



Institute  
and Faculty  
of Actuaries

# What is keeping my CEO awake at night?

Simon Sheaf & Jinit Shah  
Grant Thornton UK LLP

9 October 2013

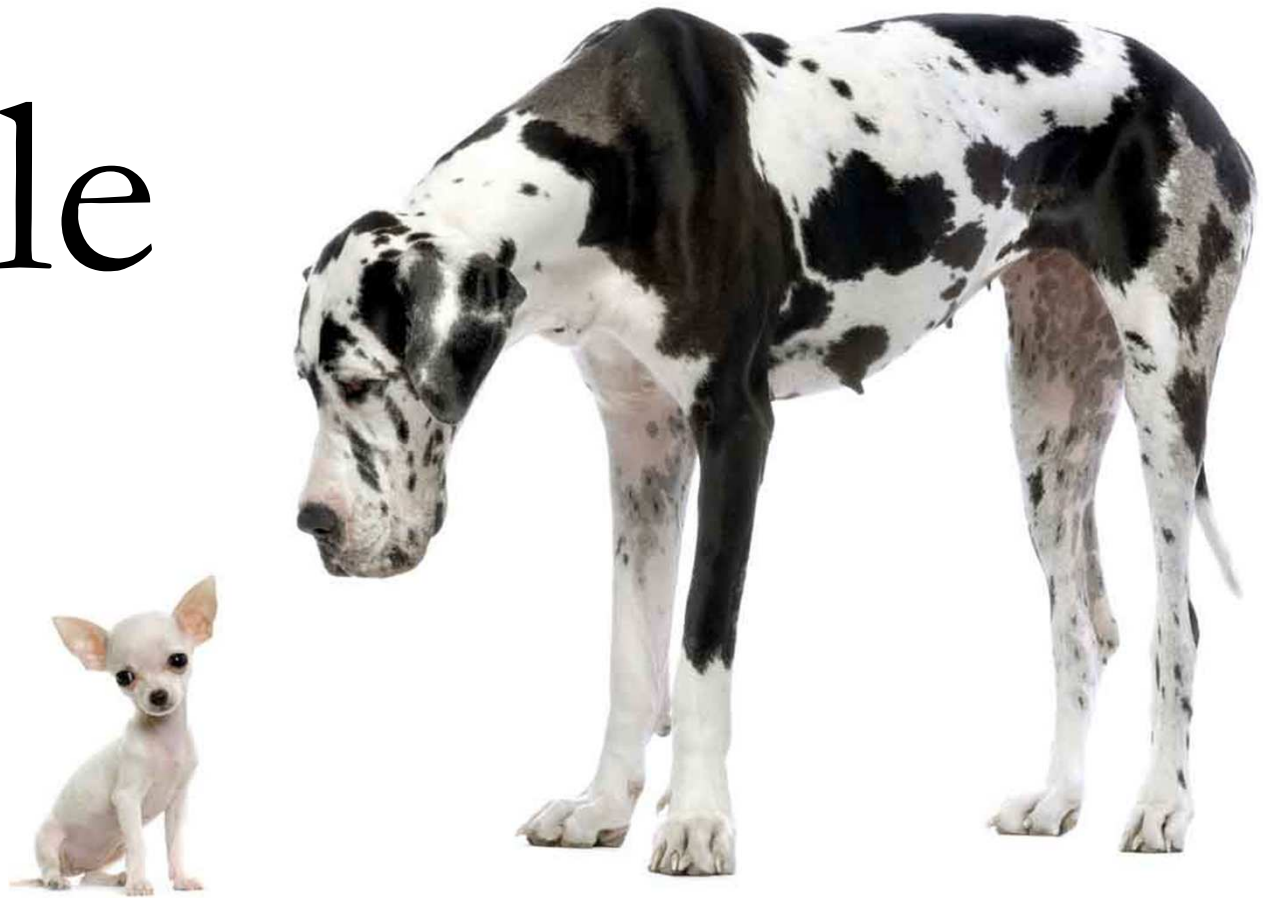


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sponsorship  
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Progress  
Community  
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Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise support  
Learned and risk  
Opportunity  
International profile  
Journals  
Support

# Agenda

- Scale
- Capital
- Regulation
- Cost
- Distribution
- Global issues

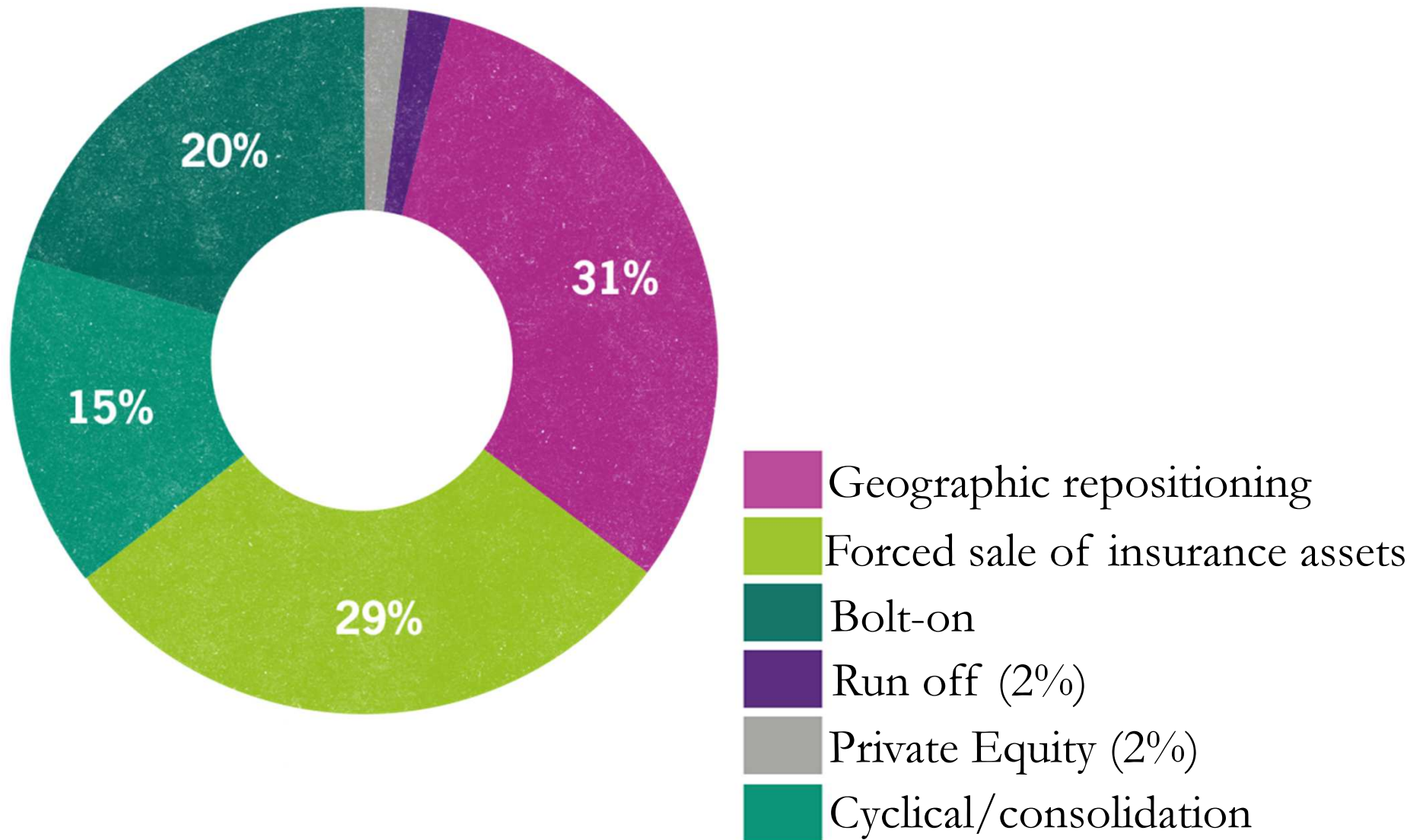
# Scale



# Scale

- M & A

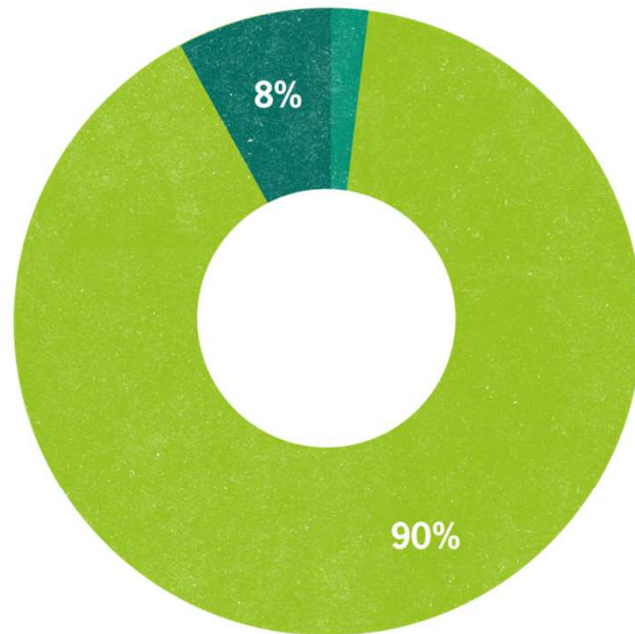
## Reasons for M&A deals



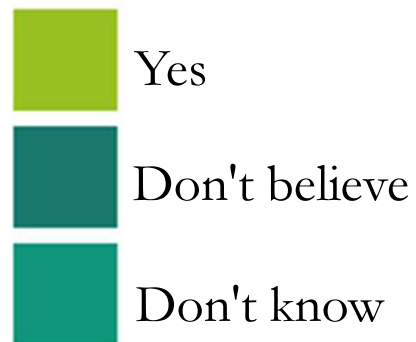
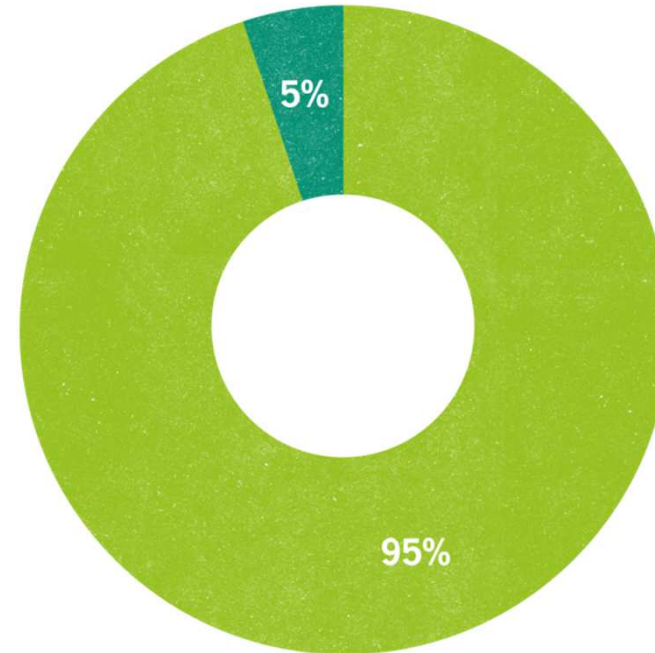
# Scale

- M & A
- Solvency II benefit

## Solvency II will benefit large insurers

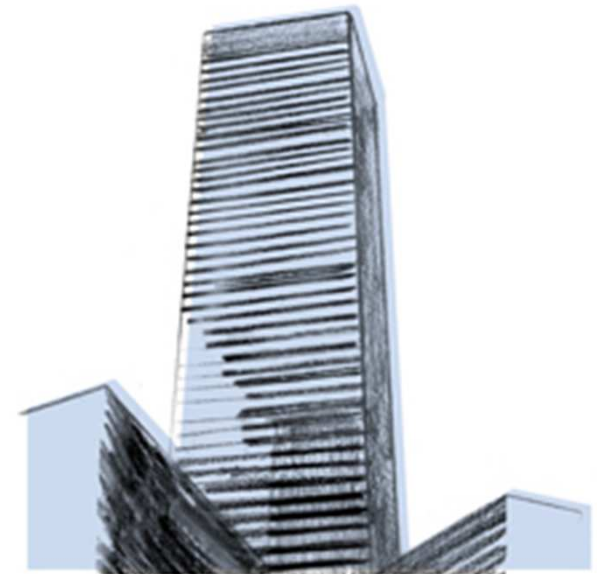


## Solvency II will increase industry consolidation



# Scale

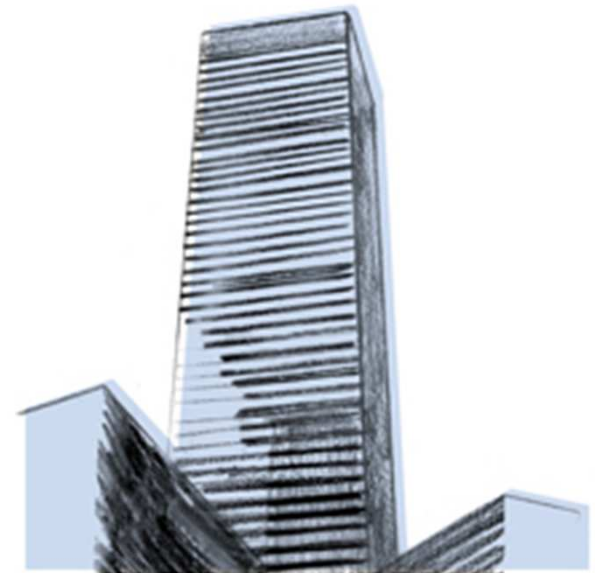
- M & A
- Solvency II benefit
- Does size matter?





# Scale

- M & A
- Solvency II benefit
- Does size matter?
- Size or scale?



# Questions for the CEO

- Q What are the costs that cannot be squeezed below a certain level in order to accommodate a given level of premium? Given these costs, is there a minimum critical mass for elements of, or all of the business?
- Q Can these 'critical mass' costs not be outsourced or otherwise controlled?
- Q Do the benefits of increasing scale outweigh the risks such as loss of control and inaccuracy of data?
- Q If increased scale is important, is an organic or inorganic approach optimal?
- Q If increased scale is not important, would selective disposal enhance the quality of earnings?

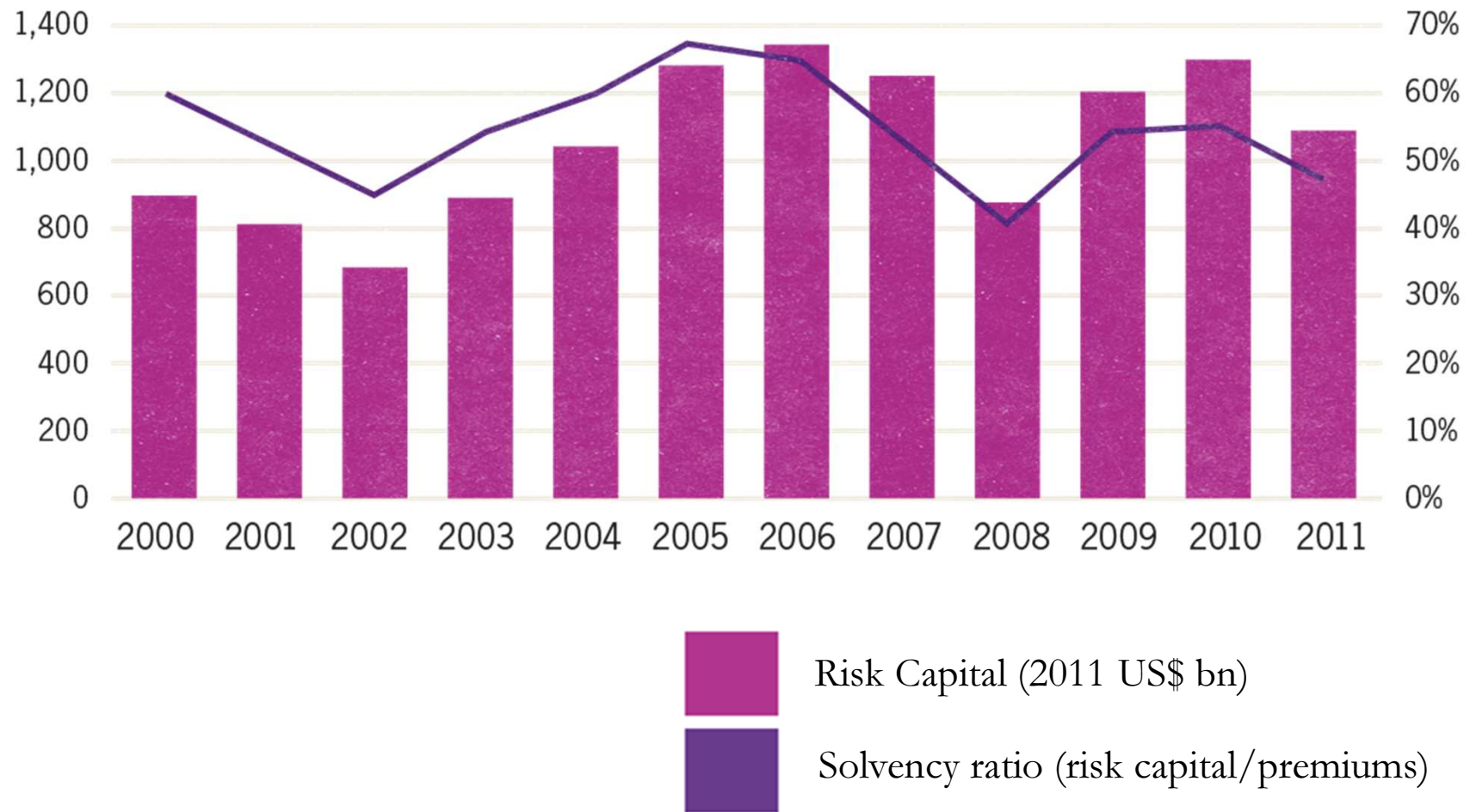
Capital



# Capital

- Global insurance capital position remains reasonably strong

## Global insurance capital position remains reasonably strong



# Capital

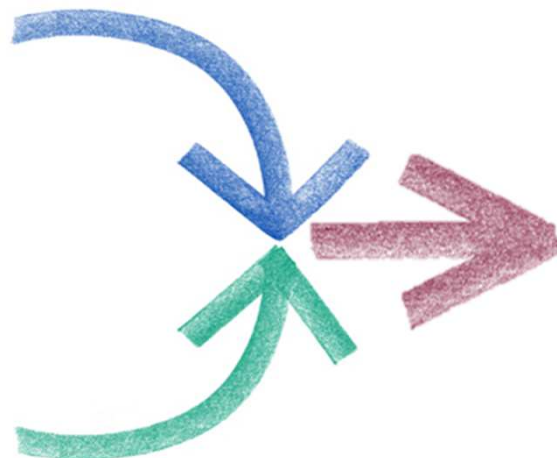
- Global insurance capital position remains reasonably strong.
- IFRS4 Phase 2 – help or hindrance?

# Capital

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- IFRS4 Phase 2 – help or hindrance?
- The return of the composite insurer?

# Capital

- Global insurance capital position remains reasonably strong.
- IFRS4 Phase 2 – help or hindrance?
- The return of the composite insurer?
- Regulation drives convergence of capital structures





# Questions for the CEO

- Q What plans do you have for the radical restructuring of your reinsurance programme to take advantage of Solvency II changes?
- Q How do you propose to communicate to owners the changes to your capital structure that will be made necessary by Solvency II, continuing low yields on investment, and higher investor demand for returns?
- Q Do you know what your accounts would look like under IFRS4 phase 2?
- Q How are you responding to the delay in Solvency II implementation?

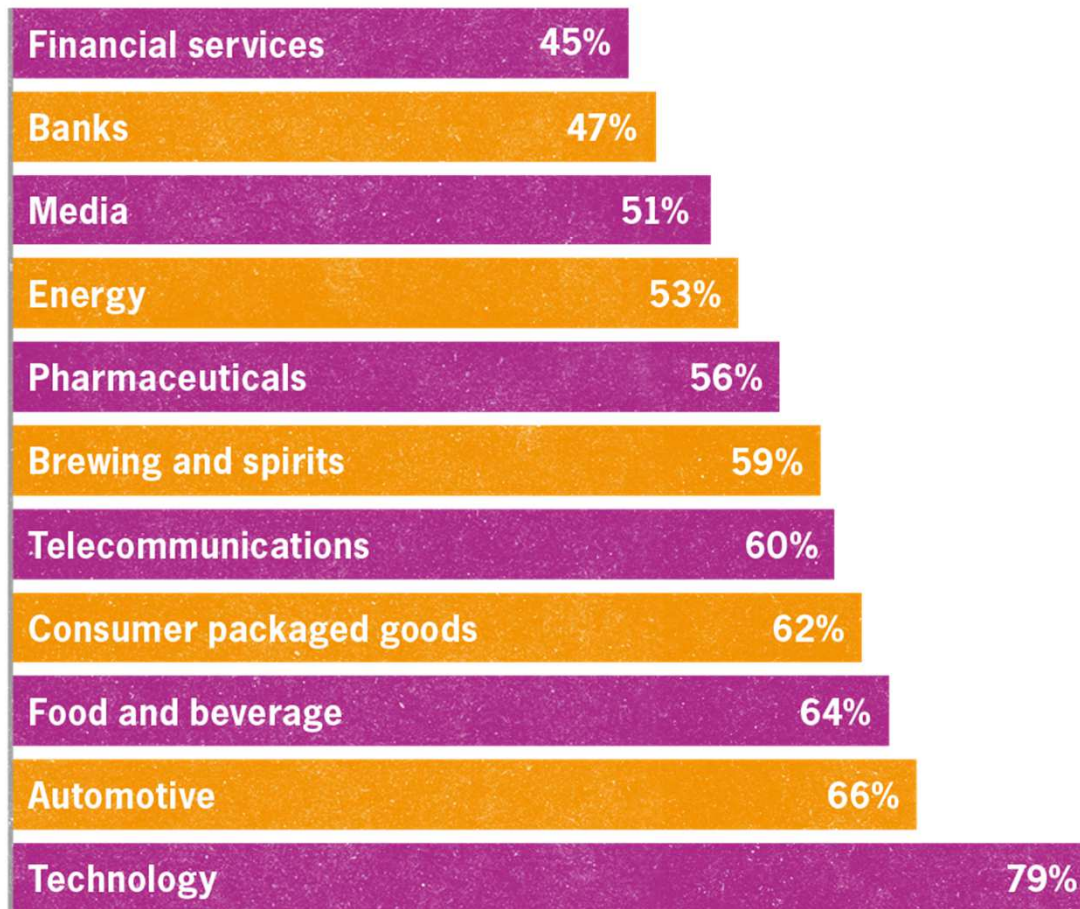


# Regulation

# Regulation

- Trust in financial services is very low

## Which of these sectors do you trust?

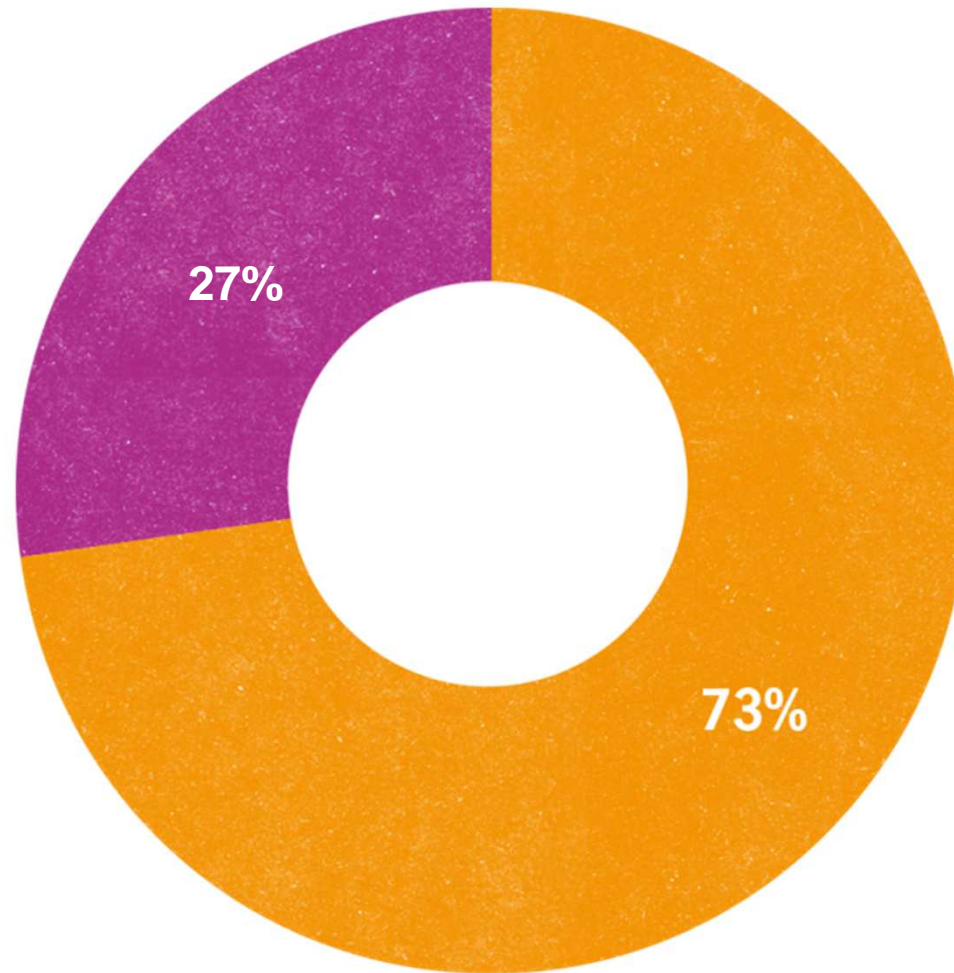


# Regulation

- Trust in financial services is very low
- Customers think insurers try to confuse them



## Customers think insurers try to confuse them



Percentage of insurance buyers who think that insurance providers make terms and conditions deliberately complicated

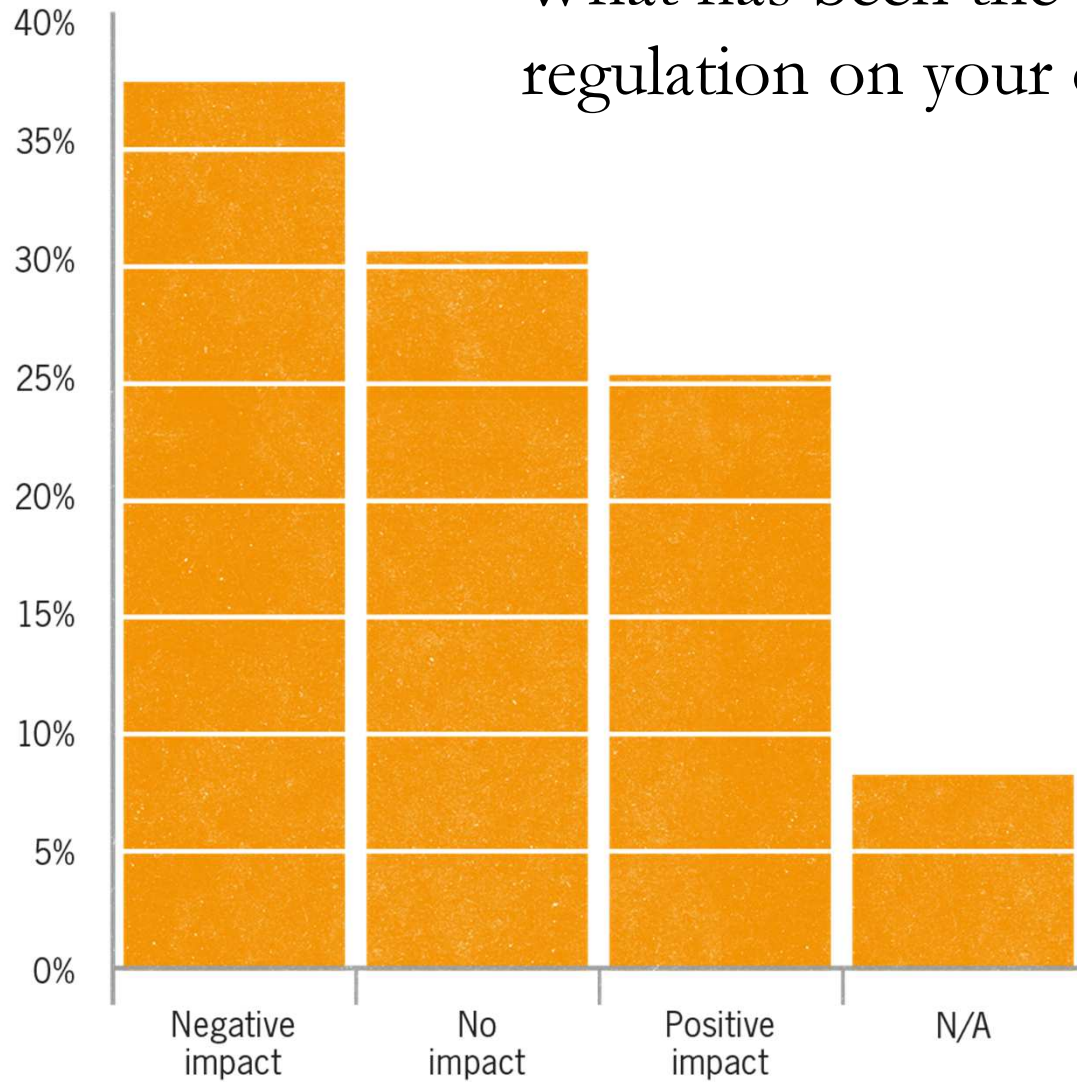
# Regulation

- Trust in financial services is very low
- Customers think insurers try to confuse them
- Lots of new regulation





## What has been the general impact of new regulation on your organisation?





# Regulation

- Trust in financial services is very low
- Customers think insurers try to confuse them
- Lots of new regulation
- Insurers aren't banks, but do regulators care?



# Questions for the CEO

Q To what extent is your regulatory stance reactive and to what extent have you managed to move to business as usual?

Q Does your board really understand the risks in the business?

Q Do you actively manage your regulator?

Q The last time you had a major regulatory challenge, how quickly did you react? How will you react next time?

Q Are you clear about the role and scope of the three lines of defence?

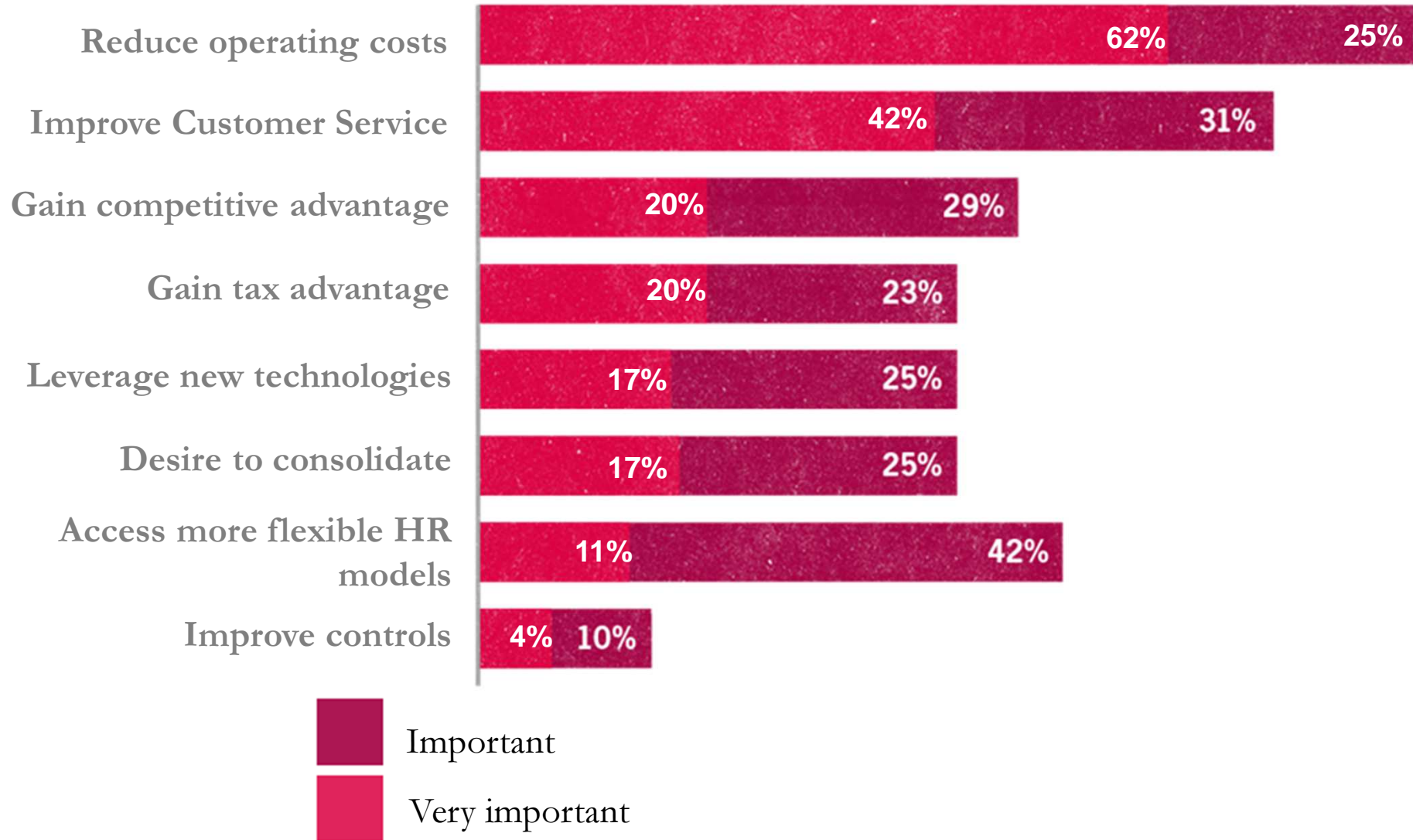
# Costs



# Costs

- Outsourcing

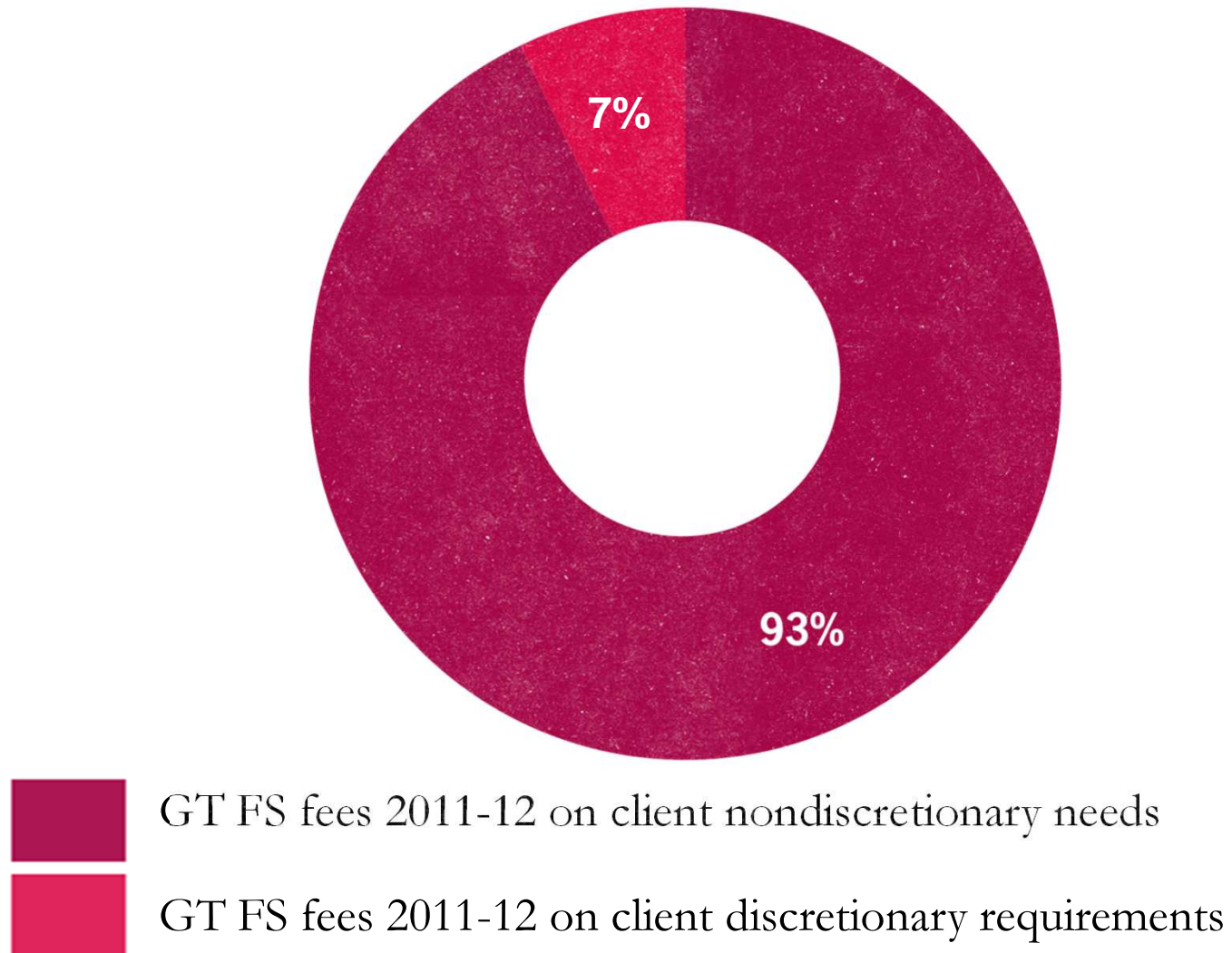
# How important were each of these objectives in your most recent outsourcing effort?



# Costs

- Outsourcing
- Nondiscretionary vs. discretionary spend on professional services

## Spend on professional services



# Costs

- Outsourcing
- Nondiscretionary vs. discretionary spend on professional services
- Shaving not cutting





# Questions for the CEO

Q Do your outsourcing activities blur your cost base or make trends clearer?

Q How vulnerable are you to operational or financial failure of an outsourced provider?

Q How central is cost base control to your agenda?

Q How aligned are your cost control priorities to your strategic priorities?



# Distribution

# Distribution

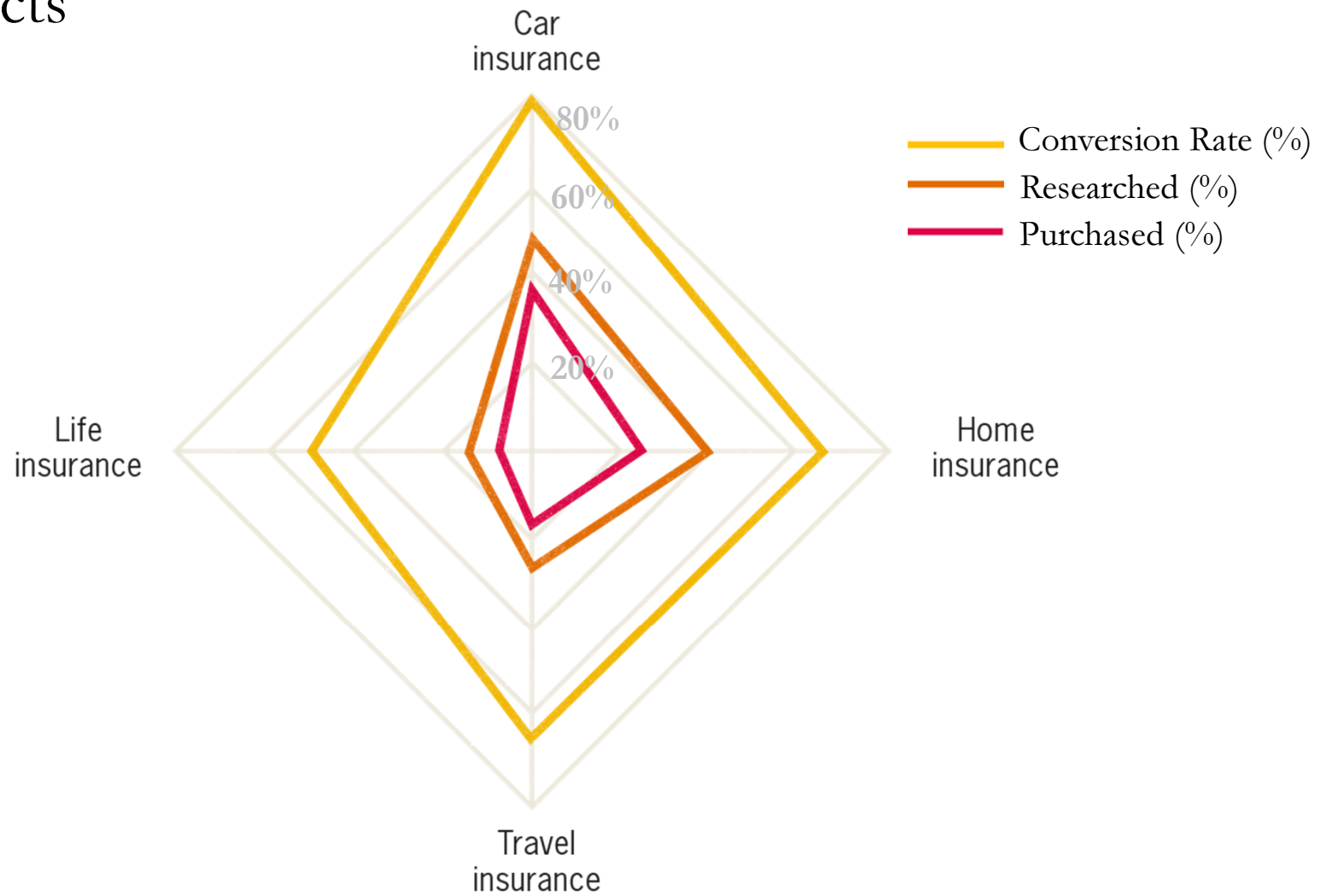
- Direct distribution of UK non-life personal lines increasing

# Distribution

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- Aggregator usage focuses on simple personal lines products



# Aggregator usage focuses on simple personal lines products

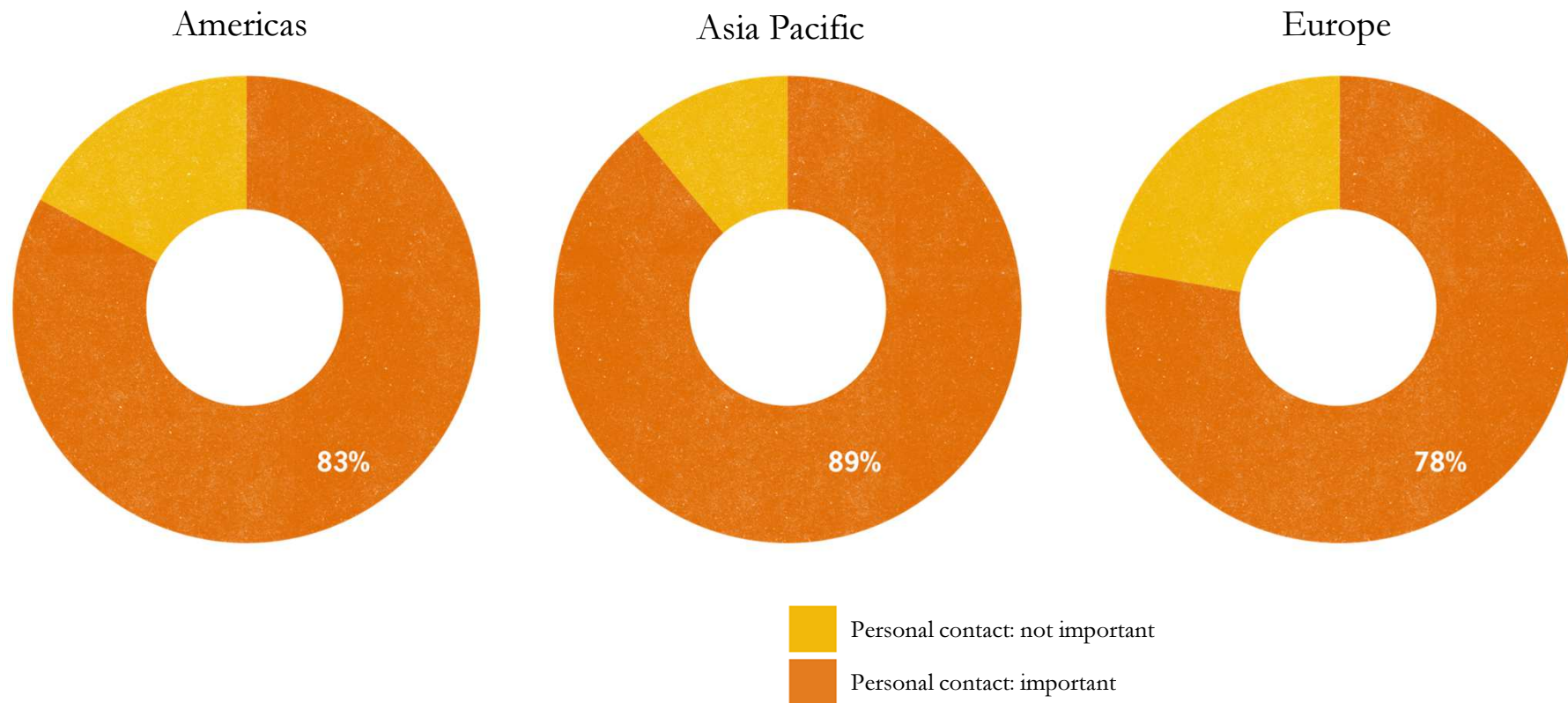


# Distribution

- Direct distribution of UK non-life personal lines increasing
- Aggregator usage focuses on simple personal lines products
- Customers greatly prefer personal contact for complex products



Customers greatly prefer personal contact for complex products.



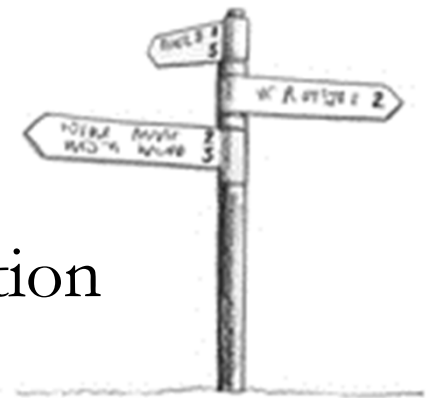
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- Aggregators are here to stay



# Distribution

- Direct distribution of UK non-life personal lines increasing
- Aggregator usage focuses on simple personal lines products
- Customers greatly prefer personal contact for complex products
- Aggregators are here to stay
- We are in a world of multi-channel distribution



# Questions for the CEO

Q What is your aggregator strategy, and does it fit with the fact they are likely to be around for the long term?

Q What is your multi-channel strategy?

Q How do you compare profitability data for the same business from different channels?

Q What is your assessment of the impact of regulatory change on your distribution channels?



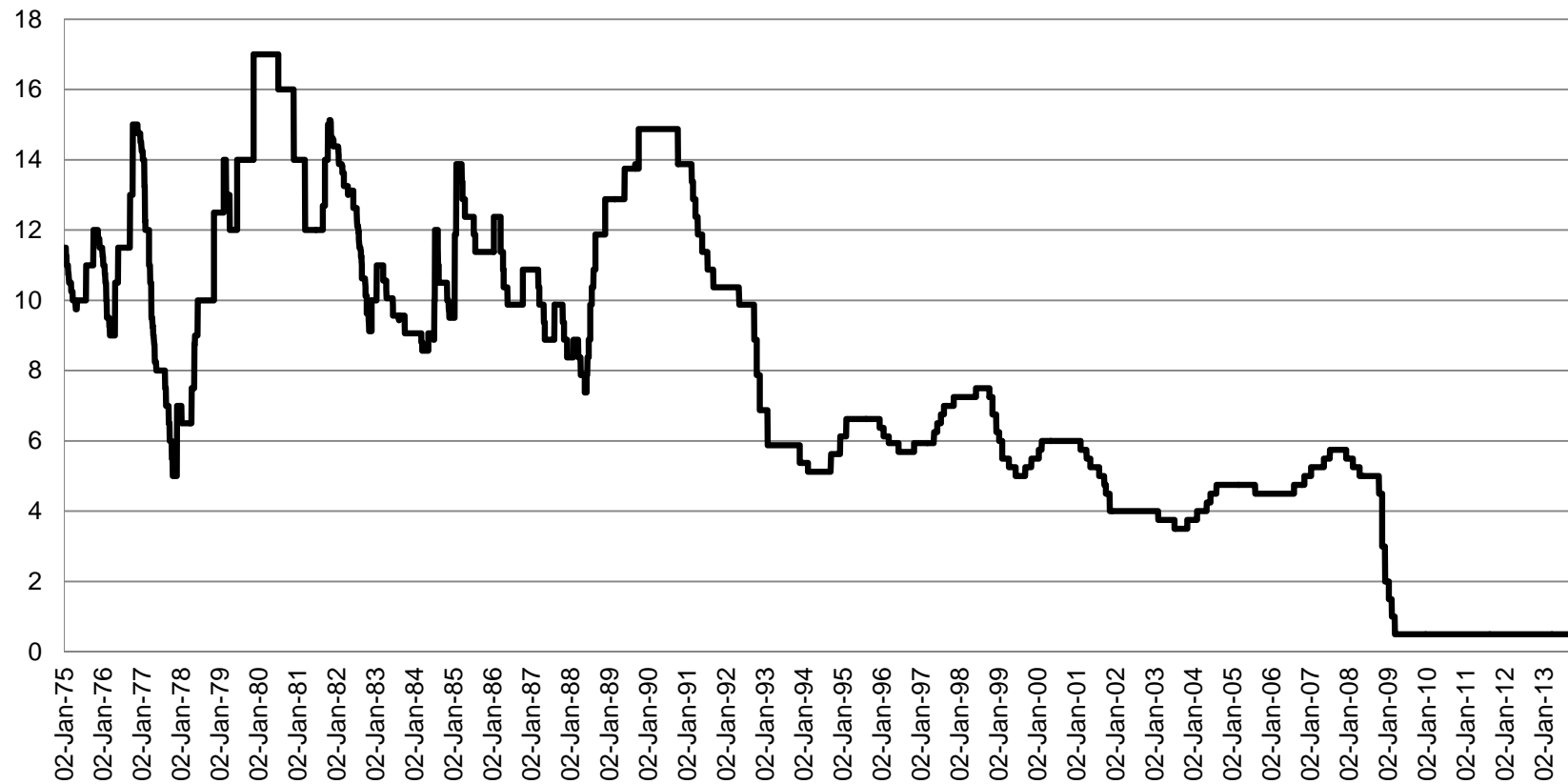
# Global issues

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- Low interest rate environment

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**B of E Base rate (%)**



# Global issues

- Low Interest rate environment
- Regulation

# Global issues

- Low Interest rate environment
- Regulation
- Emerging markets



# Global issues

- Low Interest rate environment
- Regulation
- Emerging markets
- Data



The background of the slide is filled with numerous question marks of various sizes and colors, including purple, yellow, and red, creating a dense, patterned effect.

# Questions?

# Contact details

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