insurance insider

Monte Carlo Roundtable 2022

In association with

QBE Re

www.insuranceinsider.com

Monte Carlo
Insurance Insider Innovation Roundtable 2022

Roundtable participants

Catrin Shi
Editor-in-Chief
Insurance Insider

Piet Haers
General Manager Europe
QBE Re

Matteo Carbone
Director IoT
Observatory

Jerad Leigh
Chief Executive Officer
Supercede

David Flandro
Global Head of Analytics
Howden

James Slaughter
Chief Underwriting Officer
Apollo Syndicate Management

Shruthi Rao
Chief Executive Officer
AdaptReady

Adrian Jones
Partner
HSCM Ventures

Robert Reville
Chief Executive Officer
Praedicat

insurance insider

Welcome Letter:

It's (still) all about the data

We at Insurance Insider have hosted our innovation roundtable for several years now at the Monte Carlo Rendez-Vous, down on the Cote d'Azur.

I look forward to it every year as an opportunity to hear directly from those in the maket who are thinking past the here and now, and ahead to the future.

It is also usually a pretty heated discussion with some strong opinions!

This year – the first one back after a two-year pandemic hiatus – was no different, and there was plenty of great discussion and visionary ideas pitched during our session.

Our participants questioned whether there were cultural hurdles to innovation, and whether a change of mindset was needed across the market in order to trigger new ideas.

Will there be a disruptor from outside the industry which changes the way it works forever? Parallels were drawn with the Bloomberg Terminal, or the iPhone.

We even got down to talk of whether reinsurance as a product would ever be commoditized, and how you innovate in a product class which is essentially capital, in its purest form.

But every year, the discussion always boils down to one thing – data.

And this year was no different.

As we all know, the (re)insurance industry is a laggard when it comes to how well it leverages the power of data. And again, the conversation highlighted how better data hygiene, better data standardisation and crucially, better data sharing was a vital first step required before the industry can dream of making any quantum leaps in terms of innovation.

But what will be the trigger for this nirvana of data sharing to happen? Who will be the instigator? And will the benefits be great enough that carriers and brokers alike are willing to give up their IP for the greater good?

Perhaps more importantly – if this doesn't happen, is the (re)insurance industry destined to move forever at a glacial pace?

I want to thank QBE Re for sponsoring this annual gathering of like-minded, innovation-hungry individuals. It was a challenging and stimulating discussion down on the French Riviera this year – and I hope you enjoy this summary of our conversation.

Catrin Shi
Editor-in-Chief, Insurance Insider

Piet Haers

I'm extremely passionate about innovation. I'm not saying that I am an expert on all that's going on, so I'm very interested to hear about that, but I think there's still a lot to do in the reinsurance world on the innovation. If you look at the Stock Exchange, digital for a long time, so reinsurance has been more traditional by comparison. So, I think there's a huge number of possibilities that we can actually explore in the reinsurance market over the years to come.

It's still a fact that there's quite a lot of initiatives that can be triggered. Just one example, I started in 1996 in the reinsurance world, and I attended one of the last meetings of [RENAT]. RENAT was an initiative to connect the insurers and the reinsurers and the brokers to have an electronic data interchange and at that time. It started in 1997, that was really innovative thinking. But the last meeting was in 1998 and if you look at today, we can't really say that the global market in reinsurance is digital.

So, I'm definitely interested to hear your thoughts and ideas on what we should do to make a market as a whole more innovative and do a better job for the clients because at the end of the day, that's what innovation should be about.

James Slaughter

The one observation I would make which I think underlines the problem that we have in the reinsurance industry, is that something like B3i failed. I was sat round the table when B3i was formed, and it's a fairly sad tale. B3i at inception was 20 very eager parties and from global reinsurers, insurance companies, global brokers, all the way through to life companies. And the ambition was great which was to simplify the data exchange so that there was one source of record for the transaction that meant everyone was looking at the same thing. The fact that B3i couldn't deliver with 20 large global corporates investing raises the question whether we are ever going to be able to overcome it.

I think the ambition is great. It was just 25 years ago EPS failed, and now we've seen B3i try to do something similar but with modern tech and fail. I just worry about whether the market even has the stomach for taking the hard decisions to push through what has to happen here.

The hurdle seems to be standardisation in data structure, messaging structures. It seems to be I think a little bit of psychology around, 'we do stuff our way and therefore what we do is unique and value-add' and the exchange of data or the analysis of data is somehow bespoke to our risk thinking. And we've never got over that.

Jerad Leigh

The way we innovate is through refining the ability to manage reinsurance complexity. The best way to do that is to introduce structure around how deals get done. In reality, if you have a broker and are looking at the complex needs of a client with unlimited options at their disposal, we think about how you'd actually solve the client's problems.

We're in a place now where we're trying to wrestle with the value of the efficiency gain, but at the potential cost of product innovation. I think we're getting into tech and becoming flexible enough, but it almost works in contrast to what the standards will allow us to do and what appeals to a client.

Piet Haers

For me innovation is very much a mindset, it should be with everybody. Everybody in the company should think innovatively. If you get that kind of mindset at all levels, I think you get adoption more easily because the technology is there. It was there years ago. It was just the mindset was not ready to adopt.

Too many people across the industry are not thinking innovatively enough yet. I think it's sometimes seen that is only technology that equals innovation. I would like to get away from that. We can actually innovate with a lot of things we invented maybe 20 years ago. You don't have to wait until the new blockchain is coming.

Matteo Carbone

Your point is perfect. The use of technology is what can make the difference, not the technology per se. Many companies said to the analyst and the investor community, "we are doing innovation". They went out and picked a technology, and then nothing happened within their organization. After, they repeated. A few digital masters have decided to run their business differently. First, they did their homework, and then they found the right technology. Following this second path, you set responsibility and accountability because you are clear about what you would like to do.

You should be managing innovation as any other initiative inside the organization. You do a plan, you set the bandwidth, and then you see what is working and what should be changed.

Robert Reville

I think what James said about B3i and they had to go back to deal with some basic hygiene first like the data, I think that is one of the major obstacles right now. I think something like blockchain, people say oh my gosh. Commercial insurers don't even know all the companies that they're currently reinsuring. So, they don't get the data from the reinsurance transaction.

And even then, there is basic, considerably less flashy technology like [ND] recognition and reconciliation. So, to be able to go in and say, 'I'm actually reinsuring this company five different times across different cedants', very few reinsurers can answer that simple question because they can't [bring] up the names of the five companies which is at some level conceptually simple technology but actually technologically complicated. Some companies for instance have been investing in that for years and years and that's what the reinsurance industry needs to do too, to get to the basic hygiene before they can do the really exciting stuff like blockchain. That's several steps removed from what they need to do.

Shruthi Rao

I think it would be great if as an industry we can look at what have been the blockers for innovation to flourish. There are multiple levels, but one of the key things to focus on is also the startup world in itself: the pace at which investors expect a startup to grow and the pace at which the insurance industry adopts innovation, which includes long sales cycles, run on vastly different timelines.

The industry is slow to adopt, which I think comes from a place of complacence – "because we have done things in a certain way, let's continue with the same"; moreover, there is lack of openness in data sharing coupled with user groups concerned with tech taking over their jobs, further impeding the progress. These two factors have been a big hindrance for innovation to flourish and for even the best startups with the best products and ideas to fail.

Piet Haers

I believe that the reinsurance market is missing out on a lot of data. There's a lot of data that gets lost through the chain from when it starts with the client through the insurance company and then to the reinsurance company.

Adrian Jones

I agree with all of this. I think having been a reinsurer for 10 years, having been on the board of B3i for 2 years, the reinsurance industry really beats itself up. I don't know that that's fair. The industry should take a lot more credit. If you look around the insurtech world, there have been 1,900 financings since 2015 for $46 billion through the first half of this year. Almost half of those have had some sort of strategic participation. And about two-thirds to three-quarters of that capital has gone into new carriers and new MGAs who of course are almost all buyers of re/insurance in some form.

Essentially all the top 20 North American and European reinsurers have some way of engaging with innovators, either direct investing or innovation arms that are engaging meaningfully. They should get a lot of credit for that.

What hasn't worked is just giving away the pen to inexperienced underwriters and saying 'go knock yourself out'. But what has worked is forming partnerships with them where, over the course of years, you develop products, rates, rules, forms etc, new forms of data, and better data interchange between the MGA or carrier and the ultimate reinsurer. I think there are some good success stories there.

David Flandro

Listening to you guys is interesting because there is a tendency to try to solve the problem. I guess the problem is lack of data [standards] and usability in our industry. And it's true; if you think of all the other capital markets and financial markets, we shouldn't beat ourselves up, but we still don't have a central trading or data platform in our industry.

When we talk about disruptive innovation, I'm revealing my age, but it's usually not the Cadillac that's the disrupter, it's the super-cheap Japanese car with four wheels and a key that just never breaks! It must come from below and it must be something that's so obvious to adopt that people are excited to use it.

That is our ambition long term [with Nova]. We want to create more than just proprietary data; we'd like to get other people sharing data on the platform. And it must be so easy to use that it's a no-brainer. Once that takes place, then we'll start to get some cross-industry participation.

James Slaughter

One of the things you hear is, the data is ours, there's unique value embedded within that data. And I always used to say well if our market share is 4% that means 96% of the market data is not in your data set so how do we know we're making the right decision? But that argument sadly falls on deaf ears! And every entity whether insurance or reinsurance, talks about the unique proprietary nature of their data.

To me, that's culture and mindset point. Actually, it's not the data, it's the decisions you make on that data and what you do with that data that makes it proprietary.

So, unless the industry realises and recognises that the data itself is simply a commodity and we democratise that commodity, it's very difficult to see how structurally the industry will make progress. So that's hurdle number one.

"I think the ambition is great ... I just worry about whether the market even has the stomach for taking the hard decisions to push through what has to happen here."

James Slaughter

David Flandro

One possible way of solving [the data sharing challenge] is by creating anonymity. One of the things we do is we say okay, if it's GDPR compliant, there is already some degree of anonymity. But if you create simple averages from business lines including claims, and pricing, and you can say okay, we've got 30 data points here, we're taking a simple average of their transactions or all the placements over the last 30 days, and we're statistically confident this is a good reflection of the market.

But if you don't have the data in a homogenous format, you can't do that. Maybe it's a chicken and egg situation and one follows the other. What motivation would companies have to share it? They might also want a bigger view of the market and if this is just something that everybody does in the industry, then we can get to the level of other capital markets where everybody just knows what prices are. We don't yet have that.

David Flandro

I think it's more – if we're at the founding of NASA in 1958 and we're training for the moon, how far are we away from 1969? If it's 1995, how close is the iPhone? It might not come from the industry itself. It might just come from somebody who comes into the industry, and we have this Mike Bloomberg style moment when suddenly there's a platform, and all of our lives change because we start to function in relation to this platform, like we did with the iPhone.

Jerad Leigh

I think you made an interesting point earlier which is central to all of this but it's this pursuit of some semblance of standardised data.

Historically the effort has always been let's start and try to get a standard, a sort of core - let's start there. I think David is exactly right; what you have to do is deliver something that's easy to use with so much initial value that people flock to it. From there you can begin to set standards.

One of the things we're doing a lot of right now is helping cedents organise all of their submission data. All the data that goes into a reinsurance purchase can be brought together in a matter of days as opposed to the months of hard work it usually takes using legacy technology. That's an incredible efficiency gain for the cedent.

Shruthi Rao

I think that data centralisation is very much needed (especially at a time when the industry is taking on climate change). But in terms of how far we have come, I think it starts with first knowing the data they have. From our experience working with insurers, catering to a niche market of large accounts, they start with customer data, which is outdated (sometimes 5 or more years old data), incomplete, or simply incorrect. Centralisation cannot be achieved if data-sharing is not a two-way street. The mindset of hoovering vendor data but not sharing their own data (to their own benefit) will not help the industry advance; thus, more innovative approaches are necessary to break this impasse.

Adrian Jones

Looking at that granular data that ultimately feeds up into insurance and reinsurance, the challenge across the entire value chain is that everyone is waiting on everyone else to say, 'this is what we're going to do.'

That was a problem seen at B3i as well; everyone is willing to pay to cross the bridge, but no one is willing to pay to build the bridge itself.

Shruthi Rao

We're harvesting external data to provide more clarity for the end-customer. Before, we were just asking them to share the data. At every stage, if we can harvest the external data to bring value for the customer, then that can open up doors with them sharing the data as well. That is one way we can solve the problem.

Catrin Shi

Moving on from data. Adrian, could you give us examples of where there's been product innovation or risk innovation around a smart application or partnering with a tech company or insurtech?

"The industry should take a lot more credit. If you look around the insurtech world, there have been 1,900 financings since 2015 for $46 billion through the first half of this year."

Adrian Jones

Adrian Jones

Gosh, there is so much. As I said earlier, there have been 1,900 financings, not quite as many companies because some companies have multiple financings, but we have seen at least several hundred notable companies who are doing things throughout the entire insurance value chain. So, it's really hard to narrow it down. But we're seeing it across analytics, distribution, reinsurance, MGAs, carriers, everything.

Successful partnerships require a longer-term mindset than some incumbent companies sometimes subscribe to – seeing beyond the hype cycle and even the underwriting cycle. This is where mutuals have actually been sometimes in the lead because they have that long-term mindset, they're willing to spend multiple years working on it.

Catrin Shi

James, I feel like this is one for you having previously been at a mutual… but Apollo is also very tapped into the emerging risk and technology space.

James Slaughter

I take a counter view; before today's roundtable I reached out to senior people in the industry for examples and didn't get anything back! And the simple reason for that, I think, is that at the end of the day on a balance sheet, reinsurance looks like capital. So, what are we competing against? We're competing against debt and equity. And if we're competing against debt and equity, what does debt and equity have? It's a simple structure, it's fairly straightforward to understand, there are plenty of suppliers of that. So how do you compete with that cost?

Reinsurance innovation is focused entirely on being cost effective source of capital. And actually, I think that in and of itself makes reinsurance a very hard product to innovate. Jerad, you talked about complexity of the deals. My big issue for the industry as to whether it can or can't achieve this nirvana of digitisation and data sharing and trading in a much more sophisticated way is that everyone thinks their product is more sophisticated than the next.

Quite frankly we're self-serving as buyers and sellers of this product to keep it going as long as it's cheaper than debt or equity.

So, to innovate for me, we actually have to go back to a very simple premise. The core of the product is extraordinarily simple so why not buy lots of extraordinary simple standardised commodity products? Then if you want complicated bells and whistles, you go outside and you go to the specialist markets that offer you a bespoke solution that you wrap around your product.

Jerad Leigh

Would you think that brokers are dis-incentivised, though? Because if I'm at a big three broker, I certainly don't want to simplify deal structure. It's in my best interest as a broker to build complexity and add nuance, that's where I add value for my clients. Any software that helps me do that becomes an asset to my business.

I think this type of innovation produces a better situation for the market; by improving data, and the speed at which data can flow, is good for the majority of market participants. However, the big three controls 75% of premium flow -

they aren't really incentivised to push for any kind of change.

There are limits in the existing way the industry approaches problems. There are certain types of businesses that are required to buy insurance even though current economics don't make it profitable enough for the value chain to support it. As a result, some risks go uninsured. It's worth the industry considering an alternative model to allow capital to be deployed in a more efficient way so as to allow these risks to be protected.

As the bigger reinsurers are thinking about how they contribute and add value, having a lens on what challenges insurers need to tackle increasingly open up opportunities over time. I do believe people are actively looking for innovation around their products so they can better serve their clients' needs.

James Slaughter

The limitation of the thinking is that the market stays the same size. If you trade standard commodities, what happens? You can construct an index. Indices encourage product innovation such as derivatives, forwards and futures. The primary market is dwarfed by the secondary market in almost every example of successful standardisation of a product. So, if I was a broker thinking imaginatively 10 years forward, I would want to build a skill set that could make markets and trade markets because the volume alone is likely to make up for the loss in the standard product.

David Flandro

Just quickly James, great points on debt and equity, what do the equity markets have that the reinsurance market doesn't have? They have data on their product every single minute of every single day. You said something interesting - nobody wants to build the bridge; everybody is happy to pay to cross it. So how does the bridge get built? I used the example of Mr Bloomberg but is the bridge capability at Lloyd's? I think we've seen that tried a couple of times. Is it an industry-wide initiative like B3i? Is it a broker? Can it be a broker?

The idea behind the NASDAQ was, and still is, just indexed quotations from broker dealers. Do we have that same capability to do that? I don't know if we will do it collectively in the broking community, but it will come from somewhere.

Matteo Carbone

The reinsurer finances many of the start-ups, many of the MGAs too. But they are also doing research and development for primary insurers around new risks. And they are adding more and more services. So, they're trying to sell

"When we talk about disruptive innovation ... but it's usually not the Cadillac that's the disrupter, it's the super-cheap Japanese car with four wheels and a key that just never breaks! It must come from below and it must be something that's so obvious to adopt that people are excited to use it."

David Flandro

something that is more than the standard risk transfer by enriching with more services their value proposition. But it's moving away from standardisation, the opposite. So, they're trying to escape from the standardisation.

Robert Reville

David dragged us back into data. It's funny in a way. I think with data we are a facilitator of risk knowledge. And it's really what we want, risk knowledge. That's what sets reinsurance apart from debt and equity, there's this knowledge of the underlying risk that traditionally came from having historical data that then could be aggregated globally and spread to create a better portfolio. It's not sufficient today, that backward-looking view.

Adrian Jones

Can I ask you then, in reinsurance markets, where the quality of the promise to pay matters, the ability to take multiple coverages together matters, and there is a tail, how do you create a trading environment? How do you trade a liability rather than an asset?

David Flandro

Well, I would argue that debt is a liability for someone and an asset for someone else, just as reinsurance is a liability for someone and a recoverable asset for someone else. I just think that it's natural because the capital markets were securitised first, they were exchange traded first, all that stuff happened first, and equities and bonds were easier to standardise. Our product is just more complex.

But there's no excuse for us not to standardise. We've got the computing power to do it relative to what they did for those commodities back in the 70s. I just think it's a matter of adoption. And then crucially data standardisation.

Shruthi Rao

I partially disagree with the statement James made, that innovation has to come from insurers and customers. (As Pete said) innovation is a mindset. Especially thinking about the future, I think there is a great opportunity for reinsurers and capital markets to implement innovative policies considering a futuristic standpoint to address the protection gap or climate change.

Speaking of climate change, traditionally insurers have looked at the past, investing in understanding climate risk exposures and then trying to move away from it – but if this trend continues, would there be anything left to insure at all? So, every player in the insurance lifecycle needs to explore, create, and adopt innovative approaches for these

"For me innovation is very much a mindset, it should be with everybody. Everybody in the company should think innovatively. If you get that kind of mindset at all levels, I think you get adoption more easily because the technology is there."

Piet Haers

types of monumental challenges. There is a lot more they can do from a policy perspective to encourage their customers to adapt & reduce the effects of climate change and in helping the industry reach its Net Zero objectives. For anyone interested, it's a concept that I have explained in greater detail in a chapter I authored, "Moving the Topic of Climate Change from Politics to Economics" in the book, Theories of Change.

Piet Haers

One of the things I [want to do] is I want to spread innovation thinking across everybody. I want to bring people together, join them in a kind of one-day innovation. Not because I want something out of it immediately; I want just to trigger their thinking. I believe in that kind of behavioral element of innovation rather than technological.

"The way we innovate is through refining the ability to manage reinsurance complexity. The best way to do that is to introduce structure around how deals get done."

Jerad Leigh

Re-shaped by your needs

QBE Re has earned a reputation over the decades for strong technical underwriting, market expertise and flexibility. It's why our business has grown so well in recent years.

The world is changing and so are we.

We're reconnecting all QBE Re businesses into one with a strong global presence. So, wherever a business partner trades with us, they'll get the same premium service, attitude and appetite for risk they demand.

We're reaffirming the value of long-term relationships built on mutual respect and a desire to find solutions that benefit everyone.

We're reinforcing our strengths in Property, Casualty, Specialty and Life business.

And we go further.

We're open to being challenged on new risks, new territories, new sectors and new classes of business – we are embracing change.

Together we can build a more resilient future.

Find out more at QBERe.com

QBE Re