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 industry. So, Kenneth, President Joe Biden issued a series of executive orders in the past few weeks. One includes a call for a government-wide climate-risk strategy, and Secretary of the Treasury Janet Yellen says she'll work with the FDIC and other regulators on climate-related financial disclosures, so the government and financial institutions have the data they need. Overall, is this good news for the industry and will it lead to changes in underwriting?

Kenneth Saldanha
Global Lead—Insurance, Accenture

Yeah, Abbey, I think, you know, I think definitely good news, well, it's good news for us, I think, and as a society, I think we're taking the right moves on all of these topics and I think most carriers have actually very much focused on a broader ESG, including sustainability agenda. Right, so I think there's an expectation, both in terms of underwriting and products, that they will be responding to changes like this. And it does go much broader than just, you know, renewable energy or sources like that, I mean, we certainly have seen more carriers enter or declare a focus on renewable energy as a specialty line of business. When that happens, typically, you know, sophistication of the product climbs, you get a better set of services available, so I think that's very good news for the renewable energy sector, that's actually going to be responding to this for the most part. But I do think it's going to be a broader set of changes that we see in the insurance industry, both in what they offer and market as well as how they operate internally on these topics of environmental, societal and governance changes.
Abbey

Another executive order also requires IT service providers with government contracts to share information about cyber incidents. This is something that weighs heavily on insurers as they continue to get hit with ransomware attacks, as do their customers. What’s your take on this one Kenneth, will insurers welcome this move toward data sharing and are they optimistic these measures will help reduce the impact of cyber threat and attack?

Kenneth

Yeah, I think, Abbey, this will be absolutely sort of a cautious optimism because there is some bad news that can come with the good news. I think certainly everyone’s going to welcome anything we can do to be more responsive and better defended against cyber attack. As you said, not only have insurance companies seen their customers come under attack and being, providing insurance for that, but insurers themselves have come under attack from cyber ransomware situations. So, I think there’s going to be a lot of optimism around whatever we can do in terms of measures to actually respond to that. Where the caution comes in is... there’s typically an operational cost and complexity to additional reporting and oversight, and take, for example, what we saw for, for the SIFI regulation, the [Systemically Important] Financial Institution regulation that came out of the financial crisis, the cost of reporting and oversight and compliance with that regulation did end up being very substantial. So, I think there’s going to be a cautious optimism, as a response to this, where I think there will be a high willingness and desire to actually collectively come back with a stronger response as an industry, and they’ll be a little bit of caution to say, “How much is this going to add to operational costs and complexity to respond to it?” Because that typically has been the experience of the industry.

Abbey

So, speaking of cost and earnings, some of the most recent earnings reports we’ve seen have insurers reporting their highest sales in over a decade and many others who are returning to healthy profits after the disruptions of COVID-19. What do you think—can insurers ride this wave of growth and what are the next opportunities for growth and disruption?

Kenneth

So, Abbey, there’s a, there’s a long-term... you look at the long-term performance of the industry, there is this pendulum swing back and forth between, you know, strong rate environments and weak rate environments. Enough so that the industry has a term for it, and they talk about “hard” markets and “soft” markets, and we are currently in a hard market, which means, essentially, that the available rate per unit of risk has increased more than the, the claim cost of that unit of risk, right? So essentially, premiums are high, right, and so you see that in what carriers are declaring, it is however, a pendulum, right? And I would think of this no more...
no differently from the real estate market, there are buyers’ markets and there are sellers’ markets, right now the insurance industry is going through a hard market, which is good for premium and rate environments. It is not a sustainable change to the fundamentals of the industry, right? So this is... while the profitability is, is up, and it does give insurers some room to actually make some investments and prepare for the future, it hasn’t... you’re not seeing a change in their comparative positioning against each other, it’s not like you’re seeing carriers use that time to suddenly take a much stronger market position. So it is a little bit of a rising tide and most carriers are seeing that increase and improvement in rate environment, which is great and I think needed for carriers who took a real beating in some of the catastrophic losses and claims from unexpected things, like ice storms in Texas. But it will actually absolutely swing back at some point and we’ll be back in a soft market down the road.

Abbey

So, here in the Northern Hemisphere, summer has arrived and that... a lot of markets travel is resuming and some have fairly complex rules for travelers. And then you add travel insurance on top of that, and that just adds another layer of complexity for the consumer. So Kenneth, I’m going to ask you the same question that our friend Natalie de Freitas asked you this time last year. How quickly do you think insurers are responding to building new capabilities in this ever changing scenario?

Kenneth

So I will say, Abbey, insurance is not, as an industry we’re not really tuned to making short-burst changes for temporary conditions, right? We tend to run on long-term actuarial tables, and so, and fundamentally you look at sort of massive discontinuities, like we’re seeing on a weekly basis, right? The U.K.’s sort of stoplight characterization for travel countries changes on a daily basis, right? So, is travel insurance going to suddenly change its fundamental cover and available coverage to actually match that on the day-to-day basis? No, I don’t think they are, and in fact, a lot of those policies actually come with a very clear sort of, maybe it’s fine print, that says it does not cover change in regulatory status of the location you’re in. So, you may well have..., and neither does it cover, by the way, a change in what you have, what the cost of your necessary quarantine might be, right? So when I think about the uncertainty in travel and what’s happening right now, it’s more of those things. I mean it’s, if people could fly on the day they chose to fly, that risk profile hasn’t changed and that travel insurance hasn’t changed. So you can still buy trip insurance for the event that you decide, for some reason or the other, that you can’t fly on the day that you’re planning on it. What in the industry and what the travel insurance products aren’t going to do is, I don’t think, is going to really adjust on this very, very rapid basis to who’s on the list, who’s off the list, who needs to quarantine, for how long, is it a hotel, etc., just because that’s not the kind of pricing and trend analysis you can create to create pool risk. So, I do think travel is going to come back quickly, we’re seeing, you know, certainly in the U.S., we’re seeing lots of states step away from mask mandates, etc., so I think we will see a very nice uptake in economic activity, including travel. I don’t think the insurance industry is going to create a new set of products and services for this summer. I think we will see a broader set of changes around how the industry offers products for pandemic situations, and long-term business interruption, and things that we’ve learned from the last 12 to 18 months.

Travel insurance firms are first to offer cover for red, amber and green list countries

Independent

May 21, 2021
Abbey

And, final story Kenneth, the U.K. has or is taking a look at their highway code with a mind for adding more self-driving, allowing more self-driving. Insurers have concerns about this, according to reports in the BBC and in Reuters, they’re concerned that drivers may not understand these technologies. For example, they may not understand the difference in lane assist versus an intelligent solution that can help change lanes, or speed up or slow down to avoid a crash. So is this a way, an opportunity, do we need more public/private partnerships in the interest of public safety and consumer protection?

Kenneth

So you know, Abbey, this is a little bit of a pet peeve for me because it’s a classic situation, where if the industry or particular players in the industry don’t embrace the change, they’re going to not be relevant to the industry down the road. This is..., to assert statements like that, to me, is you know, you’re fighting the future rather than embracing it, right? Roll the clock back, you know, 20 years and this is the equivalent to someone saying, “Well, you don’t, we really shouldn’t allow cruise control, because someone might misinterpret that to mean that they don’t have to watch the road any more, and they can just, you know, read a book,” right? It’s, you need to understand what the capability is, sure, and, but I think the leaders in the industry are going to work and step into this with their consumers, do the necessary education, help their consumers and customers adopt these new technologies and get the benefits from it. Now, I don’t think anyone’s intending on making blanket statements about, you know, once you have this capability all bets are off. On the contrary, I think there’s a lot of regulation, not even from the industry, but even from the, the governmental agencies who are considering this. And so I think it’s a little disingenuous to say, “my gosh, we can’t do this because what if someone misinterprets it,” you know, that’s, you can always make that argument. I would argue the leading insurers, those who are going to lead in the future, are going to embrace this, they’re going to actually start to think about how their policies and their risk profile starts to adopt to actually to take advantage of this. So maybe insurance cover starts to shift more towards the product liability of, “Does yourself self-drive vehicle operate correctly?”

We talked about cyber, do we start seeing cyber coverage and make sure that, you know, you don’t get hacked and your car doesn’t get crashed. And there’s lots of things that you can do to embrace the future, adapt to it, help your customers adapt to it, and then be alongside them as they go to the new environment. I would argue saying, well, “someone might misunderstand,” that is a little bit of sticking your head in the sand and trying to fight the future. So, you know, I think we’ll go back to what I think Accenture said for, you know, for years, well before this story, which is, “You can choose to disrupt or be disrupted.” And we’re going to stay with that, for this story as well.

Abbey

Kenneth, always great to talk to you, great insights, we’ll talk again soon!

Kenneth

All right, thanks for the time, Abbey.