The Actuarial Profession
making financial sense of the future

GIRO Conference and Exhibition 2012
Juggling uncertainty the actuary's part to play

Date of presentation

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From customer to carrier: where does all the money go?

Robert Andrews, KPMG

Agenda

- Introduction and context

- We know what we're selling – why are people buying?

- The insurance value chain

- What do intermediaries do?

- Debate:

  – Place your bet – distribute, service or carry risk?

  – Treating customers fairly?

  – Does the market work?

General insurance:
Probably the best industry in the world

We know what we're selling, but why are people buying?
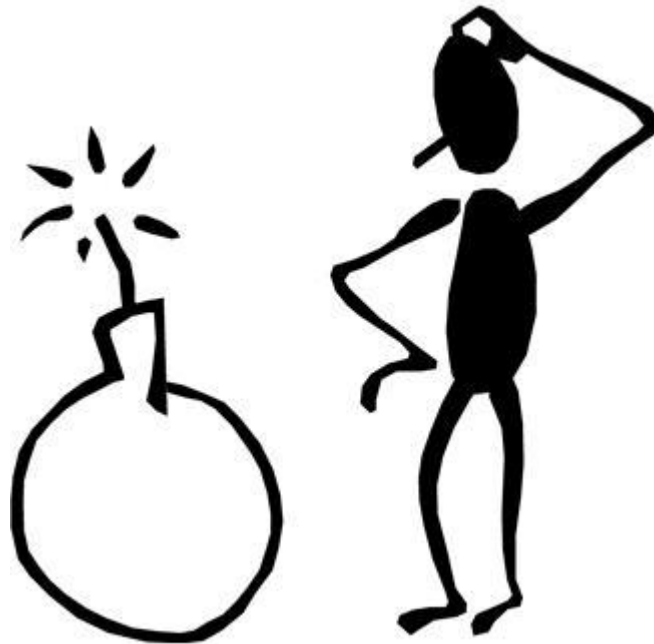
We know what we're selling, but why are people buying?
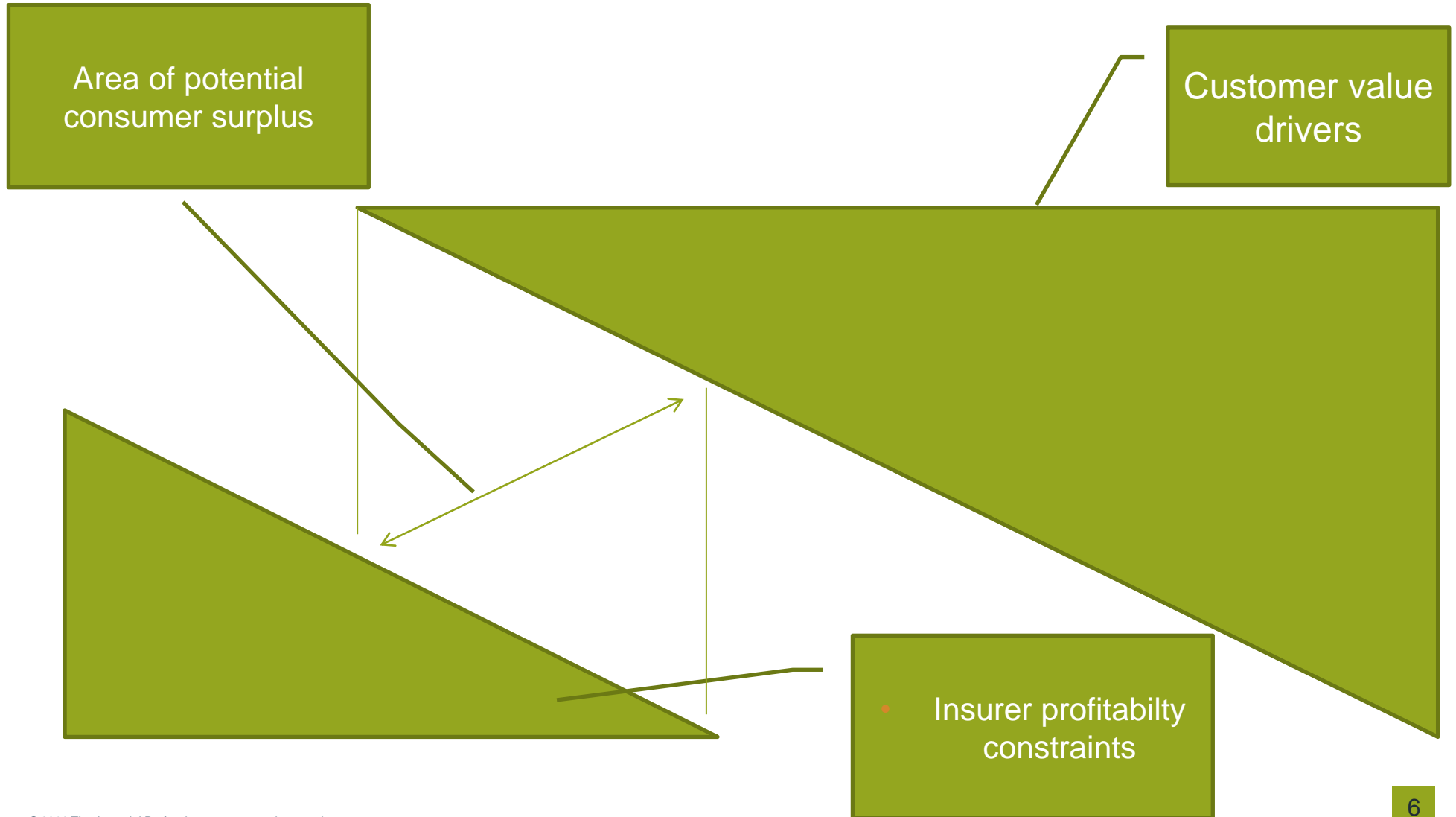
Reasons for supply:

- Premiums more than cost of conditional promise to pay and any associated service
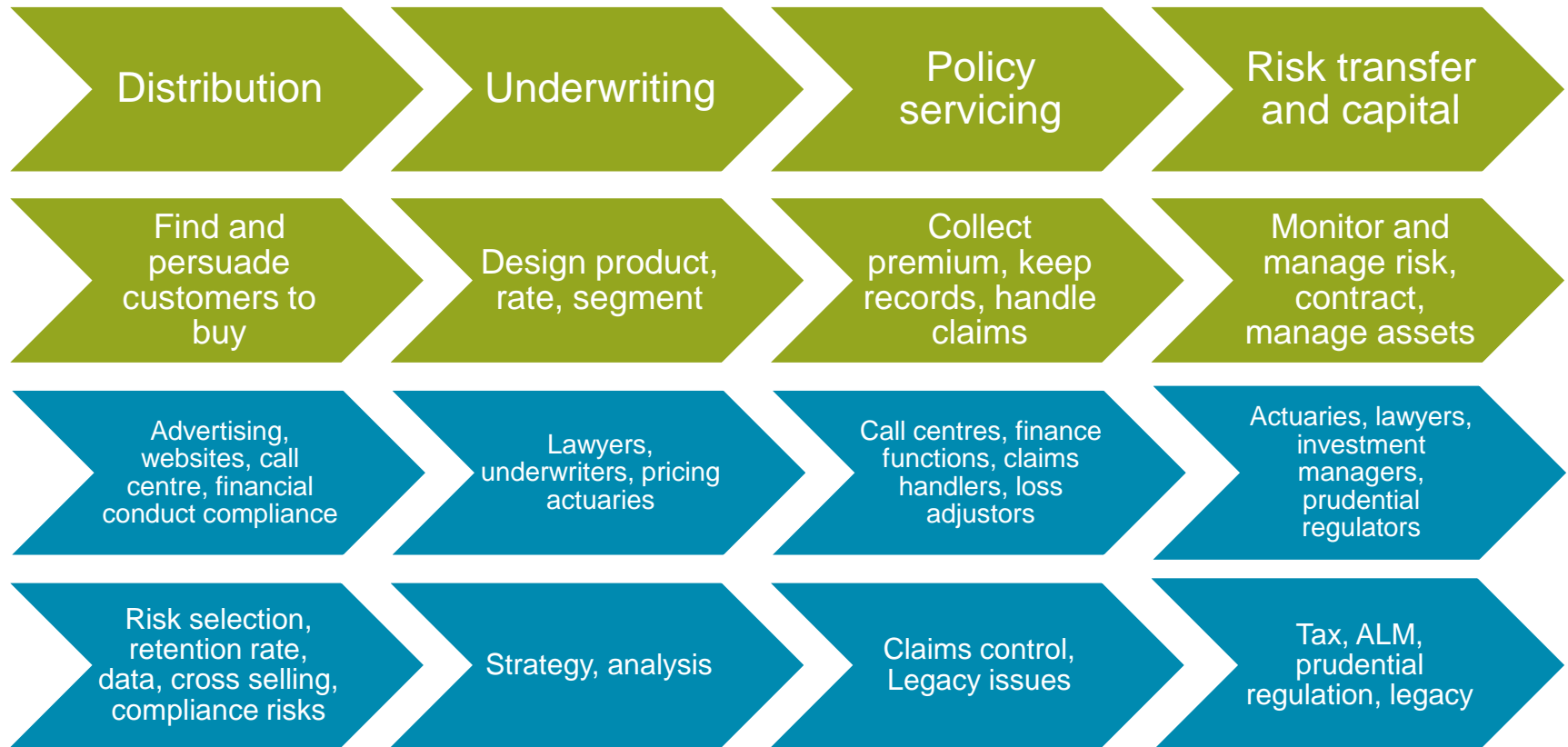
Reasons for demand:

- Security against disaster
- Compulsory
- Value add to another good or service
- Enables other activities

We know what we're selling, but why are people buying?

Area of potential consumer surplus

Customer value drivers

Insurer profitabilty constraints

Insurance value chain

Distribution	Underwriting	Policy servicing	Risk transfer and capital
Find and persuade customers to buy	Design product, rate, segment	Collect premium, keep records, handle claims	Monitor and manage risk, contract, manage assets
Advertising, websites, call centre, financial conduct compliance	Lawyers, underwriters, pricing actuaries	Call centres, finance functions, claims handlers, loss adjustors	Actuaries, lawyers, investment managers, prudential regulators
Risk selection, retention rate, data, cross selling, compliance risks	Strategy, analysis	Claims control, Legacy issues	Tax, ALM, prudential regulation, legacy

Insurance value chain - examples

	Distribution	Underwriting	Policy servicing	Risk transfer and capital
Lead syndicate at Lloyd's	Broker – Aon, Marsh, JLT, etc	Syndicate pricing and negotiation of terms	Mainly outsourced – Broker & Lloyd's market systems, in house claims	Syndicate management of capital and risk
Lloyd's broker	Core activity	Syndicate	Core activity	Syndicate
Virtual insurer	Broker / Affinity relationship	Core activity	Core activity	Outsourced to risk carrier
Direct to market	Core activity	Core activity	Core activity	Core activity

Insurance value chain - examples

	Distribution	Underwriting	Policy servicing	Risk transfer and capital
Lloyd's market 2011	£5.3 billion		£1.7 billion	(£0.7) billion
Legal expenses 2003	£74 million		£43 million	£151 million

What do intermediaries do?

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What do intermediaries do?

✓ Match customers with insurance needs to insurers

✓ Discover new insurance needs

✗ Carry risk

Distribution channels

	Independent intermediaries	Tied agents	Affinity	Direct
All GI	58%	7%	13%	22%
Personal lines	40%	8%	20%	31%
Commercial lines	83%	5%	3%	9%
MAT	91%	5%	0%	4%
Personal lines Motor	35%	9%	13%	43%
Personal lines Property	41%	6%	35%	16%

Source: ABI

What do intermediaries do?

EBITDA - London Market (£k)

Company	EBITDA (£k)
Aon	125378
JLT Group	121585
Arthur J. Gallagher (UK)	29847
Cooper Gay & Co	21426
Lockton	19471
R K Harrison Group	16302
Hyperion Ins Group	12406
Towers Watson Reinsurance	11100
Windsor	10186
Newman Martin & Buchan	9462
Miller	9135
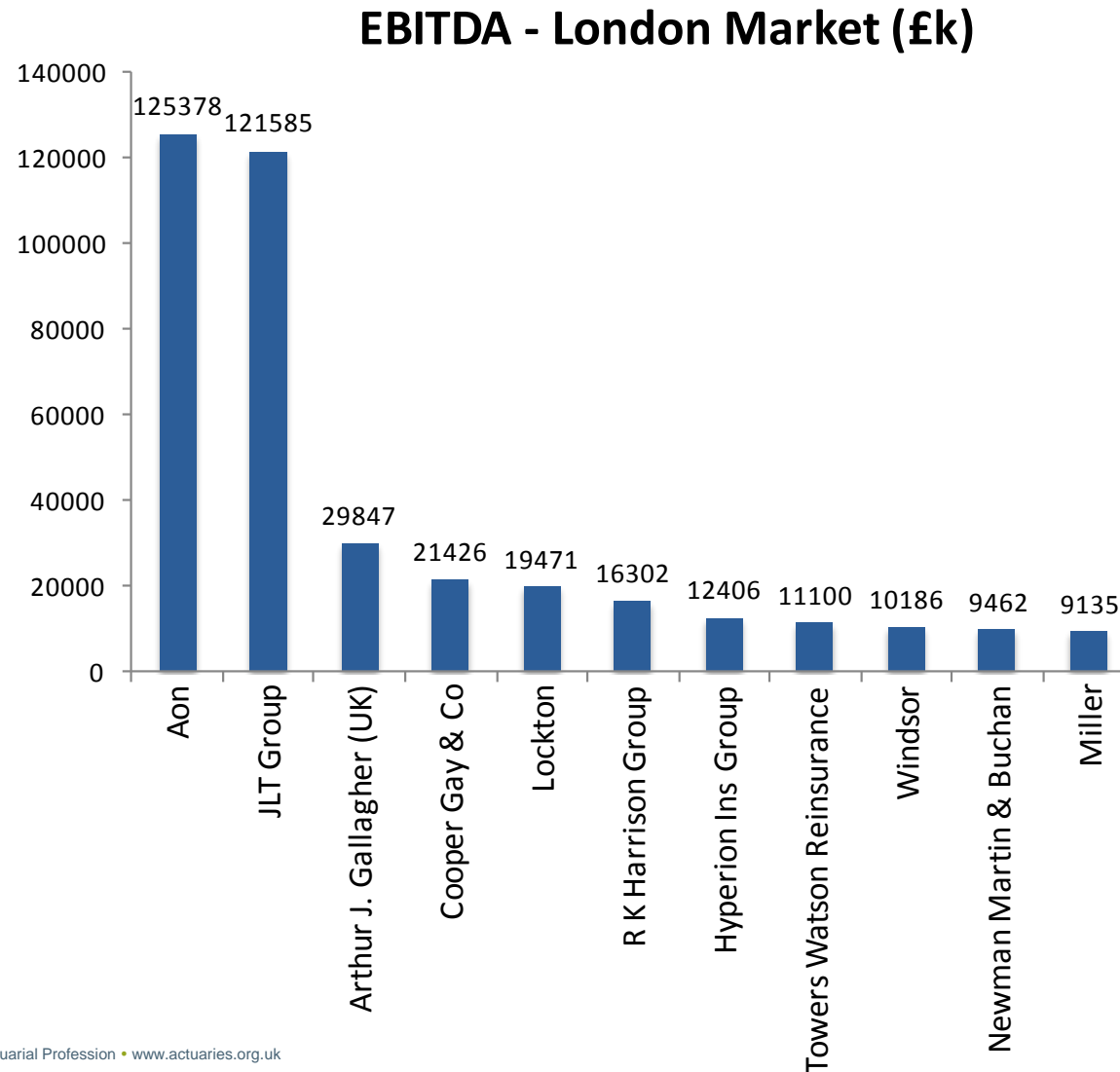
What do intermediaries do?

EBITDA - Commercial

What do intermediaries do?

EBITDA - Personal (£k)
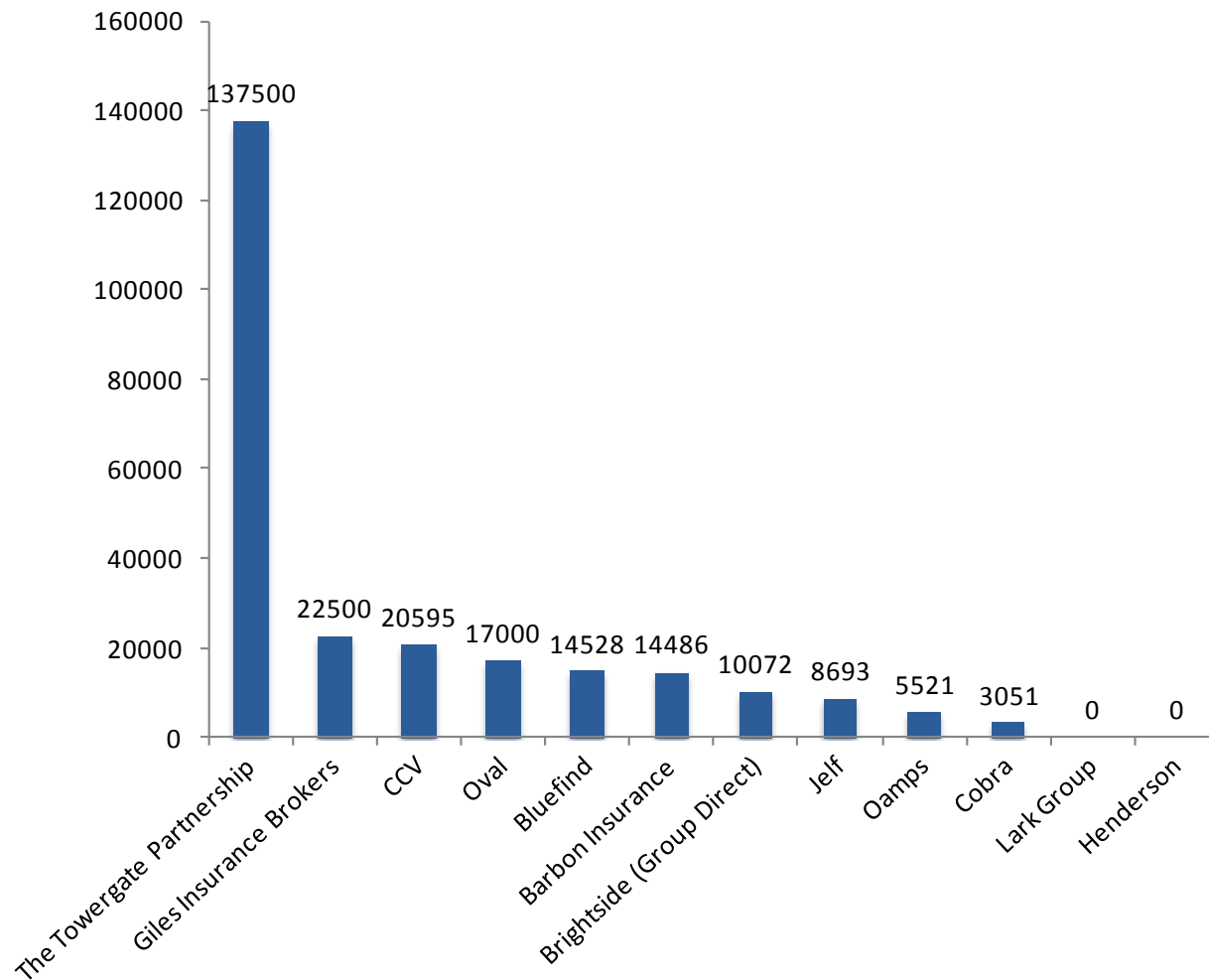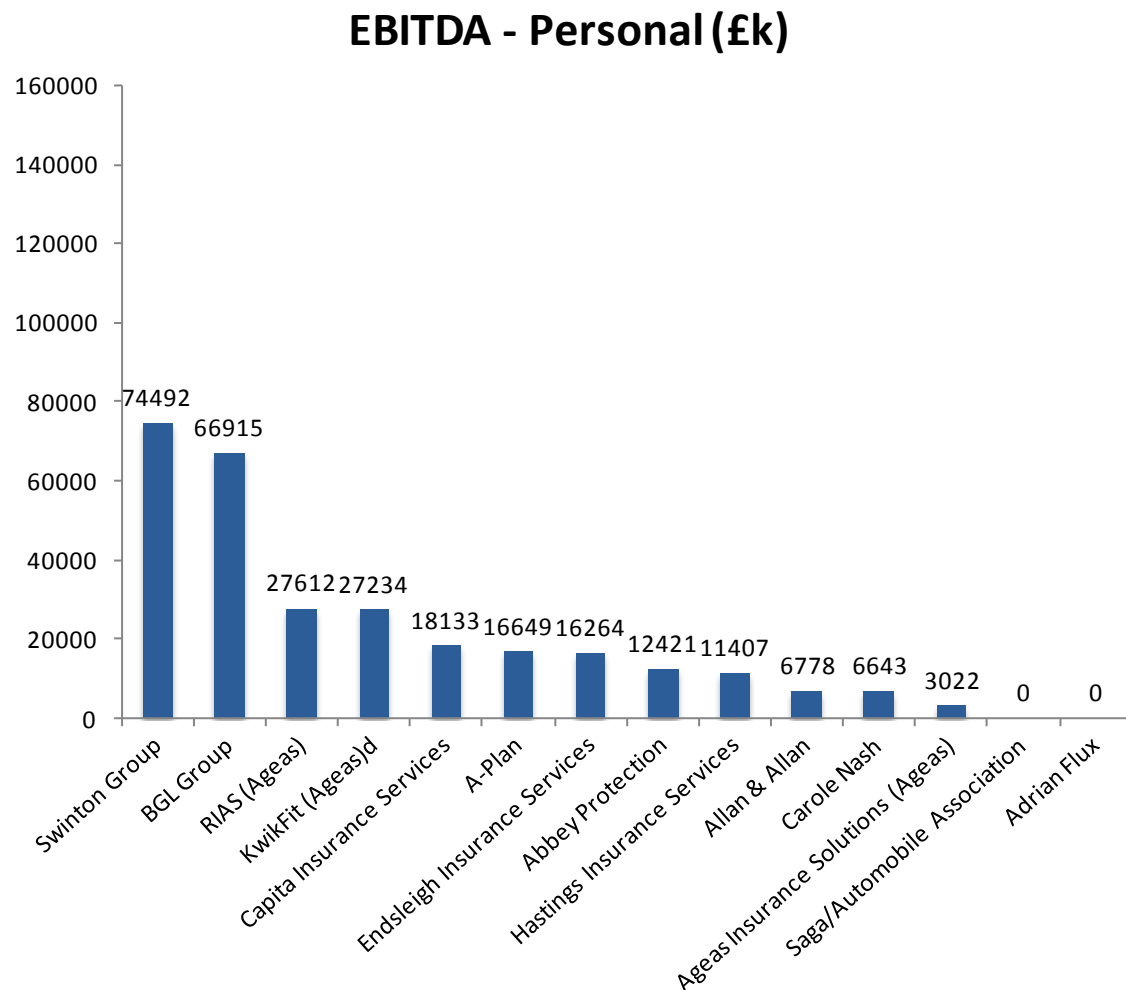
Treating customers fairly?

> "This house believes a low ratio is consistent with treating customers fairly"

Legal expenses market example:

Claims	Commission	Expenses	Insurance profit
25%	21%	12%	42%

Distribute service or carry risk?

"This house believes it is better to be a broker than an insurer"

Does the market work?

"This house believes lower barriers to entry would benefit customers"