

The insurance cycle: why hard and soft markets exist and how to navigate them

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Adapting to change. Together



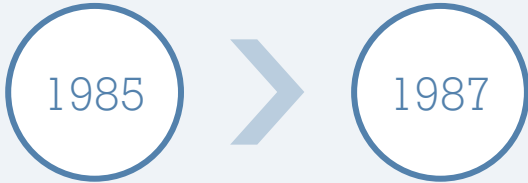
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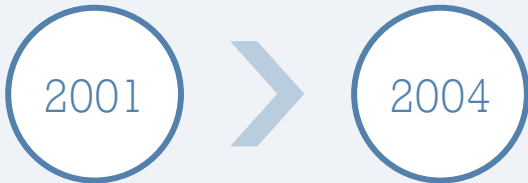
Before we begin

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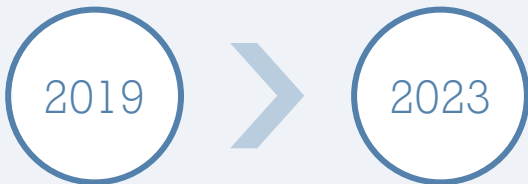
Hard markets



Asbestos and the Liability crisis, US loss ratios hit 130% in 1985



Liability crisis again, asbestos again, World Trade Center?



US Liability?, financial lines joins in on the act, climate change and increasing natural catastrophes & Secondary Perils?, Covid?



Do events cause hard markets?

Yes and no.

Fear events

- ▶ World Trade Center attacks
- ▶ COVID-19
- ▶ Collapse of Significant Companies

Natural and financial catastrophe

Event	Type	Year	Insured Loss
1987 Share Market Crash	Financial	1987	?
Hurricane Andrew	Natural catastrophe	1992	\$31B
Hurricane Katrina	Natural catastrophe	2005	\$90B
Global Financial Crisis	Financial	2008	?
Hurricane Sandy	Natural catastrophe	2012	\$35B
Hurricanes Harvey, Irma and Maria	Natural catastrophe	2017	\$33b, \$33B, \$37B = \$103B

Large events have no impact?

● They have significant impact but are 'localised or segment specific'

● The industry's capital base can sustain significant 'anticipated losses' and many 'unanticipated' events

● Cat modelling is much more advanced

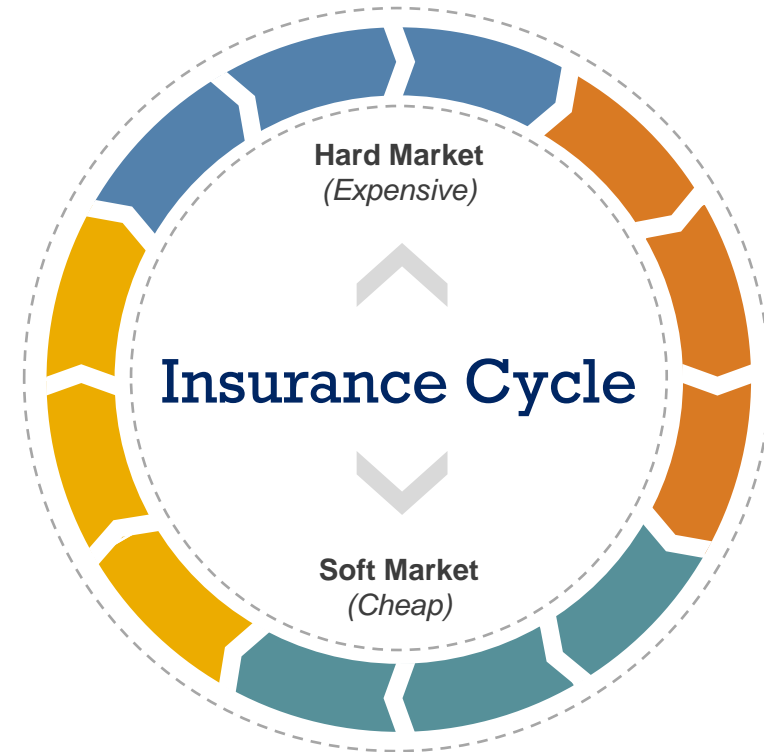
● Reinsurance and alternative capital markets much deeper

● They can and do create short lived 'mini hard markets'

What causes the super cycles we experience?

- ▶ Insurance is what economists' term as an “inelastic” product/service
- ▶ Pricing is influenced much more heavily by supply as opposed to demand
- ▶ Insurance operates in highly competitive markets in most parts of the world
- ▶ The tail
- ▶ But ultimately...

← Managing the cycle →



Short term top-line focus

Profitability (lack thereof)

US combined ratios – S&P Global

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
95.4	105.1	100.4	102.7	107.7	99.2	98.9	98.7	99.4	102.6

AM Best last 10 years P&C market combined ratio average of 100.2% = underwriting profit margin of **0**

Why is this the case?

- ▶ Hubris & Over-confidence
- ▶ Poor retention of corporate memory
- ▶ Top line focused “investment” decisions
- ▶ Companies venture into new areas ill equipped or equipped with the wrong tools
- ▶ Are public listed stock companies who are judged on quarterly results suited to insurance?
- ▶ Brokers clearly are extremely profitable through the cycle
- ▶ Issue is the “risk taking” organisations and disciplined underwriting management in the face of uncertain liabilities

Navigating choppy seas

- ▶ Need a clear value proposition that resonates
- ▶ Need to have differentiators which are:
 - ▶ Valued by your clients and business partners
 - ▶ Difficult to replicate
- ▶ Most successful relegate the “price” factor
- ▶ Effective feedback loops & Teamwork vital

- ▶ Corporate memory
- ▶ Invest
- ▶ Empower your people at source
- ▶ Strong relationships (Tripartite & respectful)
- ▶ Incentives
- ▶ Strategy?
- ▶ **Culture**

“

If you don't have a competitive advantage, don't compete

”

Jack Welch

“

Culture eats strategy for breakfast

”

Peter Drucker



The future

- ▶ Analytics
 - ▶ Need to have fully coordinated business units to be of value
- ▶ Artificial intelligence
 - ▶ Will not replace “expertise” in the P&C market in the short to medium term
 - ▶ Should be revolutionarily in the operational efficiency and enhancing analytics
- ▶ Expertise will be even more valued
- ▶ Talent attraction and retention
- ▶ The Cycle will continue into perpetuity



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