREDICTED LAST TIME FOR 2022

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

WHAT'S HAPPENED FIVE YEARS IN?

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

OUTLOOK TO 2027

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