

A person is silhouetted against a vibrant sunset sky, juggling several red balls. The scene is set on a beach with waves in the background. The sky is filled with orange and yellow clouds, and a bright sun is visible on the horizon.

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

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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?

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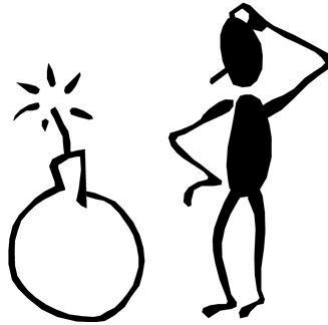
General insurance: Probably the best industry in the world



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



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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

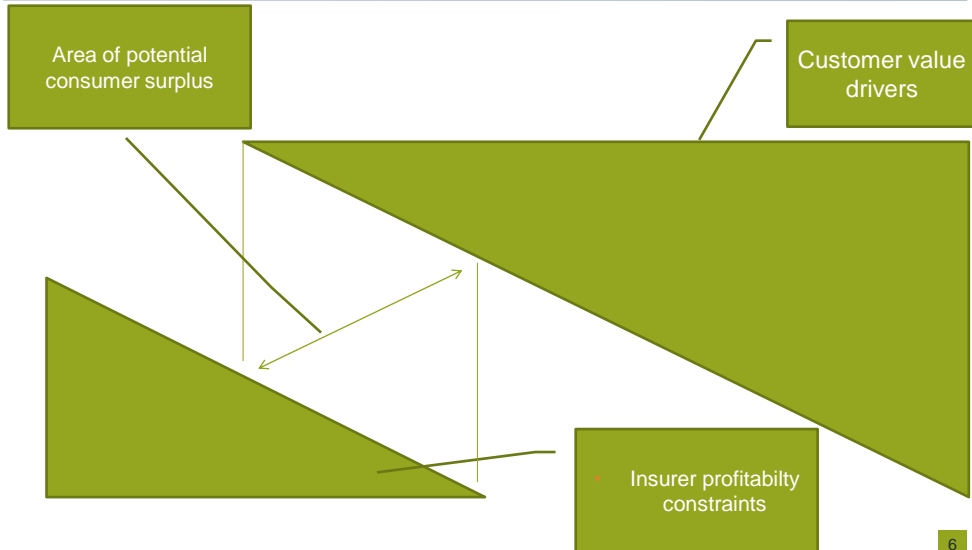
Reasons for demand:

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

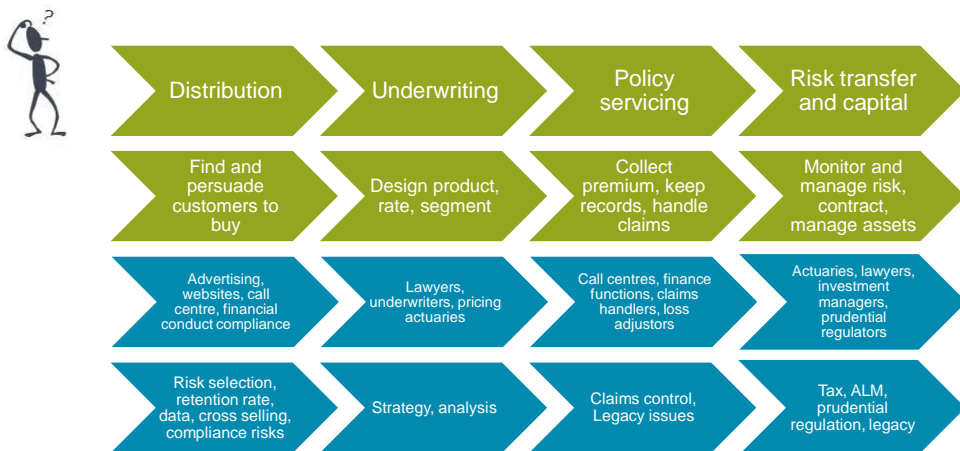
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We know what we're selling, but why are people buying?



Insurance value chain



Insurance value chain - examples



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Insurance value chain - examples



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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%

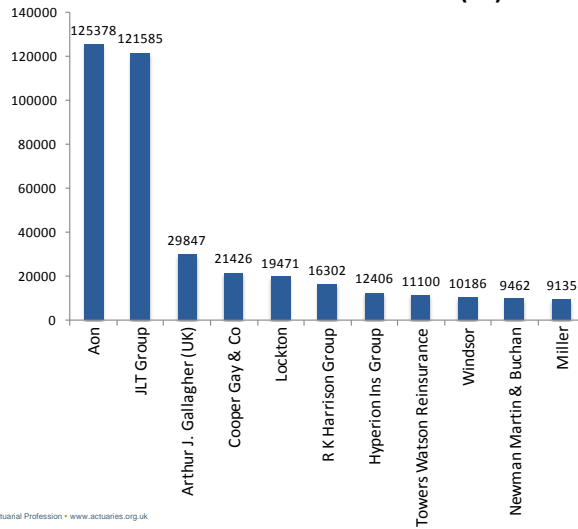
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What do intermediaries do?

EBITDA - London Market (£k)

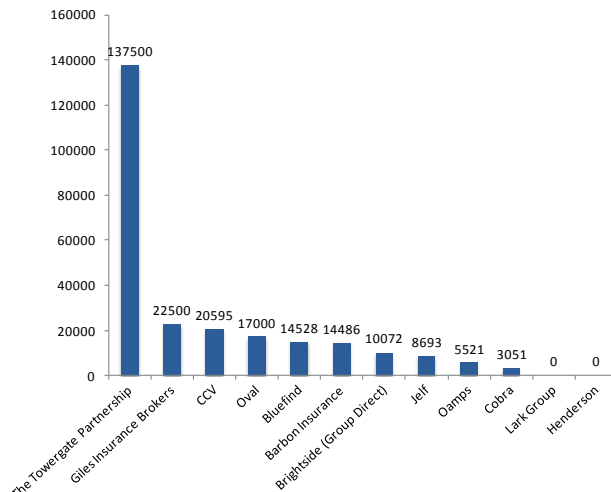


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What do intermediaries do?

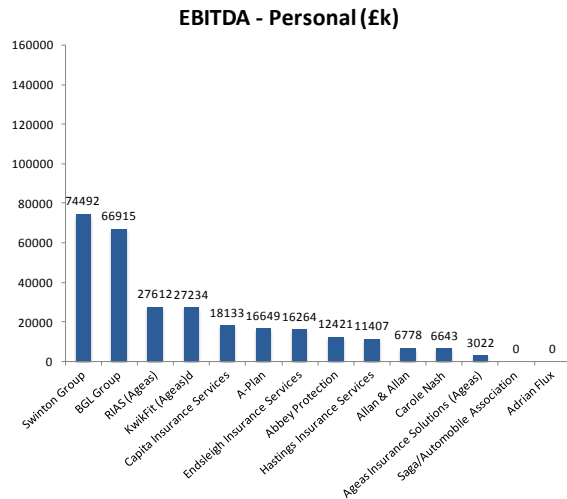
EBITDA - Commercial



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What do intermediaries do?



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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%

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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”