Willis Insights

INSURANCE, BENEFITS AND RISK REVIEW OCTOBER 2013

MARKETPLACE REALITIES 2014: INNOVATION AND CONTINUITY

Introduction

Through the first half of 2013 much insurance talk swirled around the arrival of new capital. Cat bonds. Insurance-linked securities. New Property capacity arriving from sources as widespread as China and Omaha. New vehicles sponsored by brokers (including ourselves). Some of this new capital represents increased use of products we've seen for years. Some of this represents some real innovation – in an industry often criticized for conservatism and lack of innovative progress.

The reaction has not been all positive, to say the least, especially with respect to the new sources of capital. Heated words and dramatic headlines have warned of severe and damaging impact, even sinister implications. So at last our industry brings forth some genuine innovation, and we seem to have a case of damned if you don't, and damned if you do. It is hard not to see a bit of irony when some in the risk business seem to forget that with nothing new attempted – an inherently risky thing – nothing moves forward.

From our perspective, we see clear benefits to these new vehicles, because our perspective is really that of our clients. For our clients – insurance buyers – the increase in supply of capital makes a more inviting marketplace. These vehicles also offer administrative advantages and claim handling benefits through their simplicity.

But at the same time, we too have been wondering what this all will mean in the long run. Is this new capacity a game changer or not?

To help answer that question for ourselves, Willis's top leadership conducted a debate a few weeks back at a global management meeting and then put it to a vote. The undertaking was as entertaining as it was instructive (if you've ever seen BBC footage of the high-spirited prime minister's questions sessions in Parliament, you have a good idea). The yeas won – yes, this is a game changer.

The yea's contend that the increase in supply will indeed lower the price of insurance and reinsurance. Insurers could find their costs dropping – over time – as much as 20% and the freeing up of insurer capital tends to have a pronounced softening effect on the market.

The yeas also point out that the source – and motivation – of some of this new capital is different in nature from what we usually see. Institutional investors now entering the insurance world are looking for long-term results. Their perspective could spell a long-lasting impact. The nays, on the other hand, note that for the most part, the new sources of capacity have been with us before, though perhaps not in such quantity. Time will tell if the yeas in fact have it right.

The most interesting question of all, however, may be: what caused this arrival of new capital? Why now? On one hand, the movement of capital is driven by the search for return on investment. Bond investors looking for yield. Institutional investors looking to diversify their risk by putting money in places not tied to the overall economy but to unrelated factors such as hurricane landfall.

There is something else, though, underpinning this evolution in our marketplace, an underlying change that has opened up the possibilities of capital providers. It's the advent of big data, insurance style – the increased access and ability to work with the data related to the possibilities of risk transfer. The phrase big data is suddenly everywhere and for good reason. Data on risk factors and data on losses allows for the quantification of risk in increasingly powerful ways. Improved quantification of risk allows capital providers to justify new ventures.

Data has other impacts as well. Better risk engineering data leads to loss reductions. Look at the airline industry. The overall safety record of airlines over the past decade is driving a long-term softening of insurance prices. New, data-driven insight into behavioral risk now being applied to the workplace stands to reduce the impact of human error. The compilation of marketplace data in the WillPLACE system, Willis's ground-breaking placement platform, is opening new windows on the insurance marketing process.

The role of the risk adviser and broker is changing as well. Our task now is to lead the charge into the world of big data, to be what we call the analytical broker. The understanding and analysis of data will be increasingly important to our clients, whatever game changers may or may not come along. Wherever the capital is, new or old, it is our job to help our clients find the most efficient way to it. Big data will be part of that effort. Big data will be a source of much innovation in the years ahead.

We look forward to being part of this process, of continually finding new and better ways to accomplish the goal that is our reason for being: helping ensure our clients' success.

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