Brighter together

Baringa Partners' Biennial London Market Survey – Report, 2021

Executive Summary

In light of the global pandemic, this year we have asked our London Market survey participants to offer their thoughts on the following key themes:

Section One

- Market stabilisation, reform and growth priorities post-recession;

Section Two

- Inhibitors to growth, including the Market’s focus on Underwriting remediation; pandemic claims and re-capitalisation;
- The extent of product innovation to address changing client risk needs;

Section Three

- Level of buy-in and commitment to Lloyd’s Market reform and pace of change; particularly the focus on risk segmentation and automation;

Section Four

- Use of technology and data insights for improved portfolio management;

Section Five

- Views on how the Market should attract a diverse and inclusive workforce in the context of new, hybrid ways of working.

- Before the pandemic hit the Market was performing strongly. Rates were hardening and financial results improving, with a focus on quality over quantity of underwritten business.
- The Underwriting Room at Lloyd's closed for the first time in 300 years and nations went into lockdown. The global economy plummeted. London Market insurers strengthened reserves for the expected influx of claims, combing through policy wordings to see whether they would be liable to cover losses during a pandemic.
- In the chaos and widespread loss that ensued, both human and financial, some positives have emerged; most notably the immediate increase in adoption of the PPL e-Placing platform and an overnight move to 100% digital risk placement.
- The biggest lesson learnt was not to underestimate policy wording and contract certainty. Some insurers bore the brunt of the press, suffering regulatory scrutiny and reputational damage for failing to pay out BI claims based on interpretation of policy wording. Other insurers that had tightly defined cover and exclusions and rapidly settled claims for customers, fared better. Notwithstanding the extent of reputational damage suffered, it is incumbent on all insurers, brokers and Market participants to pull together to regain and rebuild consumer trust in the industry – the continued success of the Market relies on this.
- We believe in the next 12-18 months we will see London Market insurers launch several new products with simpler wordings, cover and exclusions. These will be vetted by their Underwriting experts to avoid legal battlefields in the event of future pandemics or related events; whilst Brokers will face a hardening Market as insurers looks to tighten their wordings and sub-limits.

£6.2bn

in Covid-related claims payments in 2020

- Our survey findings indicate that the Market continues to focus on process automation and data insights, with several participants now starting to identify the dependency between the two to drive operational excellence. Topping the priorities for many participants has been a noticeable trend of getting "back to basics" with improvements in data quality and reporting. Getting the data foundations right is an important pre-requisite to process automation, and we predict that Underwriting risk selection and controls that are truly driven by data-science and analytics will continue to be a long-term goal for the Market.
- In addition, we foresee that many of the Lloyd's Blueprint Two initiatives, promised by John Neal as drivers of modernisation, will continue to come into force and set new Market standards. Most survey participants believe success lies in maintaining the components of the Market that add genuine value for the customer, while embracing new ways of working that are truly transformative. The challenge for all Market participants will be their ability to secure funding to deliver against the tall order of Lloyd's Market transformation initiatives, alongside existing regulatory 'must do' change and own internal strategic change. Prioritisation will be key.

At Baringa we believe the winners in the Market will be those insurers that focus on changing client needs by industry, launching innovative offerings to cover risks that mirror the new norm customers operate in.

While consumers and society at large are demanding more action on Climate Change, it is a global risk that many insurers have yet to realise the true impact of, relying on old methods and ways of working, rather than thinking about the role they can play in shaping the Market response and industry changes required. We firmly believe insurers that cautiously stress test their portfolios and model scenarios to understand and manage their balance sheet exposure to this next major predicted global risk event, will be the future survivors.

Section One:

Macro-economic conditions are increasingly turbulent. London as a Marketplace is well placed, but individual firms need to adapt their products whilst operating under continued cost pressures

A challenging year for the Insurance Market, and the global economy as a whole

Lloyd's Corporation has recently published its FY 2020 results - reporting a net loss of £0.9bn (pre-tax) compared to profits of £2.5bn in FY 2019. Combined operating ratio stood at 110.3%, increasing from 102.1% over the same period. Premiums written across the Market marginally decreased (FY 2020: GWP £35.5bn; FY 2019: £35.9bn), however, there was an average risk adjusted rate increase on renewal business of 10.8%.

110.3%

2020 Full Year COR (97% exc Covid-19)

A contraction of the commercial insurance Market in 2020 was largely to be expected, given the global impact of Covid-19 and associated lockdowns; and we believe this contraction will be sustained throughout 2021, until pandemic containment restrictions are lifted, and global economies start to rebound. The economic downturn and loss of commercial business during lockdown has resulted in fewer pay-outs for commercial motor, property and employers' liability claims, and focused attention on other product lines such as business interruption and cyber security.

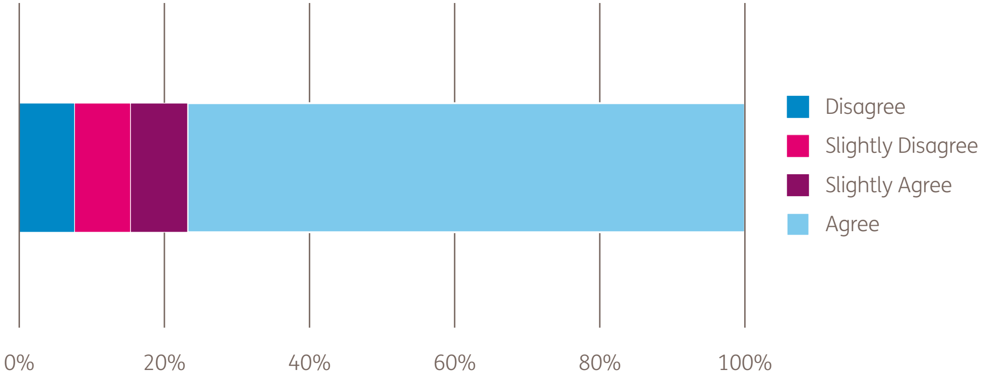
Lloyd's view of the overall decline in written premium is that it demonstrates the Market's continued emphasis on better Underwriter risk selection, 'Over the past three years we have really understood where we want to focus, including re-selecting what business we underwrite." [Lloyd's of London Corporation, Financial Statements H1 2020]. On the other hand, it could be argued that this is part of a broader global Market trend where business is being diverted to cheaper digital trading platforms outside of Lloyd's. The question is whether the reputation of Lloyd's and the London Market as the commercial insurance global 'Centre of Excellence' still holds.

Lloyd's Blueprint Two sets out a view of improved digital trading, greater efficiency and Market modernisation; these features will need to be embraced and embedded for it to maintain its reputation and continue to attract profitable business. One area that will need continued focus will be to ensure that all digital processing and efficiency (hygiene factors in many financial sectors) is not driven at the expense of Underwriting expertise – the primary value-differentiator for Lloyd's and the wider London Market.

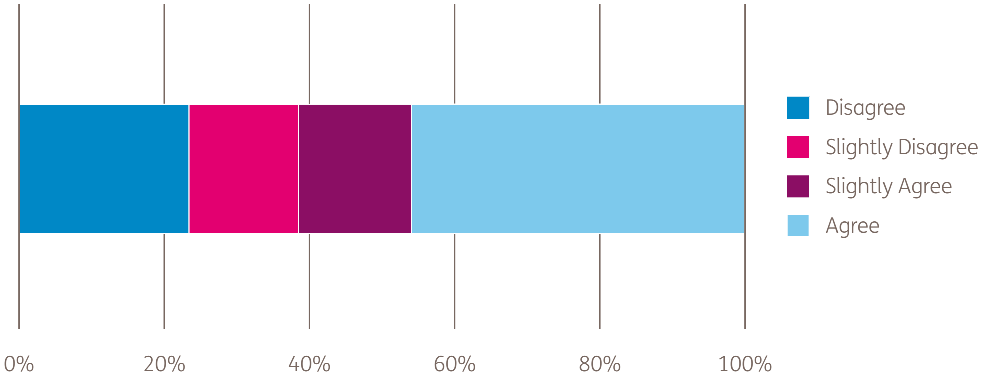
Reigniting growth in the London Market

This year's London Market survey participants certainly believe written premiums in the Market will bounce back, with an overwhelming 85% of respondents expecting to see an increase in business coming through the London Market over the next year.

When asked "You are expecting to see/already seeing an increase in business coming through the London Market over the next year", our respondents answered;



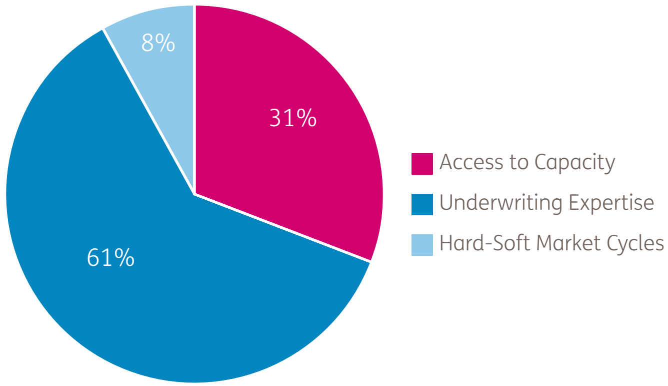
When asked "You are reviewing which product lines you write as a result of Covid 19", our respondents answered;



While there is a lot of uncertainty about the Market's future, 61% of participants still see the main factor attracting business to London Markets is its Underwriting talent and expertise.

From our survey, we also see the early signs of insureds' needs shifting as a result of the pandemic with over 60% of survey respondents stating that they are reviewing the product lines they are writing. This suggests that we can expect to see product change, with a focus on tighter wordings and exclusions – lessons learnt from the BI ruling last autumn – alongside potential exits from unprofitable lines post-pandemic.

When asked "What is the primary driver your clients cite in coming to the London Market", our respondents answered;



In our view, the jury is still out on whether the changes to product offerings that insurers are working on will adequately match corporate demand for securely rated, competitively priced insurance solutions. Can Lloyd's and the broader London Market continue to compete successfully against new commercially attractive digital insurance Markets?

Section Two:

Organisations are slowly and steadily shifting their strategies, however, there is a long way to go for real innovation to business models

In Section Two we will look at our survey participants' varying approaches to their Underwriting strategies and future business models, and the inhibitors to profitable growth they are experiencing.

Minimal change in underwriting strategy with a focus on quality over quantity

Output from our London Market survey in 2019 revealed that 47% of organisations tolerated low-margin business to gain volume, given the soft market. In our 2021 survey, we now see a perceptible shift in firms focusing squarely on loss ratios, or on a strict margin-based strategy. Underwriters are still confident in their approach to traditional specialty business; with the majority of participants in our survey - 85% - anticipating an increase in this type of business coming to the London Market over the next year.

However, whilst many larger Syndicates are increasingly focusing on lower volume, complex business, we could eventually see a return for major Syndicates to focus on high volume, non-complex business as a key revenue stream. This is made more likely by the introduction of new cost-effective digital technology and development of the placement support services Lloyd's Blueprint Two offers.

It is clear overall that many in the Market are expecting an increase in rates and profitability across multiple lines, which could provide a significant boost to post-Covid reserves and potentially more capital to invest in Market modernisation programmes, not to mention the long-awaited return of Underwriting bonuses!

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> "[We are seeing] a hardening Market in most of our core product lines"
>
> –
>
> **Survey respondent**

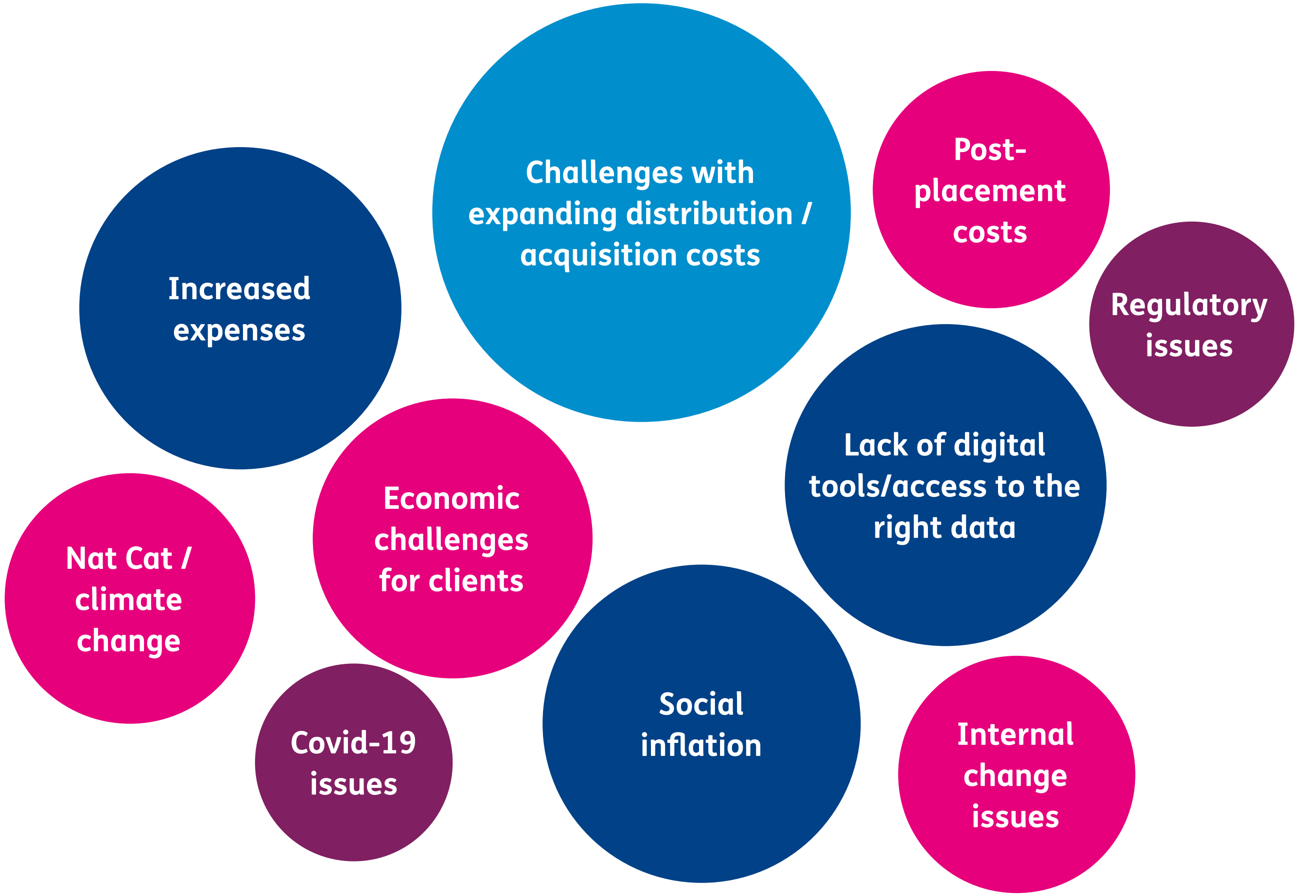
From our survey results, it is evident that some London Market insurers are neglecting to adopt new and differentiated strategies, instead reactively riding the wave of hard market cycles. Revealing responses from the majority - 80% - of our survey participants highlighted that senior stakeholders in the London Market believe that the main challenges to top-line profitable growth today will be the same challenges faced in five years' time. The Baringa view is that this underlines the endemic culture of reacting to market conditions, rather than organisations placing themselves ahead of the curve. Or as one survey participants put it: "we need to make the tough decisions early enough." The firms that strive for differentiation, understand and effectively communicate their value proposition, will be the ones that succeed.

Focus on expenses as an inhibitor to growth?

As per previous year survey findings, a primary strategy for businesses remains a reduction in expense ratios – either through increased growth and underwriting income or maintaining income levels and focusing on reducing expenses. Our survey paints a clear picture that carriers definitely have the ambition, talent, drive and capability to think differently, but are being held back by the stringent focus on expenses. This must be difficult for Syndicates to reconcile, given positive signs of a hardening market. These conflicting pressures require Underwriters to continually balance strategic focus on generating increased premium income versus the cost and operating expense to service the business. An additional pressure for Lloyd's Syndicates is income restriction, coupled with increasingly detailed oversight from Lloyd's.

The survey has highlighted a number of additional obstacles to London Market firms realising their strategy and to achieving profitable growth, now and in the next five years. We have called out some of those mentioned on the right.

Lack of accurate and appropriate data and digital integration was commonly highlighted by our respondents. One senior stakeholder predicted that a "lack of digital contracts [and] fully integrated London Market infrastructure [will create] too much friction and cost in the post-placement process." Social and/or claims inflation was almost unanimously mentioned as another challenge, as Underwriters are beginning to see higher than expected losses in long-tail Casualty classes; coupled with loss creep on major Property Cat losses.



Challenges to achieving profitable growth as highlighted by our survey participants

Market shocks as an inhibitor to growth #1: The impact of Covid-19:

Themes of uncertainty and challenge were highlighted by many of our survey participants as a result of the Covid-19 pandemic. The impact on the economy has created challenging times for nearly all London Market clients. Our survey participants described this uncertainty "in terms of both claims frequency and demand for our products" and the "high influx of claims [are] taking time to resolve [impacting] the companies' profit." In many ways, Covid-19 has held back the Market amidst huge upheaval for the workforce, and an influx of complex and potentially contentious claims; with the Market coming away with a bruised reputation. It is anticipated the impacts and aftershocks will be felt in the Market in future Underwriting years.

Market shocks as an inhibitor to growth #2: The impact of Climate Change:

In addition, it is recognised that Climate Change will be a dominating theme over the coming years – particularly when considering the maturity of temperature scenario modelling – as Markets and regulators start to take the threat of climate risk to assets and liabilities seriously. We have already seen shifts within the wider Insurance community from large General Insurers and Wealth & Asset Managers as they focus on strategies to mitigate climate risk. Speciality Insurers will be forced to pay attention as we will see increasing regulation as a result of the financial risks of climate change to an insurer's balance sheet – with the PRA focusing on longer term stress test scenarios. The increased impacts of physical, transition and liability risk will inevitably hurt insurer's profitability over the medium-long term. As a result, insurers must move away from short-term thinking and shift to a medium-term view on impact to projected business plans and reserves, and a longer-term view on macroeconomic trends and impacts on their portfolio positioning and management.

The mind-set shift required for Innovation

Despite the difficulties presented by unprecedented Market shocks (though few would argue these were entirely unforeseen), firms need to develop a top-down, proactive approach to strategic challenges to accelerate the pace of change and to move away from reactive business models. The London Market requires a mind-set change; otherwise traditional business models will become increasingly vulnerable to disruptive low-cost digital platforms and nimble insurers.

That being said, there are emerging green shoots of change. As discussed in our 2019 Underwriting Survey, there is a growing and distinct appetite for innovation. At Baringa we believe successful insurers will be those that adapt to changing client needs by industry, launching innovative offerings to cover risks that mirror the new norm customers operate in.

Speak to any Executive Committee in London Market and it is evident companies have a real understanding of the innovation agenda and a drive to change. However, while the appetite is there, traditional insurers are not fundamentally changing their business models, which are at risk of becoming out of date. Our survey respondents had some strong feelings about this, stating that the Lloyd's business model needs to be "simplified – [the] 2021 business planning round [was] not conducive to innovation or profitable growth." Across the London Market as a whole, there are pockets of innovation, but we are not seeing great strides of strategic innovative progress being made in underwriting strategy and business model changes.

Section Three:

An updated approach to change – how London Market insurers are responding during these unprecedented times

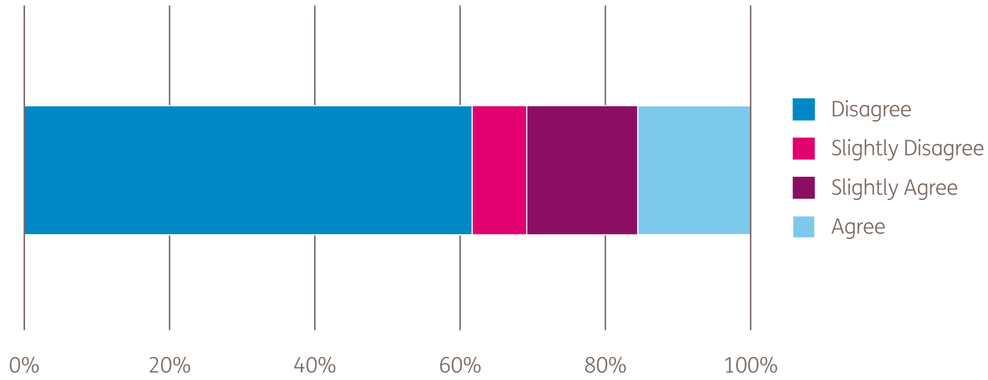
Despite the Market challenges raised, it is worth noting that the London Market has been widely praised for its adaptability and drive to change in 2020. In the wake of the global pandemic, the Market effectively moved to a digital placement and remote working business model – this significant transition taking place almost overnight – and with resounding success. At face value, this appears to be a rapid change in direction from the traditional ways of working. However, the reality is that this business model has long been the target of the more forward-thinking Market participants. The challenge is that new ways of working initiatives have only recently been given the Market-wide priority they deserve. This suggests that the main barrier to transformation has been cultural inertia, not the oft stated Market structures or product complexity.

If anything, this proven ability of the London Market to transform itself overnight raises more questions than it answers. In this section, we will look at whether this ability to change will open the floodgates to new innovative thinking, and in Section Five we will look at what the post-Covid 19 working environment will look like and whether there will be a default back to status quo.

Investing in Change

Based on our survey results, there is an appetite for further transformation. We asked respondents whether they had seen a reduction in investment allocated to change initiatives as a result of the turbulent external environment. The majority - 69% - of participants reported similar, if not more, investment in change than in previous years. This is a remarkable feat given the indemnity costs resulting from the pandemic now and over the next two years; at the macro level it looks as though the Market has been fortunate that a hardening market preceded the pandemic by c. nine-12 months, allowing a reallocation of capital to lines with increased claims.

When asked “There has been a material decrease in the amount of budget available to spend on change initiatives and projects?”, our respondents answered;



Change priorities across the Market

Whilst the ability to continue spending on transformation is an important data point, a further two questions from our survey highlight some interesting anomalies. We asked respondents what their organisations' top five strategic priorities were. Unsurprisingly, 'Premium Growth' and 'Expense Reduction' consistently featured as the two biggest priorities; surprisingly, 'Regulatory Change' was lower down the agenda, possibly because of its 'must do', non-discretionary nature.

One further area of interest in this data is the relatively low position of 'Product Development and Innovation', implying that London Market firms are looking to increase their premium flows through tried and tested methods (deployment of additional capital, larger line sizes, increasing Underwriting limits or geographical expansion), rather than through more innovative methods such as automated Underwriting or investment in new digital channels.

This story is true also for the actual investments that London Market firms are making, which highlights how hindered they are by their current infrastructure; the two biggest areas of investment being core platform modernisation and data warehouse build, both enablers for premium growth, but inherently delivering minimal standalone benefits.

The third area of focus, 'Strategic Cost Reduction', has been a long-term focus across the Market, and we have begun to see real traction in this area. The centralisation or outsourcing of support/enabling functions, experimentation with robotics/ artificial intelligence and legal entity simplification and flattening of traditional matrix organisation structures has meant a sharper focus on value creating roles in the organisation and leaner supporting functions (increasingly outsourced to TPAs).

Table 1 Strategic priorities for change / new projects in LM Organisations

Rank	Priority
1	Increased Premium
2	Operating Expense Reduction
3	Improvement of Broker/Client Experience
4	Product Development & Innovation
5	Regulatory Change
6	Employee Satisfaction / Retention

Table 2 Top strategic initiatives seen as being the most important for LM firms over the next 12 months

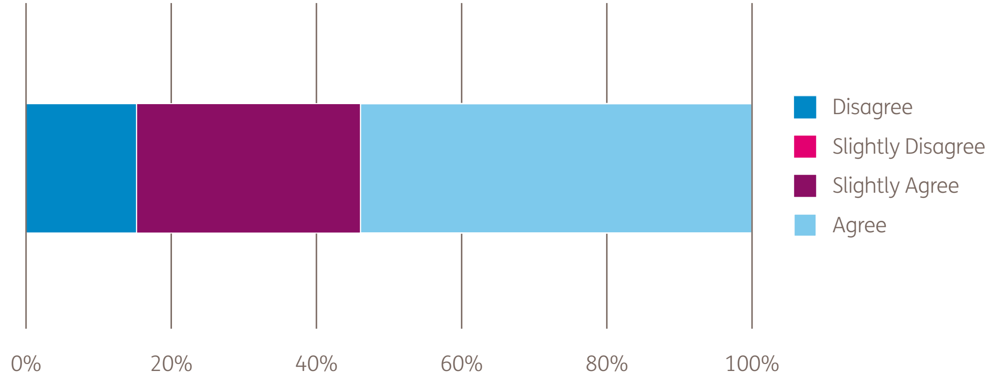
Rank	Strategic Initiatives	Responses
1	Upgrade / Modernise Core Systems	17%
2	Data Warehouse Implementation	15%
3	Strategic Cost Reduction	15%
4	Process Improvement	10%
5	Target Operating Model Design	10%
6	New Analytics & AI Tooling	10%
7	Operational Resilience	7%
8	Product Innovation & Development	7%
9	Regulatory Compliance	5%
10	Straight through processing and automation	2%

Blueprint Two adds to the London Market To-Do list. Better prioritisation and efficient delivery is required

One area where we have seen a forward thinking and innovative agenda is through Lloyd's Corporation, with the release of its Blueprint Two roadmap. The three focus areas of 'Placement', 'Data' and 'Claims' tackle the biggest operational challenges in the Market, and, whilst currently seeming to lack focus on differentiation, will at least bring all participants on one centrally-driven journey to digital ways of working. It remains to be seen whether solving the broad operational issues to improve the ease of doing business at Lloyd's will be enough to ensure its long-term success. One thing that is certain is that this ambitious initiative will drive the change agenda for all Market participants over the next two to three years - diverting spend away from organisations' own discretionary projects towards Lloyd's Market modernisation work.

When combined with the wider 'must do' change agenda (regulatory and technology modernisation) the level of change and adoption required in the Market begins to look a tall order, with some respondents believing it is unrealistic in the stated timeframes. This is likely to be the case for hybrid insurers with a presence at Lloyd's, the Company Market, and/or wider Consumer Markets (e.g. in SME), who could be forced to run multiple operating models to do specialty business at Lloyd's, as well as in other market segments.

When asked "To what extent do you agree with this statement: "Due to the current economic climate, there has been a greater appetite for your organisation to invest in becoming more agile", our respondents answered;



The risk of running long-term programmes that duplicate effort and cost is high across a Market that has traditionally struggled to deliver strategic change. One significant trend we are seeing in the Market is a move away from large, complex, flagship programmes that struggle to deliver, towards a more agile mind-set with regular delivery of value to the organisation, a sharp focus on realisation of target benefits and alignment to strategic priorities. This is reflected in our survey data with 85% of respondents agreeing that their organisations now have a desire to work in a more agile way.

"As a Lloyd's syndicate our change agenda will be heavily influenced by Blueprint Two"
–
Survey respondent

One of the key factors that will be required for London Market firms will be an effective Change function to support delivery. We have seen several London Market firms making investments to use a more agile approach to programme delivery and portfolio prioritisation. The key drivers for this have been:

- A desire to generate benefits from projects earlier and on a more regular basis, through frequent product launches and 'iterative' enhancements – rather than waiting to the end of a project
- A focus on transparent change prioritisation - driven by the overall strategy to prevent 'pet projects' and ensure the entire change portfolio is pulling in the same direction
- Being able to propose projects aligned to a compelling vision of the organisation and clearly articulate this narrative for shareholders, capital providers and employees

Whilst a number of London Market firms have embarked on this journey, it is by no means a simple one. The shift in mentality away from centralised decision making and towards light-touch reporting/governance is one that is challenging. Across the Market, 75% of organisations target becoming agile in their top three strategic priorities, but only 4% of organisations have completed a company-wide agile transformation. This is not something that comes naturally to traditionally hierarchical, slow moving organisations. There is however a strong desire to change this mentality (as demonstrated in Section Four) to reap agile benefits.

In the long-term this focus on organisational agility is likely to complement the entrepreneurial practices of the London Market and drive continued innovative thinking without bureaucracy and red tape. It will however be a significant challenge to get to this point, but a necessity if the Market is to deliver the required level of change over the next three to five years.

Source: Scaled Agile Inc 2021

Section Four:

Capturing and utilising data effectively - a perennial challenge for insurers, but one that the industry is moving towards achieving

The Underwriting Management function and other support functions are on a journey towards modernisation, re-focusing on how they bring added value to the Distribution and Underwriting risk activities.

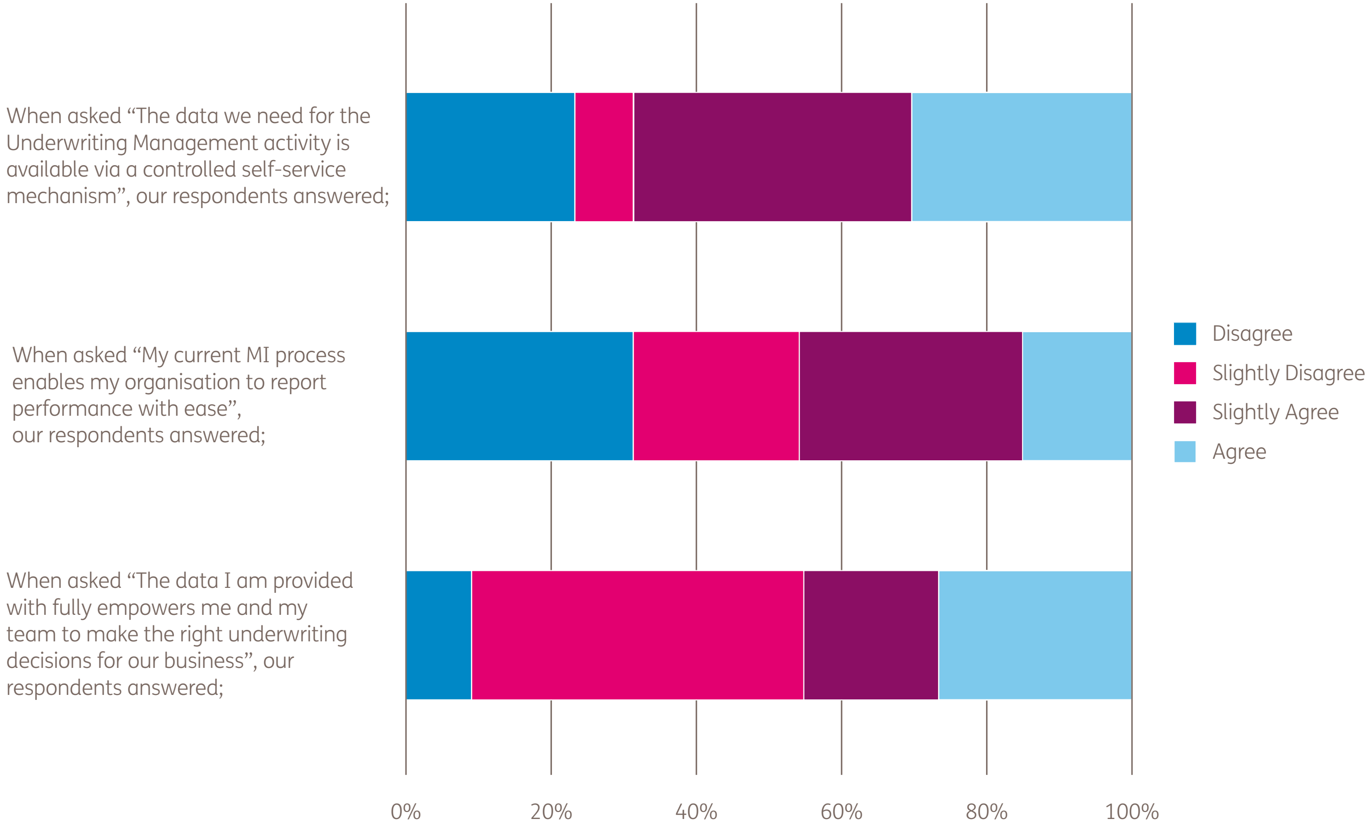
We have asked our respondents; "Which of the following areas have you agreed to invest in over the next 12 months to enhance your Underwriting Management/Operations Capability?" in both our 2019 and 2021 survey. In our 2019 survey responses revealed that the top priorities in the Underwriting function related to data, MI and analytics. In 2021 this picture has shifted to a focus on resolving the root cause of inefficiencies and the automation of processes.

2019 Result

2019 Topic	Responses
MI Dashboarding / Visualisation	14%
Data Quality and Enrichment	11%
Data Modelling	11%
Data Analytics platforms / tooling	10%
Target Operating Model Design	10%

2021 Result

2021 Topic	Responses
Process Automation	20%
Data Quality and Enrichment	18%
MI Dashboarding / Visualisation	18%
Underwriting Workflow /Workbench tools	15%
Binder Management / DA software	9%



This represents a shift in Market focus: whilst in the 2019 study respondents prioritised the aspirational aspects of data modelling and data analytics, in our 2021 study respondents seem to have adopted a 'back to basics' approach to data. The increased focus on data quality and presenting it effectively in dashboards reflects a desire for better understanding of the data dependencies in support of data transformation journeys.

Whilst data and reporting has been a key focus in the Market for a number of years, our survey portrays a mixed view on the progress that has been made.

The majority of respondents confirmed that the data they require for Underwriting Management activity (portfolio reporting, underwriting controls, profitability analysis) is available through a controlled self-service mechanism. This is a good first step, as it represents a large upfront investment in front-end platforms and solutions, enabling Underwriting teams to visualise and analyse the data at their fingertips, rather than relying on a siloed data team and associated challenges of gaining prompt access to and granularity of data.

The statistics become more mixed when looking at the two questions: “My current MI processes allow me to report performance with ease” and “The data I’m provided with fully empowers me to make the right Underwriting decisions for our business.” Just over half of respondents disagreed with both of these statements. This presents a number of risks to organisations, primarily that they have invested in tooling but they have a long way to go before they see the benefits.

This recognition that the basics of business reporting need improvement is also reflected below:

What are the top three areas in business reporting that can be improved in your organisation?

Topic	Responses
Data Quality	21%
Data Analytics	18%
Provision Self Service Platform For Business Users	15%
Standardised KPI’s	15%
Data Granularity	12%
Centre of Excellence (CoE)	12%
Report Frequency	6%
Adoption of Self Service Platform	3%

At Baringa we recommend a five-stage approach to Data Transformation in the London Market, with a critical focus on having a central trusted data repository that enables business decision making in line with the principles of the Lloyd’s Blueprint Two.

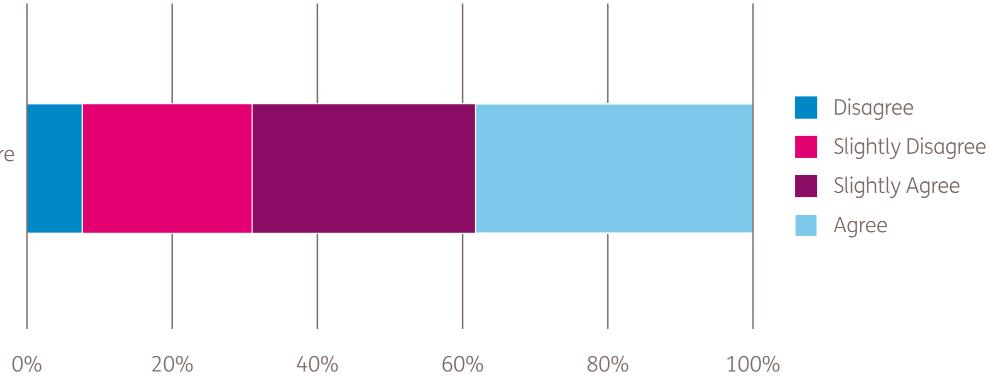
Key Data Solutions
Bring together risk, premium and claims data within a **central trusted repository**, where data from sources is **conformed and governed**
Leverage **available technology solutions** i.e. XaaS solutions to industrialise processes such as updating pricing models and creating exposure reports to empower users
Gradually build **re-usable assets** to standardise data definitions, align hierarchies and establish clear ownership for data across the organisation
Using tooling to **conform** the data provided by **DA coverholders** and update and enforce contractual clauses to improve quality of data
Define and implement a **data operating** model aligned to the organisation structure and goals, easing adoption i.e. Creation of data CoE, set up of External Data as a Service, Generation and distribution of MI, etc

Process Automation Remains a Top Priority

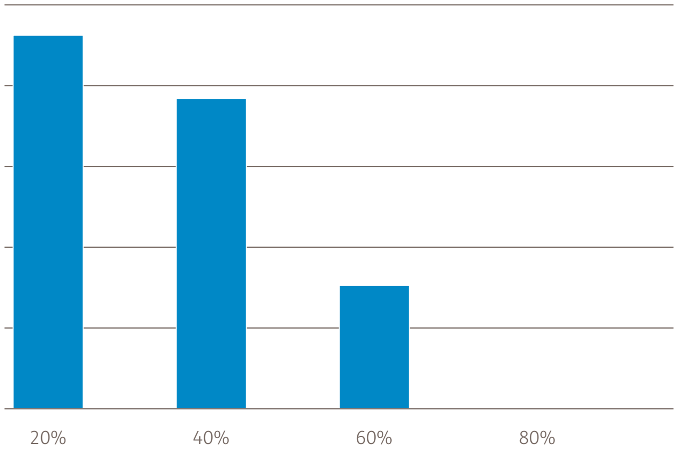
Underwriting controls is another area ripe for automation; through the use of existing tools or robotics to 'stitch' data together. This is particularly of interest to our respondents who highlighted it as their first area of focus. We asked our respondents their views on Lloyd's regulatory controls and reporting and the majority stated that it disproportionately impacted the cost to the organisation.

As a result, there is a real push to automate as many of these controls as possible, but there is a significant gap remaining between where firms are now and where they would like to be.

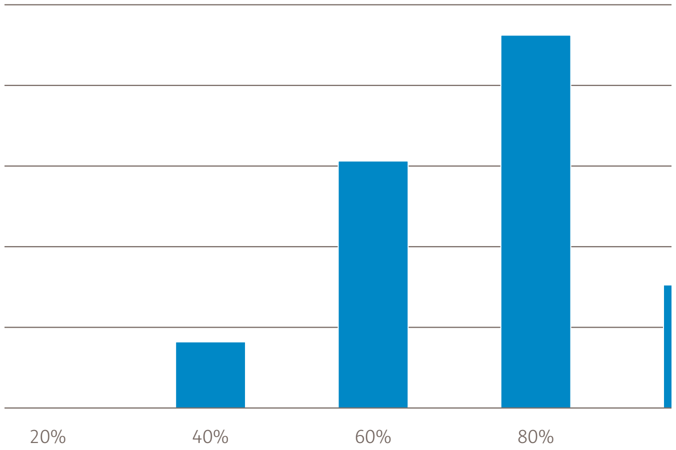
When asked "With increased focus on Lloyd's performance and regulatory reporting, external regulatory controls are disproportionately impacting the cost of the Underwriting function", our respondents answered;



What percentage of your Underwriting Controls / Checks are automated?



What level of automation are you aiming to achieve for Underwriting Controls / Checks?



Based on our experience in the Market, this expectation gap has largely been driven by three factors:

- **Complexity of Process –**
  the number of process exceptions and different ways of working across product lines makes it very challenging to automate the required controls and checks. Insurers should firstly focus on streamlining their processes and ensuring as much commonality across teams as possible before attempting to automate.
- **Legacy Systems –**
  many insurers are facing into the fact that their IT infrastructure and Underwriting platforms are based on legacy technology or a patchwork of systems brought together by M&A activity. We are seeing this hold insurers back in their efforts to automate and make incremental process improvements. A number of routes exist to address this; however, they do remain lengthy and expensive endeavours.
- **Poor Data Quality –**
  coupled with legacy technology, there is a real difficulty in building and maintaining required data quality standards. Data quality is a challenge at point of data entry and in distribution channels. Whilst partial automation can be achieved to validate data (something several organisations have achieved) the next step is to improve data quality to meet the new Lloyd's standards and automate the review of data. This represents a significant opportunity for insurers.

Ultimately, addressing the challenges highlighted above is often a choice London Market insurers face into vis a vis investing in other strategic programmes. Whilst at Baringa we understand the high return strategic growth initiatives will continue to take precedence, there remains a huge opportunity on the table for those with a desire to achieve it – it could be the difference between a Market average expense ratio and a Market leading expense ratio in the future.

Section Five:

Creating a modern work place that supports flexible working patterns and attracts and retains the best possible talent into the Market

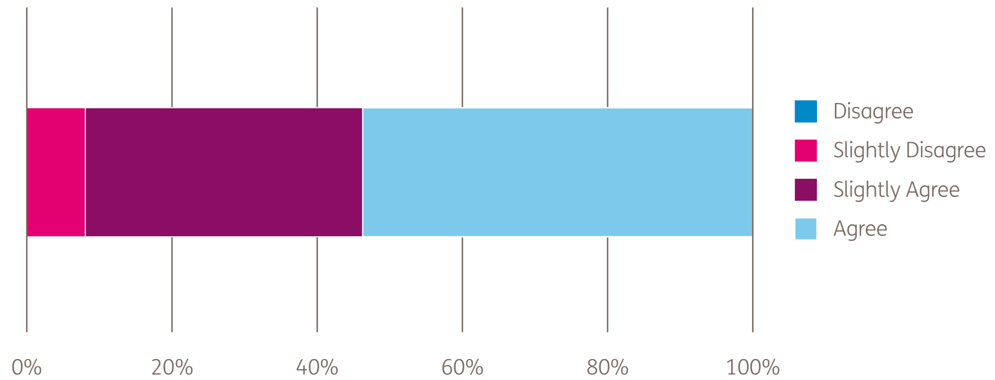
As we touched upon in Section Three, one of the most resounding conclusions to come out of this year's survey was the view held by over 90% of our respondents that the greatest impact of Covid-19 will be expediting the industry's transition to a fully digital Marketplace. Combine this with the view held by over 70% of respondents that face-to-face business can be transacted as successfully working from home, and you can start to raise some serious questions as to whether the industry is about to overhaul its traditional ways of working.

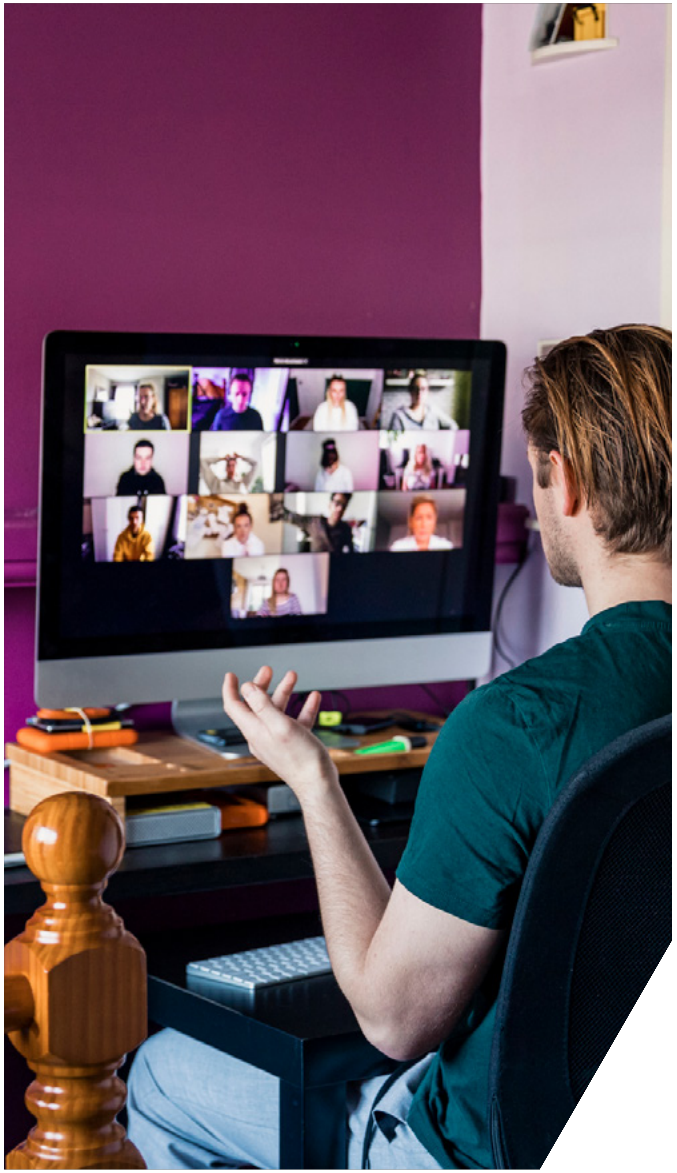
Will this be the end of London trading as we know it, or will the City revert to its pre-pandemic ways once we are out of lockdown and allowed back into the Lloyd's Underwriting room?

Our view is that a hybrid model is likely to prevail; whilst the pandemic has shown that businesses can continue to trade effectively through digital channels, there will remain a need to meet in person to collaborate on multi-line complex risk placements and manage Market relationships. Crucially however, it will not be the only way to transact and this will introduce much greater flexibility in the way the workforce operates going forward.

Market activists championing diversity and inclusion will see this as a catalyst for change. Greater flexibility in working practices lends itself to more inclusive workforces; whether that be supporting people who have childcare responsibilities, or by being able to attract a global workforce. As such, initiatives such as the one launched by Lloyd's, for women to occupy 35% of senior positions by 2023 and to reach gender parity by 2030, will certainly go a long way to drive the D&I agenda top-down. Hybrid and remote working presents an unprecedented opportunity to achieve real diversity, and insurers must seize this opportunity if they want to deliver on their promises and attract truly digital capabilities. Moreover, fewer people needing a traditional office working environment means less office space is required. If you consider this in the context of the Square Mile, which has some of the most expensive real estate in the world, reduced office sizes will have a significant cost impact. In our survey 100% of our respondents listed 'encouraging more employees to take up remote working and reviewing our real estate footprint' as a core component of their people strategy in 2021.

When asked "The greatest impact of Covid-19 will be speeding up the transition of the Insurance market to a fully digital market-place", our respondents answered;





Overcoming the challenges associated with flexible working:

On the other hand, there are also significant challenges to overcome. 60% of respondents stated that their biggest concerns with home working was that it decreased the opportunity for teams to collaborate/innovate and reduced affinity/loyalty to their organisation. Both of these concerns raised are hugely important components of the Market, particularly in a bid to drive innovation and entrepreneurship, organisations need to ask themselves how to recreate an environment that continues to foster and support this spirit in a hybrid virtual-physical world.

Top three concerns associated with home working listed in this year's survey:

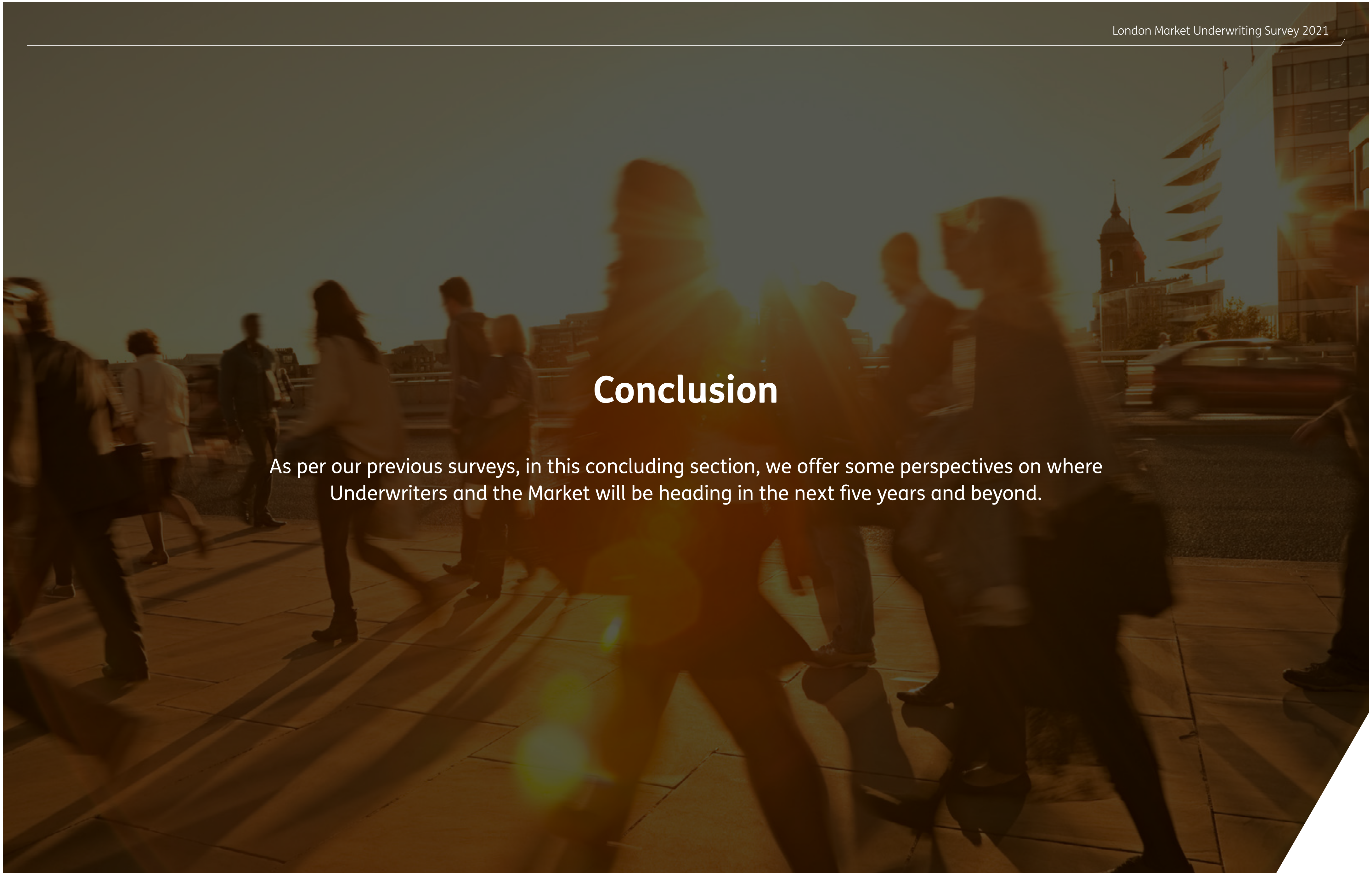
1. Decreased opportunity to collaborate/innovate
2. Reduced affinity/loyalty for the company
3. Productivity

The role of HR and Technology teams therefore becomes critically important. Combining best of breed digital collaboration tools alongside a wholesale review of work policies and performance metrics that truly encourage and fairly reward flexible working schedules, will enable companies to differentiate themselves from their peers. Furthermore, it will be incumbent on HR and organisations to upskill their people managers in how to manage their teams remotely whilst effectively balancing team and company performance. Everyone who responded to our survey either 'agreed' or 'strongly agreed' that they would need to better equip their staff with the skills to manage successfully in this new environment.

Attracting and retaining the right skillsets to meet future roles:

Despite some of the anticipated improvements we might expect through new flexible working practices, there was a consensus amongst our respondents that Insurers are struggling to attract the type of skillsets needed to deliver data-led initiatives across the Market. In both our 2019 and 2021 survey, over 80% of respondents stated that attracting and retaining skillsets in AI, Machine Learning and high-volume data transformation was a major challenge. As the London Market continues to develop and adapt to digital-first trading methods, we believe that it will become a more enticing place to build a career for new graduates. However, there is still the hurdle to overcome that technology start-ups and InsurTech firms offer a more enticing proposition than traditional organisations.

Despite this, we are seeing encouraging signs of change - Lloyd's and several syndicates have started hiring senior digital and data leads from outside the insurance industry to bring fresh perspective and drive Market-wide innovation. We can expect that, in turn, this will attract younger talent into the Market with different skillsets and abilities. At this point, it becomes incumbent on Insurers to ensure they continue to offer a great place to work and build a career. Commitment to change and innovation will be a major enabler, in an industry that already has so much to offer.



Conclusion

As per our previous surveys, in this concluding section, we offer some perspectives on where Underwriters and the Market will be heading in the next five years and beyond.

In 2019, we reflected that the London Market – seemingly threatened from a multitude of angles – found itself at a point of inflection; how could it ensure it remains the global centre of Speciality Underwriting? We proposed investing in technology and upskilling resources, continuing to focus on reducing operating expenses, while remediation of Underwriting portfolios and efficient use of support functions would continue to dictate how an Insurer fared.

Of course, no-one could have predicted the turn of events of 2020, and the impact that it would have globally on the way businesses were forced to transact. Nor could the change in how we work have been anticipated, and there are still many open questions as to what the long-term impact will be.

We can say with more confidence that the pandemic has accelerated a number of important initiatives, and created in some respects, an interesting foundation from which Insurers can continue to build their digital capabilities. Below, we share our predictions of what changes we expect to see across core insurance functions in LM insurers across the spectrum of industry laggards to leads:

Next Generation

Underwriters

- Exception-based human intervention on the majority of business written, across both Lead and Follow lines. ML/AI systems regarded as more consistent than traditional Underwriters
- The role of the Underwriter heavily focused on risk mitigation strategies, using the wealth of data that is available through structured and un-structured data capture capabilities and improved analysis and interrogation tools and capabilities

Underwriting Management

- Underwriting Management function focused primarily on reporting the profitability of the current book of business and proposing ways to further increase profitability or growth
- Use of real time data collection methods through Internet of Things (e.g. Marine, Motor) to drive risk selection with Underwriting teams and risk mitigation in client partnerships
- Data Quality issues largely resolved through consistent data standards across the Market - making delegated authority business easier to place
- Artificial Intelligence engines reviews all Underwriting systems and highlights / amends areas of non-compliance for the Underwriting teams

Enabling/Support Functions

- All processing completed using technology based solutions (e.g. AI, ML and Block-chain), with human intervention only required on an ad-hoc basis

Market Leaders

Underwriters

- Artificial Intelligence and Machine Learning used to place business, with a clearly differentiated model between Lead and Follow business;
- Follow business written using automation rules that are set and managed centrally
- Traditional case-management approach to Underwriting lead business, however, this is strongly supplemented by additional data and AI/ML prompts throughout the process in order to maximise the outcome of writing that business – in line with the agreed strategy
- Climate uncertainty modelling and stress tests integrated into standard Underwriting practices, much in the way that exposure and catastrophe modelling is today

Underwriting Management

- Capacity released through resolution of Data Quality issues
- Reduction in manual Underwriting controls work utilised to produce more regular and insightful exposure and profitability analysis.
- Integration of external data sources with portfolio data and provided to frontline Underwriters highlighting changing risks and opportunities for risk mitigation
- Data Quality issues largely resolved through consistent data standards across the Market - making delegated authority business easier to place
- Underwriting Controls largely automated with systems generated exception reporting highlighting areas of non-compliance for remediation by Underwriting teams

Enabling/Support Functions

- Back-office teams significantly smaller in size, with automation used to drive much of the processing required
- Digital automation tools, supported by AI and ML to improve quality, used ubiquitously across the organisation to consume information
- Strategic use of locations (including office space and home-working) to reduce expenses for roles which cannot be automated
- Back-office roles highly strategic and value-add

Industry Laggards

Underwriters

- Mainstream digital tools used effectively however, no further enhancements made to get additional value from digital placement
- Common use of manual processes and hand-offs– typically holding together the digitalised components of the value chain – and therefore reducing potential benefits of digitisation
- Challenges will still exist with regards to effectively capturing data, and utilising this for stages of the Underwriting lifecycle including pricing optimisation and portfolio management

Underwriting Management

- Insightful profitability and exposure analysis limited due to time and resource
- Self-service reporting in place with Underwriting Management driving the prioritisation of report development from a Data Centre of Excellence
- Continued issues with Data Quality hinder efforts to produce insightful and accurate reports and decision making
- Underwriting Controls largely manual with pockets of automation - administrative teams maintained to validate process and documentation compliance

Enabling/Support Functions

- Siloed administrative functions remaining tied to manual processes, albeit supported by pockets of automation
- In some instances, resources located outside of London in order to take advantage of lower-costs of office space, with flexible home working practices encouraged to further reduce costs
- Functions still not regarded as genuine strategic partners to the business, e.g. Finance, UWM

About Baringa Partners

Baringa Partners is an independent business and technology consultancy. We help businesses run more effectively, navigate industry shifts and reach new markets. We use our industry insights, ideas and pragmatism to help each client improve their business. Collaboration is central to our strategy and culture ensuring we attract the brightest and the best. And it's why clients love working with us.

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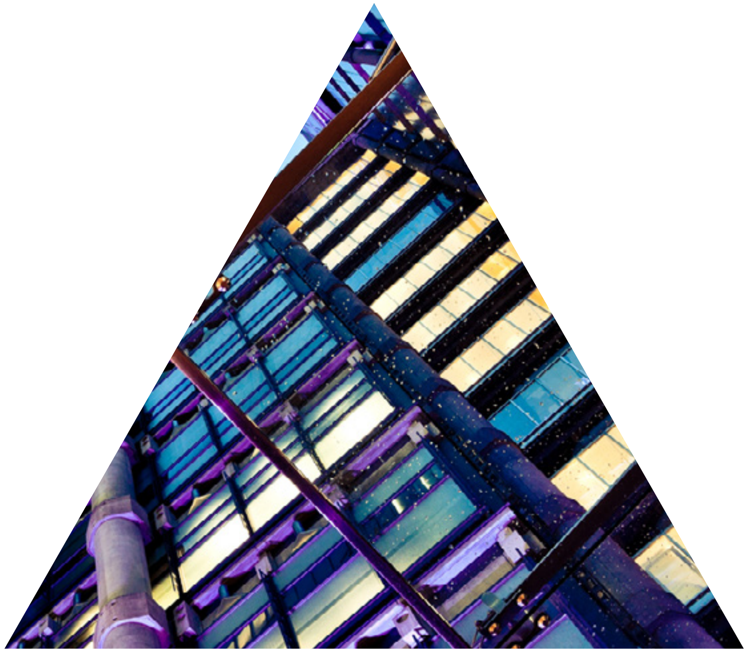

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