



Insurance news analysis

Video transcript

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Insurer hit by ransomware attack

CNA updates system restoration efforts after ransomware attack

Business Insurance
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Abbey Compton

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Welcome to Accenture's Insurance News Analysis, I'm Abbey Compton, here with Kenneth Saldanha, Accenture's global lead for insurance. We'll be talking about what's making news around the insurance industry. Kenneth, it's gorgeous here in the D.C. area, and the D.C. office is actually very quiet with most of our colleagues still working from home. How are things in Minneapolis?

Kenneth Saldanha

Global Lead—Insurance, Accenture

Good, Abbey, you know we also have some good spring weather, we had—everyone had a bit of a chance to take a few days off over the holiday weekend, and most importantly our vaccination levels continue to roll out and accelerate across the state and the Twin Cities. So our office is still, as is yours, very quiet and with everyone working remotely but as we continue down this path hopefully we'll have a chance to bring some colleagues back together again and do some things in person. So an optimistic start to the spring.

Abbey

That does—that sounds great. What's not so great, right now, is the big story that's in the news around CNA's ransomware attack, and this is a major sophisticated attack. We've talked a lot about cyber insurance, but here we have an insurer that's actually been targeted for ransomware. How is the industry responding to this?

Kenneth

Yeah Abbey, this is the kind of thing that keeps the executive suite up at night worrying about this kind of an existential threat to the company and I think every insurer out there is looking at CNA with a degree of empathy and fear saying, "You know, I just—I just don't want this to be us next." The insurance industry has spoken at length to its customers around the need for risk mitigation and preparation around the cyber area and it's also something that they will do internally as well.

Unfortunately, given the continuing sophistication and the continued evolution of ransomware and these attacks it's a—it's an eternal vigilance game. And I think CNA is now in the in the heart of restoring its systems up to this kind of attack and unfortunately once an attack like this occurs it's—it's all about the pace and stability of the recovery. And so I think the insurance industry will just amplify its message internally and externally around the need to be prepared, to have the data security, the resilience of systems to be secure and in order to avoid these situations ever coming up, and then being able to, if they do come up, recover as quickly as possible. But it's a very difficult situation for every carrier out there and for CNA in particular, of course.

Big value in small commercial platforms

The Hartford rejects Chubb's \$23 billion buyout offer

Insurance Journal
March 23, 2021

Abbey

So another big news item that happened recently was the Chubb offer to buy The Hartford. There's been a lot of speculation around this, we won't get into all of it, but one thing I thought was really interesting is there was an industry analyst quoted in Insurance Journal who called The Hartford small commercial platform "its crown jewel." We know there's been a high rate of growth in the small commercial market in recent years—do you see that continuing and do you think that more insurers will seek to grab a bigger slice of that market through the M&A approach?

Kenneth

The activity of M&A in the industry is certainly continuing to sort of reawaken and I think that's going to be an interesting set of events, both on the distribution side—you know, we still have the Aon/Willis discussion going, now we have this unsolicited bid for The Hartford.

To your small business question in particular, I mean, The Hartford small business franchise has always been regarded as one of the best in the industry. The sector, small commercial, certainly a highly attractive sector, when you think about just the scale—the number of small businesses out there—and the fact that it has been for a long time a relatively underserved segment simply because the required customization and tailoring of products and services to small businesses is not very easy to land on. It's hard to create a homogenous commoditized product even though there is a strong effort to do that, but most small businesses don't feel like the offer on the market quite meets what they're looking for, because as you can imagine small business is very bespoke.

So the ability to create a strong platform and to create an offer that is compelling to small businesses is difficult, and Hartford had done a very nice job of that—has done a very nice job of that. You know, the sector took a real beating across the last year, as you can imagine very few small businesses had the capital base or the resilience to survive a shutdown the way a larger corporation does, and so we did see an enormous number of shutdowns and bankruptcies for small businesses, which was sort of heart breaking when you look at what's—the degree to which it's those businesses that are running Main Street America. I do think the sector will come back and come back strongly. It is, it continues to be a place where it draws a huge number of entrepreneurs into that space and I think it will come back strongly. For the insurance industry, it will remain a strong sector—we also, by the way, see it as a very strong sector for all of the distribution plays, all the new entrants, a number of the distribution private equity funded solutions have been focused on small business. So I do think coming out of this very difficult period we will see a resurgence of small business, with that, the sector for the insurance industry will again strengthen as well.

Suez Canal leads to big commercial lines claims

Insurers of container ship aground in Suez Canal face millions in claims

Insurance Journal
March 25, 2021

Abbey

The industry is still calculating the claims associated with the shutdown of the Suez Canal. Insurers are going to be seeing claims from really every direction, from product manufacturers, oil producers, shipping lines. After a year of really unprecedented claims from the pandemic, from wildfires and all the other catastrophic events—insurers have to just be reeling, like, “What can possibly be next?” So what can insurers do about this myriad of claims coming at them from every direction?

Kenneth

As you mentioned, Abbey, the number of things that have changed in these systemic catastrophic risks has just been incredible. You know, three or four years ago the only thing that we were talking about was the way in which climate was impacting catastrophic claims, so we weren't seeing the—with the variability in weather, we were seeing much higher degrees of catastrophic events, a higher frequency of those, but it was essentially a climate conversation and since then it's just expanded into so many different dimensions. So now we've got, certainly, the continued climate impact but also pandemic and business interruption, supply chain interruption, ransomware as we just talked about. So what we're seeing in the industry is an incredible level of instability around the underlying risk models the industry uses to do capital allocation. This, as you can imagine, is not great for the industry because the insurance runs on historic data and historic loss trends. And what we're seeing is high instability in those underlying risk models and the underlying exposures and what that's creating is an enormous pressure on and volatility in capital requirements. The reserve levels required to write these businesses with all these new risks has really changed and I think insurers are running hard to try to rebalance their capital portfolios to continue writing businesses they've already written or to grow in sectors they want to grow into. The Suez Canal is another out-of-the-blue hit, I think people are probably getting a bit tired of talking about unprecedented things, because everything's unprecedented at this point—and so maybe being unprecedented is the new precedent. But the supply chain risk from this, the variety of sectors that are impacted, will be another sort of volatility factor in capital models.

Now, I have a lot of faith in the industry's actuarial skill set, and their reserves skill set, and the capitalization of the industry is very strong, so I do believe the industry will navigate through it, maybe that's a bad choice of words with the Suez Canal in particular, but the industry will get through this. But I do think that the volatility and the capital pressure it creates, you know, does create financial and operational duress yet again for the for the industry.

Return to work and implications for apprenticeships

Why the new hybrid office model may have less flexibility than you think

Canadian Underwriter
April 1, 2021

Abbey

Kenneth, several P&C insurers were interviewed by Canadian Underwriter and quoted on their return-to-work views. Many of them took the view that there will be more remote work going forward but that it won't be a matter of individual flexibility, individuals deciding what days they work from home and what days they come into the office, but more of a team-based approach—teams will work together as a unit either in the virtual environment or in person. Do you see insurers turning more to a team-based approach to workforce operations going forward?

Kenneth

So I do think, Abbey, the team-based approach is one that insurers have used for a while and so what might be, in fact, a bit of a change now is what is the blend of remote work within that team? So, as an example, insurers have been in the model where you have underwriters and underwriting assistants and underwriting support working as a team. In many instances those are not co-located teams and some they are, depending on the segment. The same thing is true for claims: you have claim services and claim support, versus claims adjusters, so I think the industry's very grooved in the notion of how to actually work and how to bring those core teams together as it relates to the core functions.

Of course, now we have the question of remote work coming into that as well—again, the industry has, in many ways, been in a model where not everyone is co-located into a single operational center, so I think there's some skill set already in terms of how to work with remote teams. I think that's going to get amplified in the current environment. The thing that I know we've spoken about in the past in this discussion is, you know, the flipside of the remote working environment is the apprenticeship side of the industry, and if you look at underwriting and claims, even agency management, actuarial, all of these fields have always been very heavily dependent on apprenticeship as a core element of development over time.

And with the remote model, that to me is the longer-term question that remains unanswered. I think the logistics of how to make it work will not be a struggle for the industry, I think not only has the industry demonstrated its ability to pivot quickly, which it did in 2020, but it's a long-standing capability. So I don't see as much of the logistic or the operational question as the key, but really what is the longer-term implication for an apprenticeship business like insurance and so where are we going to go with that. In that light, you know, there's a lot of sectors out there that have that issue and so it's not a unique challenge for the insurance industry. It's certainly a challenge that I see for us as a services company, we have a very heavily apprenticeship-driven model, so we're an example of a company that also has to figure out how we balance remote versus in-person teams. But I do think it will be a shift and there will be a need to balance the near-term logistics of this with the longer-term implications for skill and talent management and talent development in the industry.

Pet insurance standards considered

U.S. regulators inch toward pet-insurance rules as Sir Purrs A Lot Ails

Reuters
March 26, 2021

Abbey

So, Kenneth, another story that made news: pet owners, like us—we both have our furry friends at home—we'll be paying close attention: the National Association of Insurance Commissioners here in the U.S. is considering standards on pet insurance, which seems to be—the push toward standardization is coming from some frustration from consumers about claims not being paid. What do you see as the future of pet insurance and is this going to be a market that we think is going to grow?

Kenneth

So I think two things on this, Abbey: first, you know, the focus that—the attention that's being paid to pet insurance, to me, I see that more analogous to the kind of consumer—general consumer protection that has come into play for things like for credit cards, right, you know, now 10-15 years ago the consumer protection around credit cards. We've seen a similar push when it came to retail warranties or title loans or payday loans, I think it's fundamentally a consumer protection play. I don't see it quite in the same vein as a lot of other regulation seen in insurance, this is fundamentally making sure that the actual product is sound and it isn't taking advantage of consumers. And so this notion of saying, you have to have insurance but it never pays out, it's a little bit, you know, if you think about some of the discussions that people have around retail warranties, it's the same sort of dynamic—it's overpriced, it never pays out—the regulation, per se, is less about the specifics of how the product's going to work and more about whether, in fact, there is a legitimate product there. So I think, as opposed to a lot of other insurance regulation, this is more about saying, is there even a legitimate product that we're talking about here? And I think that's a good thing, because there are legitimate offers out there but there's plenty that aren't. And so this is to me more of a consumer protection play than an insurance regulation play.

Now pet insurance as a offering, I think, is you know—you asked is this going to continue to be a big sector, I'm sure it is but I think it's going to be part of a much broader trend in the industry, which is this whole notion of expanding the offering into the full circle of what we call "controllable adversity." I think consumers right now feel an enormous degree of risk around all elements of their life and certainly as we look around ourselves we see that every day. I think insurers are going to be constantly seeking out, what are those offers, what are those products and services that continue to create this sort of circle of protection around your controllable adversity. Pet insurance is an example of that. I think we will continue to see product evolution, we start to see, you know, private cyber insurance being offered because people are working so much more at home on home wi-fi networks with their own personal information exposed, along with what they were doing for work. So I do think it's a good thing for the industry, it's a good thing for consumers, we will see a continuing evolution of offerings or reimagining of those offerings to continue to provide a high degree of certainty or insurance where we can. I think it will be a good thing for the industry in terms of a growth of the industry as well as a framing of the relationship between insurers and their customers as one that's around mitigation, around protection as opposed to simply the insurance indemnity side of it. So I do think we will see pet insurance and other versions of pet insurance grow with this and I think it'll be a welcome thing to make sure that we see the consumer protections in place to make sure that they're legitimate offers. I think will see that, I think insurers will absolutely step into that role and put forward valuable offers that resonate with their customers to create this, you know, increased circle of protection, so I think it'll be something we continue to see in the future.

Improving data quality and customer experience

New York Life accelerates underwriting through collaboration with Cerner

Insurance Innovation Reporter
March 24, 2021

Abbey

So final story, Kenneth—New York Life announced a collaboration with Cerner, which is an electronic health records company, to get near real-time data, with customer consent, from hospitals, and both companies say this will help make the underwriting process faster, reduce friction with customers and with underwriters. Do you think this is something we're going to see a lot more, these sorts of collaborations to make these data retrievals faster and more user friendly?

Kenneth

Absolutely, Abbey, I think it's, you know, it's the life insurance example you just mentioned, specifically for life insurance the new the new underwriting or the new policy process for life insurance has been viewed as a really low-quality customer experience for a very long time—you have to schedule the home visit and then you have to have a nurse in your house—and, you know, the data is very questionable, and for most people all of that data is available at a much more robust and trustworthy form with their health insurers, with their health provider. So this idea of using external data sources to get higher quality data, essentially it's authenticated verified data from a more reliable source, is a great idea and it's one that's been in place, certainly, you know, you look at property insurance you look at work comp, where you can verify payrolls, property you can verify locations and states of buildings, all of that has absolutely been an ongoing trend and one that's going to continue to accelerate. As the availability and quality of data increases, we're going to continue to see that in underwriting of new business and renewals, and of course also in claims, right, so we don't have to, you know, do as much when someone's already in the midst of a process, whether it's beginning a new life insurance policy or it's filing a claim, if you can get the information from a reliable source without taking your customer through that, again, why would you? And so I think it's absolutely something we see occurring across underwriting and other parts of the insurance process, and I think it'll be welcomed by customers who have always sort of expressed that frustration, saying, "Well why do I have to go through this again—didn't I just tell you this in another setting?" And so I think we will continue to see that and it's a good move from a customer experience perspective and it's a good move from a data quality and operational element for the insurance companies.

Abbey

Ok—Kenneth thanks so much for getting together today, always great to hear your perspective on what's happening around the industry.

Kenneth

Always fun to talk to you, thanks for the time Abbey, take care.