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MARKETPLACE REALITIES 2015

ANALYSIS AND INSIGHTS

TRIA, PANIC AND THE ILLUSION OF BUSINESS AS USUAL

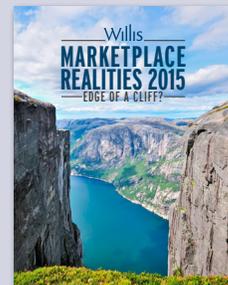
Looking back on the surprise of TRIA's temporary non-renewal offers lessons for an industry that may not fully acknowledge the complexity of its relationship with government and regulators and may not be ready for fundamental challenges that lie ahead.

Despite counseling our clients to be ready for the possible non-renewal of TRIA, many in the industry were shocked and, yes, a little panicky when Congress allowed the federal terrorism insurance backstop to temporarily lapse. There was a scramble to figure out what the end of TRIA would mean for ourselves and our clients as the hours ticked down to midnight, December 31, 2014 and the law's expiration. Many were in crisis mode, digging up sunset clauses that we'd been talking about for months, quickly sizing up the stand-alone marketplace we'd been counseling clients to consider. We just didn't think it would happen.

In various forms, we continually offer clients the advice that underpins our entire industry: prepare for the worst and hope for the best. Lesson one: we need to be more ready to take our own advice.

Something else that stood out to me was the nature of the relationship of our industry to the governments that regulate us. We're in a highly regulated industry. We all know that. We tend to treat those regulations as an immutable fact of life and for the most part they are. But we learned during the holidays that laws can come and go, that the playing field can change. Perhaps we need to be less passive recipients of the regulatory rulebook and more ready to play an active part in the process. Perhaps we need to be ready to challenge the status quo, to not simply accept it and then react in a hurry when that status quo changes. That's lesson two.

Lesson three has to do with the challenges ahead for business as usual in our field. The main challenge is obvious enough, the source of all massively disruptive business threats today: the internet. It started with the travel



EDITOR'S NOTE

While the audience for *Marketplace Realities*, our long-standing commercial

insurance buyer's guide, appears to appreciate our concise format, a full risk management understanding sometimes requires more – more than price predictions and a quick overview of key trends to watch. Sometimes it requires taking a step back from the transactional fields of play and taking a broader and deeper look. With that in mind we launch *Marketplace Realities – Analysis and Insights*, a forum for our experts in Willis North America to share the benefit of their years in the industry and offer perspectives that are likely to add value long after your next renewal. They might also influence the strategy you choose before your next renewal as well.

We start with some of my own thoughts on our industry over the past several weeks. We hope you find the expansion of this series worthy of the reputation that *Marketplace Realities* has enjoyed over the years.

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industry as online, price-based booking of air flights and hotels turned the travel agency business on its head. The most recent examples are Airbnb and the hospitality industry, and Uber and the taxi industry. In between, think a moment about the last time you went to a video or DVD rental store in your neighborhood – if you ever did. Or you flipped through the offerings at your local record store – if you’ve ever seen one of those.

Interestingly, the Airbnb and Uber examples tie into the issue of regulation. Some of the traditionalists are expecting that as regulators step up and take a close look at these upstarts, the heavy hand of the government will put them in their place. It’s possible. But it’s also possible that they won’t, that they will see enough differences in the fundamentals of the business models that different rules will apply. And that in turn, would change the rules of the game for everybody. So perhaps we can interject a corollary to lesson two: don’t expect the regulatory forces to behave as you would like or as you believe they should. Another way of saying be ready.

Back to the internet challenge to the insurance industry. Many see the imminent arrival of Google in the commodity marketplace of Auto and Personal insurance. Some see a natural extension into commercial insurance. Why? Because Google has the capital to invest, a direct tie to just about every consumer or business desktop/mobile device, and they also have what is increasingly the lynchpin of smart and effective broking: data or the know-how to use data once they get it.

Data and analytics are terms we hear a lot these days in connection to everything from business to home appliances. The insurance industry is no exception. All of us are talking about leveraging the data we have and

the data our clients have and bringing the insurance world into the 21st century. Some of us are taking steps to actually do that. It’s a good thing, too. The personal touch that has been a cornerstone of insurance since its earliest days will only matter if the best possible results are there, and the results are going to depend on the latest tools for deriving the perspective and insight that big data – and an analytical approach – can provide.

Keep in mind that insurance has in fact been data driven for years. The setting of insurance premiums has been largely driven by actuaries crunching numbers. Now it’s up to the intermediaries, whether they call themselves brokers or search engines, to step up and deliver.

So what is lesson three? Perhaps it starts with a summation that covers the previous two: there is no such thing as business as usual. To my colleagues, I say this: we’d better get our act together. And the show had better include data, analytics and a willingness to challenge the status quo.

To our clients and for all insurance buyers, I say this: risk management based on analytic advice, the right data, focused expertise and creative thinking is not just something you should hope for. It’s something you should expect and demand.

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