



OPTIMISM IN THE FACE OF OBSTACLES

VIDEO TRANSCRIPT

Joanne Laffan : Welcome to this edition of Accenture's Insurance News Analysis with me, Joanne Laffan and Kenneth Saldanha, Accenture's Global Lead for Insurance. Welcome, Kenneth.

Kenneth Saldanha : Hello. How are you?

Joanne Laffan : Very good. Very good. We'll be talking about what's making news around the industry. And so let's get into our first story. When the Financial Conduct Authority in the UK brought new rules into place six months ago to stop loyal customers paying higher rates of renewals than new customers. We spoke about the fact that this should theoretically level the playing field, but it looks like it's actually increased premiums and has resulted in negative publicity for the insurance industry, especially as it seemed to hit the most vulnerable. Kenneth, why do you think this regulation may not have had the desired effect?

Kenneth Saldanha : Well, Joanne, I think what's really happened here is that the conditions in the market have changed substantially from when the initial discussion was had to where we are today. I don't think that the challenges on supply chain and inflation are news to anyone. But they also, of course, impact things like auto claims and property claims repair.

And carriers have seen substantial increases in those prices of not only the direct materials involved, they've also seen changes in just the sheer length of time it takes to handle claims. As you can imagine, if you can't get the parts you need or you can't get the chips you need to repair a car or you can't get building materials, the times that claims take takes longer. And with that comes the additional rental car expense or the living expenses or any of the business interruption payments that have to occur while the claim occurs. So I think what's really changed in a very substantial way is the underlying cost of claims, and that is likely to get reflected in the overall pricing this year. Additionally, you know, I would just point out, even when we had this conversation the first time, whether it's new renewal business, policies go through the same pricing review, they actually get looked at on the pricing mechanisms that the carriers have in place. And so it's not a deliberate choice to say, well, we're going to treat renewals very differently from some new business. In fact, insurers are highly incented to maintain and retain their customers. The retained customers, loyal customers, tend to, of course, have lower claims historically; they are absolutely the customers that insurers want to retain. So there's certainly, in my mind, nothing nefarious happening with how insurers are trying to treat their loyal customers. But I do think that's an unfortunate reality that we're going to see increases in premium reflecting underlying issues like inflation and supply chain across the board.



Joanne Laffan : Second story, so the U.S. is exploring whether a federal insurance scheme to cover potentially catastrophic cyber attacks is needed after a high level government report warned that the private insurance market and the country's terrorism risk insurance program offer only limited protection. Kenneth, what's your view on the impact this would have on the cyber insurance market in general?

Kenneth Saldanha : I think this is a good thing for the cyber insurance market. We've talked in the past about the fact that as the ransomware and other attacks have really increased, the exposures for carriers have increased. And with that, there's been a very substantial increase in the capital requirements in order to actually write cyber insurance. The fundamental industry loss models have actually changed substantially in the last year or two. Add to that that some of these cyber attacks are now very explicitly viewed as state attacks. They're acts of war. And so there are constraints on how carriers can actually respond and act on these claims as well. So having a federal backstop, having a federal involvement in this, I think is a good thing, both because it actually changes the capital requirements and the capital adequacy that carriers will have to deliver. It also actually takes this to a place where if we're going to treat these attacks as acts of war or state level actions, in which case the carrier response is very constrained, then it is, I think, a good thing to have the federal involvement in how these actually get handled and paid for.

Joanne Laffan : And as Australia is hit increasingly frequently by extreme weather events, IAG-backed NRMA Insurance has teamed up with the South Australian State Emergency Service to amplify community preparedness programs. Kenneth, do you think we're likely to see more of these public private partnerships that help to mitigate risk and not just manage it?

Kenneth Saldanha : Absolutely, Joanne. I think the industry at large is continuing on a very important journey of how to mitigate versus just payout on risk. I think we've seen that, again, this is a long term story. Whether you look at how seatbelts were put into cars years ago, how we're doing fire retardant materials in places that are exposed to fire risk and now with the flood prevention measures. I think certainly we've always seen the industry, you know, with some self-interest in mind to say they want to actually manage this risk. I think we're going to absolutely continue to see what's possible here with public private. It's a huge public issue. It's a huge issue for carriers and for the companies involved. And so I think there's high incentives for both parties to be involved in this and for consumers and for businesses who are being insured. It's a huge win. I mean, if you can actually get the sandbags for floods or you can move your vehicles to higher ground, all those things, simple risk mitigation activities with alerts can make a huge difference.

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Joanne Laffan : So the world economy gained macroeconomic resilience in 2021, but ongoing impacts make the recovery fragile, according to a new report from the Swiss Re Institute. Kenneth, do you think slowing growth, high inflation and global geopolitical tensions may throw a spanner into the resilience recovery? Are you still ultimately optimistic about the industry's resilience?

Kenneth Saldanha : We're still very optimistic about the industry, both in terms of its trajectory overall and the resilience in terms of, you know, responding to some of these challenges. That's not going to be a straight line upward, though. And I think the industry has always been a cyclical one. It's always stayed essentially in line, plus or minus, you know, 3.0 basis points above GDP historically. I think that's what we're going to continue to see. As you describe, there's a lot of factors right now putting lots of pressure on GDP. There's a lot of pressures on, you know, unknown scenarios and what used to be thought of as 100 year or black swan events, which are occurring at an increasing frequency. So I certainly think we're optimistic. I think the industry is resilient, but I think we're in for a bumpy ride and I think that's going to be seen at individual carrier levels and for the industry as a whole.

Joanne Laffan : Well, Kenneth, it's been great talking to you. It's been a great pleasure on this Insurance News Analysis and it's lovely to hear your perspective on what's happening in the industry. Fascinating, as always. Thanks for your time.

Kenneth Saldanha : Thank you Joanne.

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