IS THE INSURANCE MARKET FIT FOR THE FUTURE?

How the evolving risk landscape is changing the role of risk managers and insurers

FUTURE

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Foreword by Airmic

As we all know, the world is set to change at an exponential speed and the risk and insurance profession is part of that change. At Airmic, we want to understand the nature of this transformation, so we can help to shape the future of the risk management profession for the benefit of our members and to inform our future research and knowledge and skills programmes.

We launched our largest ever survey in partnership with Longitude, provider of world-class expertise in thought leadership and research, to understand the nature of this transformation and its impact on businesses, the risk landscape and the roles and responsibilities of those in the risk management profession. The result is a differentiated and valuable insight that will make unique contributions to the 'profession debate'.

The results show risk and insurance managers are embracing change in a transformative business landscape – and that there are opportunities for all. We review a number of these opportunities in detail in three deep-dive mini reports:

- *The value of risk and insurance management* – how to demonstrate the value of insurance management and the strategic contribution members can make in a fast-changing business landscape, supported by JLT
- *Digital transformation* – how digitalisation is transforming business models while creating strategic opportunities for members, supported by Chubb
- *Is the insurance market fit for the future?* – an exploration of the changing risk and business landscape and the insurer's role in tomorrow's world, supported by Axa Corporate Solutions.

These mini reports are part of the larger survey report, *A profession in transformation*, which provides the bigger picture and further horizon-scanning analysis to inform today's risk and insurance managers as tomorrow's risk professionals.

It is clear from our research that risk and insurance managers are key contributors to the future success of business. Increasingly they should operate at a strategic level to provide perspective and understanding, to help organisations build resilience with sustainability and release opportunities and potential. Based on a foundation of specialised knowledge, skills and experience, the risk management role is about supporting decision-making and creating value.

Julia Graham, Deputy Chief Executive and Technical Director, Airmic


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In today's
interconnected
world, reputation
and brand value
can be damaged
in seconds

Foreword by AXA

Against a backdrop of risk managers and insurance buyers demanding products and services compatible with the modern world, services that help them understand, prevent and mitigate emerging risks and protect intangible assets, this report is designed to consider what risk managers really need and to visualise how an ideal insurance market should be structured to deliver those requirements.

Perhaps the biggest challenge all industries face today is having the courage to wave goodbye to much that has served them well in the past, and to embrace tools and practices that will enable them to stay relevant in today's environment, particularly when it comes to ever evolving client needs. It's understandable that much of our time is spent trying to maintain profitability in a low interest, highly competitive environment; however at some point every industry must consider the reality that perhaps the business models that have served us so well in the past need a complete overhaul.

Contemplating the findings of this survey has really given us the opportunity to take a step back from our usual routine to consider the fundamental question 'Is today's insurance market fit for purpose?', and we are grateful for the input from Airmic members which has provided a great deal of genuine insight into the topic.

AXA Corporate Solutions is delighted to partner Airmic in the both the production and deployment of this report. I hope you will consider it a strong foundation for further discussion, and I am confident it will help us to move forward together.

John Pickersgill, Global Chief Commercial Officer AXA Corporate Solutions

Inside...

About this research

This study is part of a wider survey project into the future of the risk management profession, entitled *A profession in transformation*.

While the main report summarises the full findings of the research project, this document is part of a three-part series that delves deeper into the three core themes within *A profession in transformation*

The three mini-reports include:
The value of risk and insurance management Articulating the value of insurance in the face of an evolving risk landscape

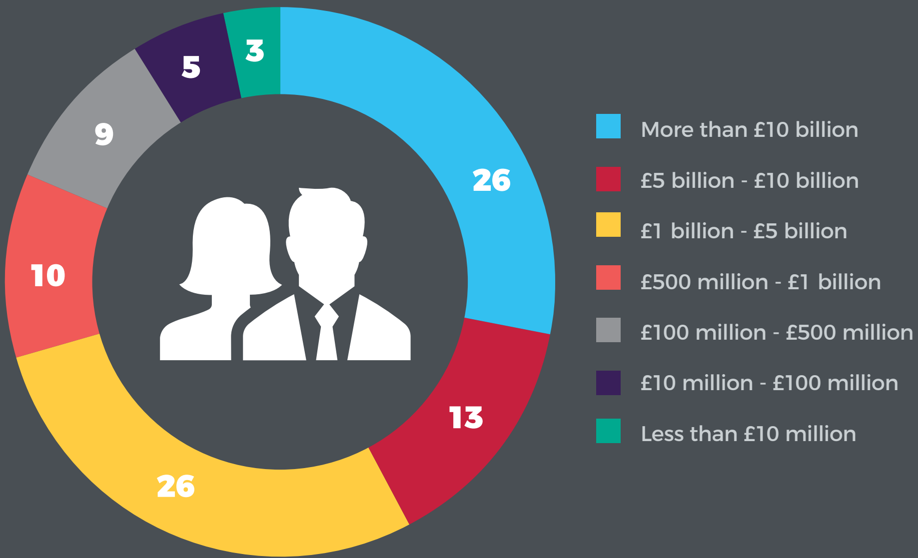
Digital transformation and the risk landscape The risks and opportunities for risk and insurance managers

Is the insurance market fit for the future? How this risk landscape is transforming the role of risk managers and the wider insurance market

The survey is based on the responses of 152 risk managers at companies of varying sizes and across a range of business sectors, as well as on a series of qualitative interviews.

Due to rounding, and the use of multiple-choice questions, some figures and charts in this report may not add up to 100%.

Respondents' business size (%)



Split of respondents by company size

About the respondents

Split of respondents by job title

Executive summary

Increasing value

Risk managers are increasingly being called on to support strategic decision-making in a complex and fast-evolving business environment. Their value is gaining recognition at board level – if they are not seen as strategic business enablers today, they will be. Some 82% of respondents say the value of risk management will increase over the next three years. The same percentage forecast that risk will become a regular item on the boardroom agenda in that same time period.

Need for change

Risk and insurance managers are well placed to produce strategic and value-creating opportunities, but for this to be fully realised, the profession must undergo significant change, say 74% of respondents. Learning and development areas have also been identified for the management of strategic and intangible risks.

Brand equity risk

Business models are shifting from tangible to intangible assets, placing reputational equity risks as the biggest risk that keeps risk and insurance managers awake at night. More than half of respondents say damage to reputation is their most ‘top of mind’ risk today. And, although the percentage drops slightly to 41% in three years’ time, it is still recognised as the biggest threat for the future. Risks to other intangible assets such as data also feature among the top five threats. Cyber risk causing loss of data is the fourth biggest threat to businesses and will continue to be a big risk in the near future.

82%
say the value of risk management will rise over the next three years

51%
cite loss of reputation are the top concern

27%
are confident about responding to cyber incidents leading to loss of data

Mitigation

Risk and insurance managers are opting to manage strategic and intangible risks in-house either by reducing or retaining them as opposed to transferring them to the insurance market. For reputation loss and brand damage nearly half plan to reduce and retain the risk, respectively and only 3% see a role for the insurance industry. Some 83% of respondents have chosen to reduce and retain risks linked to new business models; the first choice is to reduce, with a much smaller proportion looking to retain the risks.

Learning curves

Risk and insurance managers identified learning curves in understanding strategic and intangible risks. New business models arising from emerging technologies, and risks to intangible assets prompt negative or very low responses in terms of how risk and insurance managers perceive their ability to respond to them. And less than a third are confident about responding to cyber incidents that lead to loss or theft of data.

Help from insurers

Risk and insurance managers point to further use of value-added services from insurers to help them manage intangible risks. Some 23% of respondents currently buy value-added services and 39% intend to do so in the next three years. Respondents also predict an increase in insurance with bundled solutions, from 16% today to 24%.

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Shifting business model
To ensure that it is fit for the future, the insurance market needs to transform its business model, shifting from a transactions-driven model to a partnership model, where relationships are established between insurers, brokers and risk managers.

Need for partnerships
The insurance industry is poised to develop value-added services to help respond to strategic and intangible risks. But it requires strong partnerships from risk and insurance managers and brokers to further understand the risks and build the right solutions.

Avoiding losses
Corporate insurers should also make their offerings more prescriptive – moving from mitigation to prevention, and leveraging smart technologies to help avoid future losses.

> “More and more risk managers are being called upon to support strategic decision-making in this complex environment

Evolving risk

The ever-evolving business landscape is susceptible both to traditional hazards such as fire and explosion and to new complex threats such as intangible risks. So the strategic importance of risk management has never been greater.

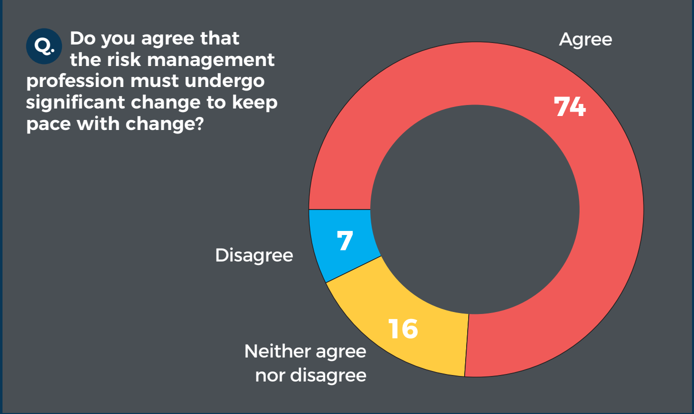
This means the role and responsibilities of today's risk managers are transforming. They are expanding from managing traditional operational threats (internally driven risks affecting the ability to deliver strategic objectives, such as operating controls and compliance[1]) to strategic risks (the uncertainties and untapped opportunities embedded in a company's strategic intent – and the threats created by adopting and executing corporate strategy[1]).

Encouragingly, more and more risk managers are being called upon to support strategic decision-making in this complex business environment.

Their value is also gaining recognition at board level.

If they are not seen as strategic business enablers today, they will be in the future. So say the vast majority of UK risk and insurance managers surveyed for Airmic's *A profession in transformationfor the future* study.

Chart 1: Risk management must evolve to meet future challenges



[1] PwC, *Insurance 2020: Turning change into opportunity, 2012*

landscape

Some 82% of respondents believe the value of risk management will increase over the next three years, and the same percentage say risk will become a regular item on the boardroom agenda during the same period.

This is helped by the revised corporate governance code from the UK Financial Reporting Council (FRC), which places a greater onus on the board of directors to ensure the effective management of risk. It formalises the requirement to assess and detail risks that could threaten business models, performance, solvency or liquidity in regular long-term viability statements.

It is left to boards to determine the timescale for reviewing these statements, but the optimal timeframe is generally considered to be three years[2] – the same period in which respondents see increases in their value.

For the profession to realise these strategic and value-creating opportunities, it must undergo significant change to keep pace with the fast-evolving and complex environment, according to 74% of respondents.

Risks driven by globalisation, advanced digital technologies and changing business models are accelerating change and creating challenges that have become more profound as a result of three factors:

- **Speed of change** – of markets, environments and distribution. The rate of acceleration requires a speed of response that is greater than anything previously experienced
- **Complexity** – of risk, business models, technology dependence and the external environment beyond anything so far experienced
- **Transparency** – (planned or otherwise) occasioned by social media, traditional media and the pervading investigative environment[2]

The risks driving this environment – the 'accelerators of change' – have been identified by respondents as the

[2] Chartered Global Management Account, *Ensuring Corporate Viability in an uncertain world: framing the board conversation risk*, 2017

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> threats that are top-of-mind today and likely to be so in the future. Respondents say risks to intangible assets such as reputation and data breach – principally triggered by changing business models and cyber attacks – are among the top five threats both now and in three years.

TANGIBLE TO INTANGIBLE

As businesses begin to shift their investment from tangible assets (machinery, equipment and buildings) to intangible assets (computerised information and data; innovative property such as scientific and non-scientific R&D, copyrights, designs, trademarks; and economic competencies including reputational equity[3]) – risks to intangible assets will continue to rise in importance.

Global competition, new business models, advances in technology and the increasing importance of the services industry are making sure of that. In fact, the growth of intangible assets outpaces that of tangible assets – 84% of the S&P 500's market value is now held in intangible assets, up from 17% four decades ago[4].

Risks to intangible assets will undoubtedly remain a prime focus for risk managers in the future, says Paul Lowin, Regional Commercial Manager, AXA Corporate Solutions, UK. "I see a landscape where concerns regarding risks to intangible assets increase. Knowledge companies represent a growing proportion of the economy and these companies own relatively few physical assets, trading primarily on their reputation.

"And in today's increasingly interconnected and transparent world, where mobile communications and social media connect people globally, reputation and brand value can be damaged in a matter of seconds.

"In extreme cases, loss of reputation can bring down an entire business. It is these types of new and intangible risks that underpin the challenges for risk managers and the insurance industry at large."

Unsurprisingly, loss of reputation and brand value are ranked as the number one area of risk, with more than half of respondents (51%) singling this out as their top >

> **I can only foresee a landscape where risks to intangible assets will increase**

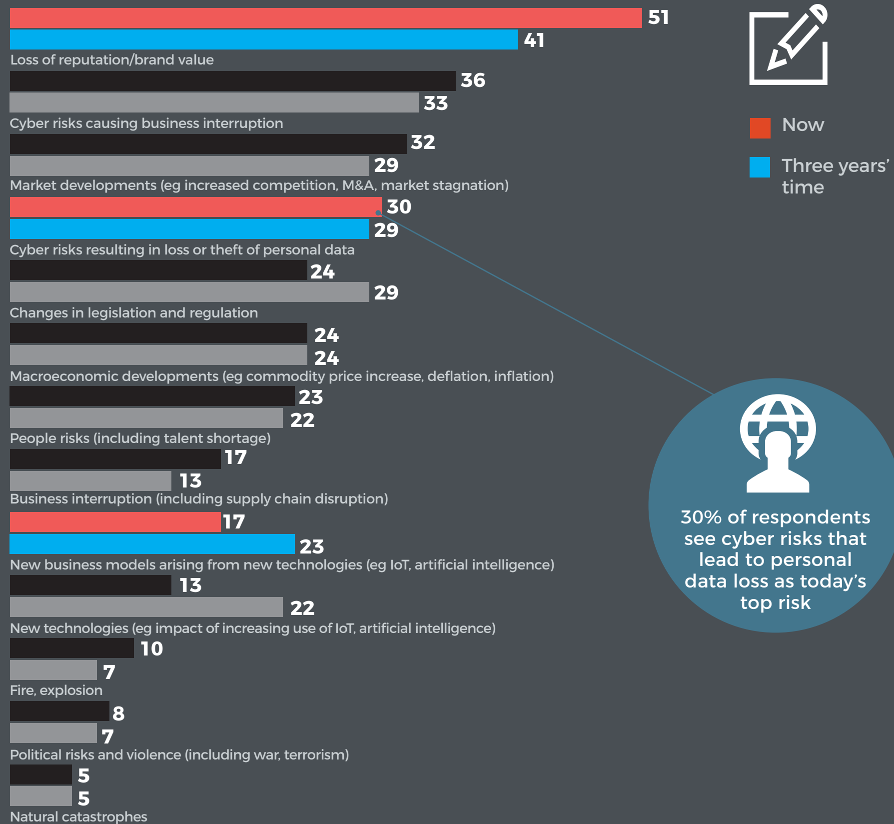
[3] OECD, *New sources of growth: intangible assets, 2011*

[4] Ocean Tomo, *Annual study of intangible asset market value, 2015*

Results

Chart 2: Top-of-mind risks today and in three years' time

Q. Please pick the top three business risks for your company today, and also the top three risks in three years' time



30% of respondents see cyber risks that lead to personal data loss as today's top risk

> risk. Although the figure drops to 41% in three years' time, it is still identified as the biggest threat facing risk managers in the future.

At the same time, brand damage is an all-pervading risk driven by a wide range of threats – fraud, bribery, corruption, cyber attacks and security breaches, product liability and recall, third-party risks – any of which can have an impact on reputation and brand value.

WORK IN PROGRESS

As this report shows, the solutions and management of intangible risks such as reputation loss are still being developed and understood. And there is still some way to go, says John Ludlow, Chief Executive, Airmic.

"Everyone is worried about reputation but, as with all efforts concerning intangible assets, they are fragmented," he says. "We must stand back and look at reputation management holistically – from how to manage reputation as an asset and identify the risks and opportunities, to developing an in-depth understanding of how to manage the issues and incidents, as well as how to respond and recover from the impact of crises."

This does not mean traditional risks should be ignored, even if the management of them is mature compared with those that threaten intangible assets.

The new business landscape will amplify traditional risks too, says AXA Corporate Solutions' Lowin. "New technologies are developing at speed and are creating new paths for disrupters to enter and pick up market share very quickly. This is putting pressure on businesses to react quickly to new competition and, in a more immediate world, compromises are being made to the time allocated to test new products and solutions, giving rise to increased liability risks.

"Innovations such as driverless cars will likely cause a shift in claims patterns from attritional to catastrophe losses. If the technology goes down, for example, or is 'hacked', there will be a greater likelihood of multiple losses linked to the same proximate cause.

"The same goes for artificial intelligence – if there is a fault in the technology that is controlling a number of products, the impact will be severe. We may have fewer individual losses, but those that do happen will have greater scale and impact."

CYBER DAMAGE

Lowin adds: "Cyber risk is another example of a relatively new threat that could exacerbate older, more traditional risks, in that a cyber attack can cause physical damage to hardware and in some cases to property."

Transformation of the business landscape and of the risk management profession is under way – and opportunities are there for risk managers to grasp. As Julia Graham, Deputy Chief Executive and Technical Director, Airmic, puts it, "Risk management releases opportunities and potential."

KEY TAKEAWAYS

- Risks driven by globalisation, advanced digital technologies and changing business models are accelerating change. Risks to intangible assets, including reputational equity, will continue to be a core focus for risk and insurance managers today and in the future

- Traditional risks should not be ignored. The new business landscape will amplify traditional risks too, causing them to be more severe

- Risk and insurance managers are poised to be the game changers in today's complex and fast-evolving business landscape. Roles and responsibilities are expanding from operational risks to strategic risks and opportunities are ripe for risk managers to create value by informing and influencing strategic decisions

Risk mitigation today

If the business and risk landscape is transforming – expanding from tangible assets to intangibles, from operational hazards to strategic risks – insurers will need to adapt too.

But many of these intangible and strategic risks fall outside traditional insurance, with some underinsured or considered uninsurable because the cause of loss does not result in a physical event or damage to property.

In addition, a lack of historical data creates challenges in quantifying and pricing the risks.

It is no surprise then that the vast majority of respondents plan to manage the risks in-house, either by reducing or retaining them. These are the preferred methods for reputation loss and brand damage, for example, where 46% and 48% plan to reduce and retain the risk, respectively with only 3% seeing a role for the insurance industry.

Similarly, for new business models, respondents are opting to reduce (63%) and retain (20%) these risks, while only 3% say they will transfer the risks to the insurance market.

For other intangible risks, the first choice is to reduce risks (44%), with a smaller proportion (11%) looking to retain the risks.

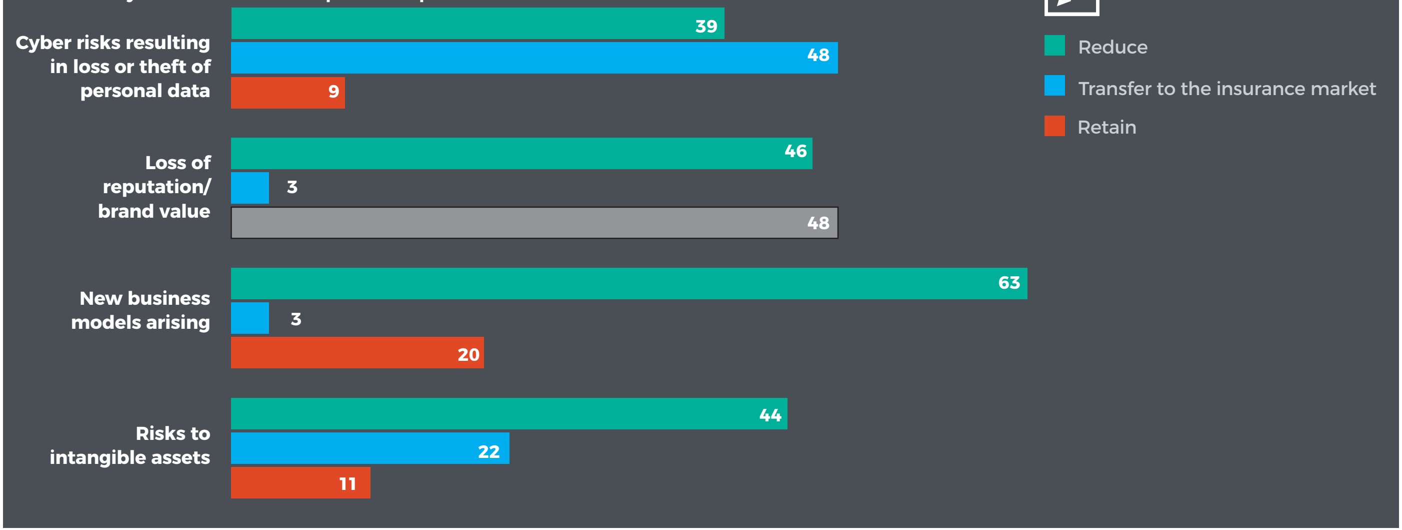
Few risk and insurance managers, however, are satisfied with their current level of capabilities and resources to respond to and prevent these risks, principally because they

> **Many intangible and strategic risks fall outside traditional insurance**

and tomorrow

Chart 3: Tomorrow's risk mitigation strategies

Q. **What approach do you expect to take in future to mitigate the risks that you identified in the previous question?**



FOCUS: Views on insurance purchasing

Q. From whom do you expect to buy insurance products from in the future? This was a multiple choice question and respondents were given the option to choose as many of these purchasing options.

75%
via insurance intermediary

43%
direct from the insurer

5%
via online insurance providers such as Google or Amazon

3%
via artificial inteligence or automated insurance agents such as chatbot

While insurers are working on closing the gaps in service provision for intangible and strategic risks, risk and insurance managers are showing continued confidence in the market for the transfer of traditional risks.

In a multiple-choice question, where respondents were asked to select all or as many insurance purchasing options for the future, respondents are electing to purchase through a combination of two main options – some policies through a broker and other coverage direct from an insurer. Purchasing coverage through an intermediary is still the preferred choice, say 75% of respondents but, interestingly, more than four in ten intend to buy direct from an insurer in the future.

This trend is more likely to be found in personal lines and individual life insurance sectors, where internet, mobility and social networking have created a new generation of customers demanding speed and convenience[1] – a gap plugged by online tools that enable direct purchasing.

It is a trend that may spread to commercial lines if corporate insurers identify the right routes to market.

If that is the case, risk and insurance managers are likely to consider such services – a sentiment reflected by just under half of the respondents to this survey.

Some insurers are dipping their toes in these waters, albeit for small to medium-sized business. Hiscox, for instance, has been selling professional liability direct to small businesses through the web, while Berkshire Hathaway has plans to sell workers compensation insurance to small businesses online[2].

How this will work for large complex corporate insurance is up for debate, particularly as few risk and insurance managers see little value in buying insurance through online platforms and artificial intelligence-driven channels.

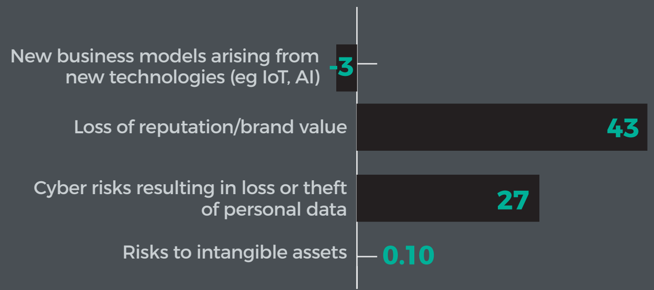
1 PwC, Insurance 2020: Turning change into opportunity, 2012
2 Deloitte Center for Financial Services, Insurers on the brink Disrupt or be disrupted, 2016

are new and emerging, constantly evolving and less well understood than traditional risks.

New business models arising from emerging technologies and risks to intangible assets prompt negative or low responses (-3% and 0.1%, respectively) in terms of how risk and insurance managers perceive their ability to respond to them. And less than a third (27%) are confident in responding to cyber incidents that lead to loss or theft of data.

Chart 4: Capabilities and resources

Q. How satisfied are you with your current level of capabilities and resources to respond to these risks?



These statistics are worked out on a net balance of whether respondents were satisfied (positive) or not satisfied (negative). The results for new business models arising from new technologies were 0% of respondents satisfied and 43% quite satisfied, combined with the 37% and 9% not at all satisfied, creating a net balance of -3%.

NEW CHALLENGES

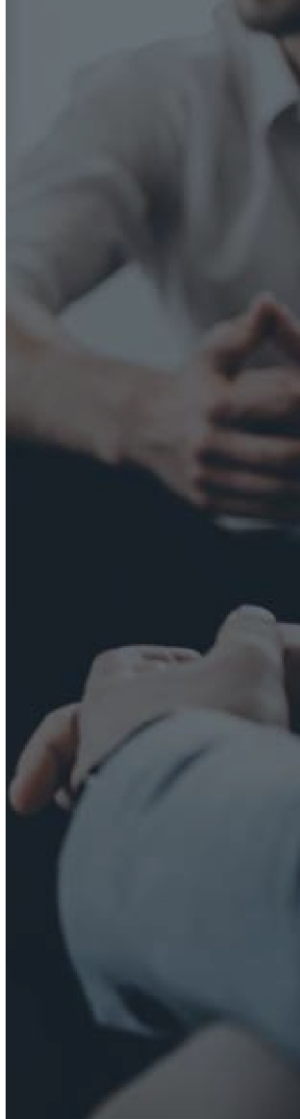
A higher proportion of respondents feel more comfortable in managing brand damage (43%). This may be because a loss can be triggered by a wide range of risks, such as business interruption, supply chain disruption and natural catastrophe – areas where risk and insurance managers have demonstrated greater confidence.

But as a number of high-profile incidents have shown, averting a reputational crisis – or one that has compromised intangible assets if, say, data has been stolen – is far from straightforward.

The immediacy and global reach of social media and other mobile and communications channels means that negative communication can spread around the world in a few keystrokes and erode consumer trust and confidence almost instantly.

TalkTalk, Barclays and Carphone Warehouse are all too aware of this. Between them, hackers stole personal data belonging of tens of thousands of customers, potentially more.

The incidents were widely reported and analysed in the media – together, the companies suffered tens of millions of pounds worth of estimated >



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We need to provide a service for intangible risks. But that is a service to help corporates mitigate the threats

losses resulting from clean-up charges, regulatory fines and falls in share price.

These case studies demonstrate the severity and scale of the challenge should a company suffer a loss to their intangible assets.

The risks cannot be managed by companies alone. This challenge calls for the support of the insurance industry, particularly where risk and insurance managers have identified learning curves in their capabilities to manage these risks, says Paul Lowin, regional commercial manager, AXA Corporate Solutions, UK.

"Traditional risks will always threaten businesses, but as a market we have a time-tested approach for dealing with these risks. This is illustrated by the fact that a lot of risk managers are taking higher deductibles, self-insuring and using different vehicles for what are well understood risks.

"What is happening, though, is that the business landscape is changing so quickly that we are challenged by more global and complex threats to assets. These have a high impact and can cause considerable loss.

He adds: "We recognise that for risks to intangible assets, traditional insurance will become less and less relevant. We also recognise that risk and insurance managers need support to better understand these new and challenging risks. It is clear from this survey that corporates are planning to reduce and retain these risks and, as a first step, insurers, brokers and risk managers must work together to design and improve value-added services designed to mitigate and/or prevent losses."

VALUE-ADDED SERVICES

While self-insurance is the biggest area of investment today and in the future, respondents point to value-added services to help them manage intangible risks.

These include legal and media support, which can help de-risk the impact on reputational equity by ensuring a careful and timely response to regulators, media and customers.

Some 23% of respondents currently buy value-added services and 39% intend to do so in the next three years (compared with 3% who will transfer reputational equity risk and 11% who will transfer other intangible threats). Insurance with bundled solutions is also forecast to increase from 16% today to 24% in the future.

Although these services will become an important risk mitigation tool in the future, they represent key development areas within the insurance industry.

The Head of Insurance for a major travel company – a survey respondent who selected 'value-added' and 'self-insurance' as areas of potential investment – says: "One reason for the increase in self-insurance is a concern among large corporates over whether insurance is able to offer viable solutions to deal with intangible and emerging risks."

But the respondent sees value in other services from insurers. "In the

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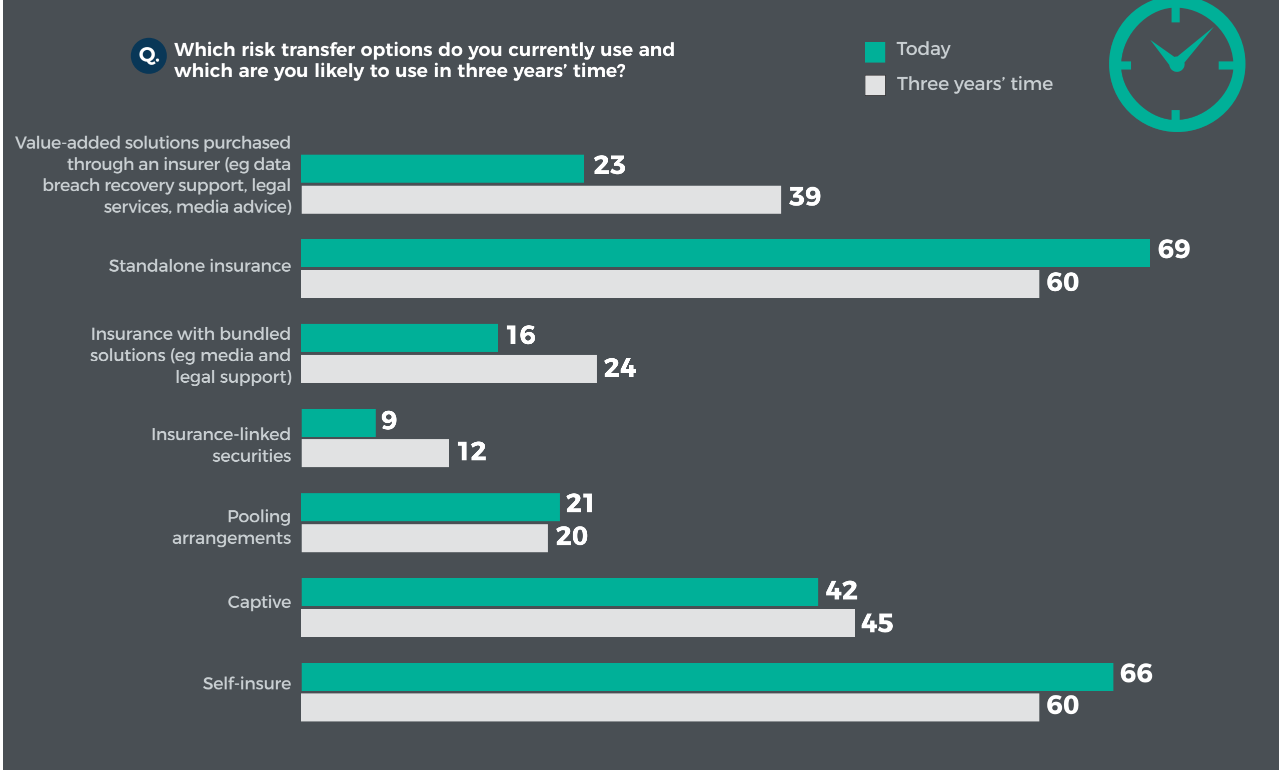
Chart 5: Trends in risk transfer



> absence of risk transfer, there are good value-added services and incident response support from insurers. Because of their size, insurers can negotiate competitive arrangements with vendors on a global basis, who can provide a tailored service. Risk modelling and analytical techniques and advice on risk control are all areas that corporates will likely invest in."

Insurers plan to seek opportunities to improve value-added services, particularly in respect of intangible risks, says Lowin. "We need to provide a service to clients to help them combat risks to their intangible assets. This does not mean risk transfer but more likely risk mitigation."

But insurers are not satisfied with simply providing incident response services to these threats. They want to help risk and insurance managers better prevent the risks, says Lowin, and the insurer role is transforming as a result of the changing risk landscape.

"The huge potential cost of some emerging risks means traditional risk transfer is no longer a viable strategy. The level of premium required to 'cover' the risk and the huge, often poorly understood and largely volatile exposure an insurer is asked to carry in their P&L makes risk transfer an unattractive option for both parties.

"The best option is to find ways to stop the loss happening – technologies can surely help. But we can't fund or resource these preventative solutions alone. To develop the right solutions requires a big shift in the willingness of all parties to work together for the common good.

"These risks are transforming our roles as insurers too. We are evolving from a carrier that has traditionally simply accepted risk and paid claims to a partner who wants to work closely with clients to assess and understand individual risks so we can build tailored services that better meet the needs of today's business environment."

POWER OF TECHNOLOGY

John Pickersgill, Global Chief Commercial Officer, AXA Corporate Solutions, adds: "To achieve this goal, insurers must embrace and harness the power of technology. We can learn from InsurTech and it is for this reason that carriers such as AXA are investing in InsurTech ventures.

"We need to radically transform our business models. InsurTech ventures will act as a catalyst, as a learning platform.

"Our clients are demanding products and services relevant to the modern world, services to help them understand, prevent and mitigate emerging risks and protect intangible assets.

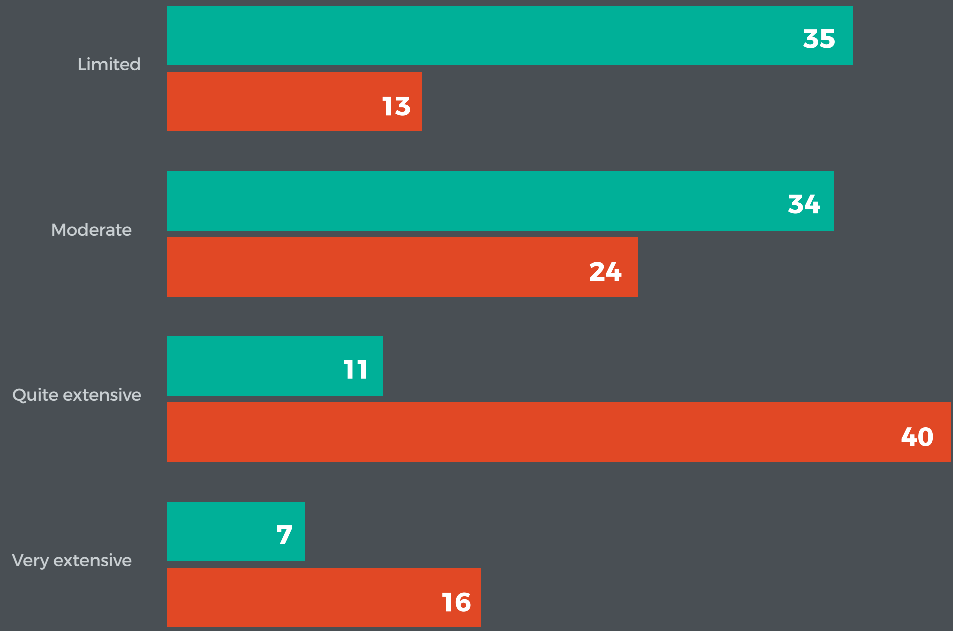
"A move from predictive to prescriptive analytics supported by the use of artificial intelligence, cloud computing and straight-through processing will increase efficiency, help create client-focused solutions and keep us relevant to today's world. We will then be able to dedicate more time to what humans do best, adding the personal touch in a market that, in my opinion, will always need face to face interaction."

Data analytics

FOCUS: The growing role of data analytics

Now Three years' time

Q. What use do you currently make of data analytics within your risk function and what use do you expect to make of it in three years' time?



One area where risk managers foresee rapid development is in the use of data analytics. More than a third of risk managers say that their use of analytics tools today is limited, while 18% describe it as extensive.

But within three years, more than half of risk managers expect to be using data analytics either quite or very extensively in their roles.

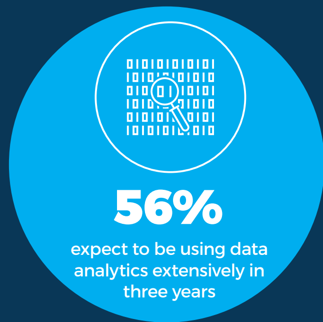
Advances in data analytic technologies and an increase in the provision of risk management information systems are improving strategic decision-making and offering smarter ways to measure and understand risks.

These advances come at a peak time of transformation, when businesses are faced with a range of new and complex risks.

However, barriers exist in a lack of budget, poor-quality data and difficulty in accessing data.

Mark Platten, Chief Underwriting Officer at AXA Corporate Solutions UK, says this may change in the near future: “Our clients seem to be making massive investment in analytics that will help them drive sales. This is evident in the retail sector – for instance, where customer sale trends are analysed and used to better target their products and services. The investment does not however today extend to analytics for risk management. But as the value of risk management increases, this will likely change.

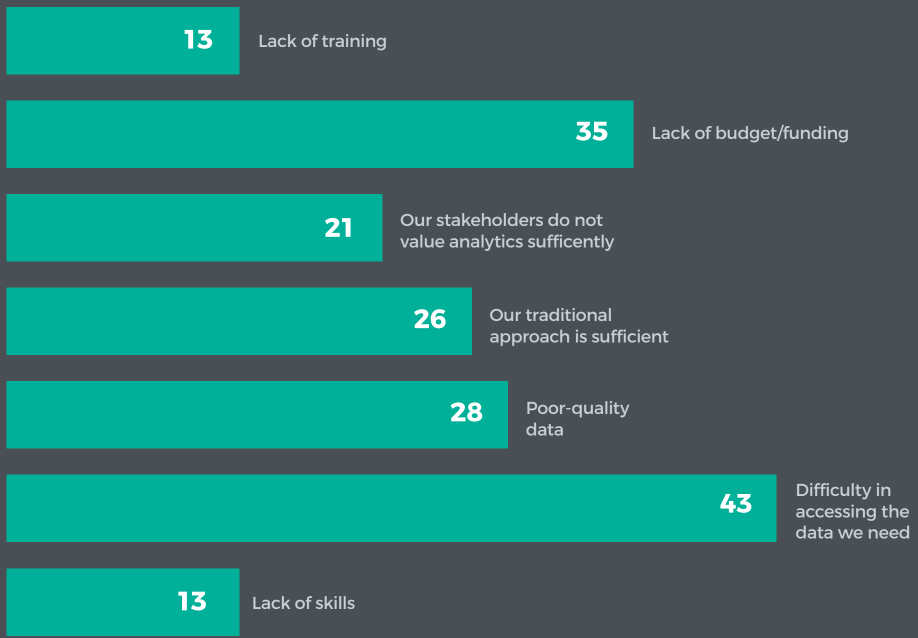
“In the meantime, insurers are investing innovation effort in analytics to further support risk and insurance managers. We too face challenges in accessing the data that we hold, such as claims information, which may be useful for benchmarking. The barriers are in part down to legacy IT problems, but the industry is working on overcoming that – with some insurers making impressive inroads.”

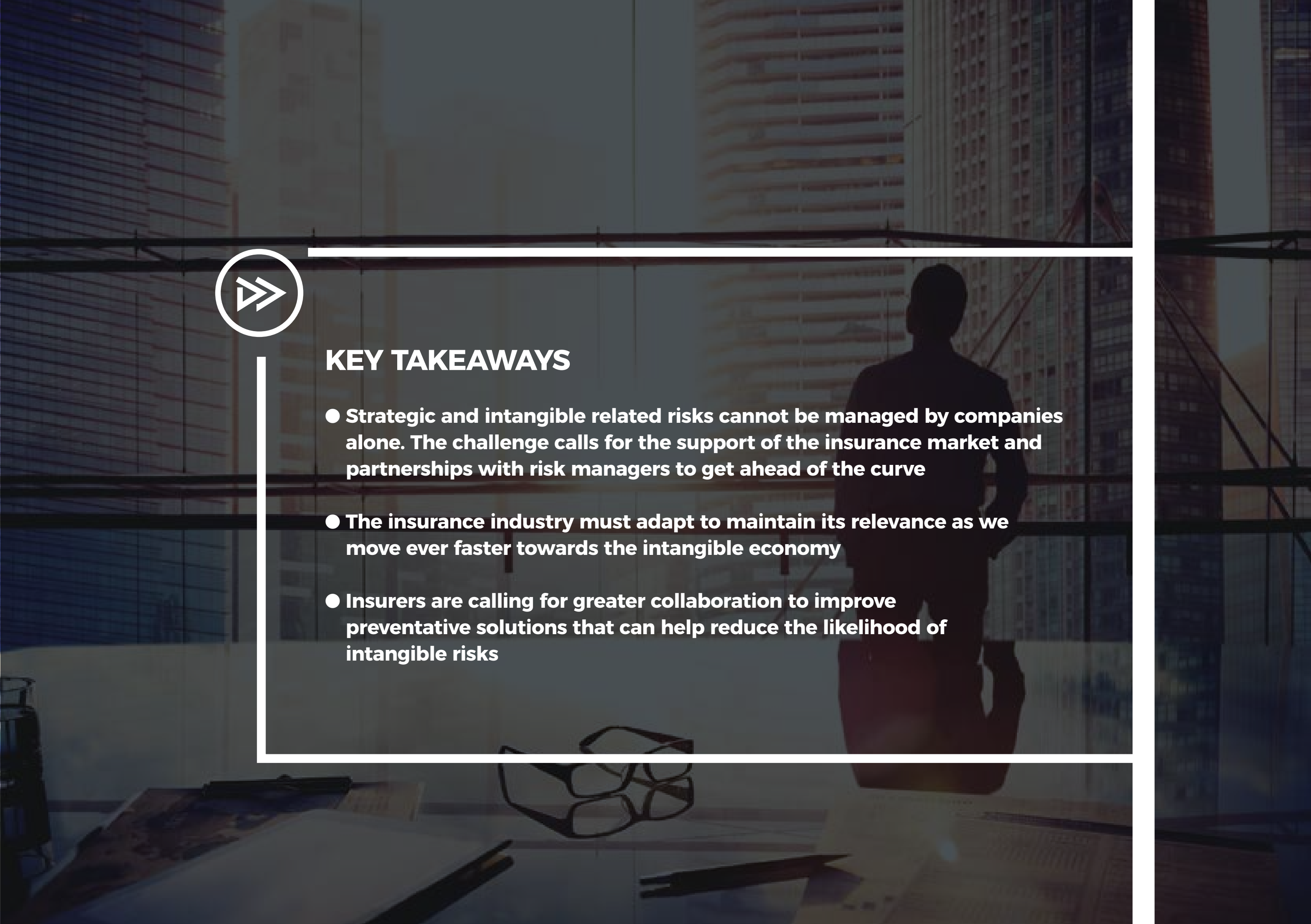


Data analytics

What is holding back use of data analytics?

Q. If you do not currently make extensive use of analytics, what are the principal reasons for this?





KEY TAKEAWAYS

- Strategic and intangible related risks cannot be managed by companies alone. The challenge calls for the support of the insurance market and partnerships with risk managers to get ahead of the curve

- The insurance industry must adapt to maintain its relevance as we move ever faster towards the intangible economy

- Insurers are calling for greater collaboration to improve preventative solutions that can help reduce the likelihood of intangible risks

The future

Disruptive innovation driven by technological advances, globalisation and evolving corporate demands are threatening conventional insurance models, whereby insurers offer loss protection for a premium.

Seen as a transactions-driven model – where risks are transferred and claims are paid out – the market needs to shift to a partnership model, where relationships between insurers, brokers and risk managers are harnessed.

Collaboration is the only way to improve the understanding, prevention and mitigation of today's complex corporate risks, says Paul Lowin, Regional Commercial Manager, AXA Corporate Solutions, UK.

"To an extent, today's market is aimed primarily at risk transfer. It is adversarial and simplistic. At the moment, the model is: there is a risk; it is transferred to the market for a premium; claims are paid.

"The market is hung up on annual renewals and a lot of resource is spent on chasing new business.

"This model does not work for more complex risks such as those that threaten intangible assets. These risks require a longer term consultative approach."

He adds: "Before the market can develop the right solutions for tomorrow's risks, we first need to get better at understanding them. This is only going to happen if there is true partnership between the insurer, the insured and the broker – so that we can pool our knowledge and utilise our expertise to prevent risk

"Before the market can develop the right solutions for tomorrow's risks, we first need to get better at understanding them

rather than simply transfer it.

"In the future, insurers will play a more cooperative role, where they will work proactively with their clients to help them understand, avoid and reduce their losses."

DISRUPTIVE FORCES

Disruptive innovations have emerged in personal lines insurance, perhaps much more so than in commercial insurance. Price transparency and the rise of online price comparison sites, dis-intermediated direct purchase and greater commoditisation are gradually pushing traditional models out of the picture.

Some of these disruptive forces are slowly appearing in commercial lines too, where products and services have naturally commoditised over time and, principally, a challenging business landscape is putting strain on traditional risk transfer models.

In personal lines, some insurers have turned disruption into opportunities, taking innovative steps to stay ahead of the game. There are lessons to be learnt and innovations that can be applied to commercial lines to ensure their value is not drained.

These opportunities can be found in the use of smart technologies. Mark Platten draws the following comparisons – which sees Healthcare and Personal Lines insurers expand focus from risk transfer to more preventative solutions.

"AXA PPP has expanded its value proposition to embrace preventative support. For instance, clients are given access to discounted gym membership and wearable technology that tracks and measures exercise activities, weight and more – as a way of getting clients engaged in an active lifestyle and so prevent losses. This information is used to work out where claims are coming from and to inform product ideas.

"Home insurance is also going down this route, again using smart technologies – homeowners and tenants can be alerted to potential hazards, such as pipes on the brink of freezing.

"We can take this learning and apply it to corporates –

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for example, connective technology chips in ships to track geo-positioning and provide engine diagnostics, which will inform of potential hazards.”

“Parametric insurance – which uses new types of information and big data processing to build custom-made insurance against unexpected weather events (see case study ‘Innovating in the face of climate change).”

These opportunities, he says, are on a bigger scale than those taken by personal lines and needs full cooperation from risk managers and the insurance market at large. “It is through true partnership that innovative solutions can be realised,” he says.

While some regard corporate insurers as slow to innovate, the opportunities are clearly there. In most cases, corporate insurers are poised for tomorrow’s business landscape – it just takes collaboration.

Platten says: “The market recognises the need to change, from risk managers whose role and risk profile is evolving, to broker and insurer business models under pressure to transform.

“Everyone is aware of what the future might hold and building blocks are being placed. Risk managers are considering the skills and knowledge needed to become a strategic business enabler, and insurers and brokers are looking at new ways to offer the right solutions appropriate to today’s reality.

“But successful transformation requires teamwork and partnership. We need to work together to make the shift.”

CASE STUDY: INNOVATING IN THE FACE OF CLIMATE CHANGE

Global temperatures are rising and the world is facing extreme weather events like never before. According to NASA and the National Oceanic and Atmospheric Administration (NOAA), Earth’s average surface temperature in 2014 was the highest on record, meaning our planet was likely the warmest it has been in a millennia. Yet the weather is increasingly behaving differently from one region to the next: the winter of 2013-2014 was one of the coldest in the US Northeast, one of the warmest in France and one of the wettest in the UK. These weather anomalies hurt businesses and people alike. Companies see their bottom lines affected, economies take a hit and vulnerable populations face severe food security and health issues. Science and technology provide promising solutions.

AXA Corporate Solutions recently launched a department solely focused on a new type of insurance: parametric, or index insurance, which uses new types of information and big data processing methods to build custom-made insurance covers against unexpected weather events. Parametric insurance is simple: the insured’s losses are correlated to an index, say rainfall in millimeters, and a set amount is paid out if that index is reached. The index can be measured via weather stations or, increasingly, satellite images, making parametric insurance one of the most innovative, affordable and fitting solutions for weather-sensitive companies and populations. Although many are insured against natural catastrophes, very few are covered against the economic and human consequences of weather anomalies. By continually coming up with innovative solutions, AXA is committed to protecting the weather-sensitive around the world

KEY TAKEAWAYS

- Insurers need to move away from a transactions-driven model to a partnership-focused model, where collaboration with the wider market and risk and insurance managers is at the heart of forward thinking
- In the future, insurers will play a more cooperative role, and will proactively help clients to avoid and reduce losses
- Insurers plan to turn disruption into opportunities. Leveraging lessons from personal lines insurers, which have experienced greater levels of disruption, there are opportunities to create innovative and preventative solutions by using smart technology. But input from risk and insurance managers is needed to ensure opportunities are realised

CORPORATE SOLUTIONS

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To ensure we are able to service the insurance needs of multi-national corporations and large organisations in our chosen markets we have developed significant and expert local presence which includes teams of highly experienced and specialised underwriters, a multi-disciplined and expert claims team, and a network of highly capable risk engineers. This expert local presence, due to the unique structure of AXA Corporate Solutions, is able to call upon (and easily utilise) specialised resource from every corner of the globe to the benefit of our clients, whether this be via our extensive international network or through the pooling of world-wide knowledge and experience."

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