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

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?

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 profitability constraints

Insurance value chain

Distribution
- Find and persuade customers to buy
- Advertising, websites, call centre, financial conduct compliance
- Risk selection, retention rate, data, cross selling, compliance risks

Underwriting
- Design product, rate, segment
- Lawyers, underwriters, pricing actuaries
- Strategy, analysis

Policy servicing
- Collect premium, keep records, handle claims
- Call centres, finance functions, claims handlers, loss adjustors
- Claims control, Legacy issues

Risk transfer and capital
- Monitor and manage risk, contract, manage assets
- Actuaries, lawyers, investment managers, prudential regulators
- Tax, ALM, prudential regulation, legacy
**Insurance value chain - examples**

- **Distribution**
  - Lead syndicate at Lloyd’s: Broker – Aon, Marsh, JLT, etc
  - Lloyd’s broker
  - Virtual insurer: Broker / Affinity relationship
  - Direct to market

- **Underwriting**
  - Syndicate pricing and negotiation of terms

- **Policy servicing**
  - Mainly outsourced – Broker & Lloyd’s market systems, in house claims

- **Risk transfer and capital**
  - Syndicate management of capital and risk

**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?

- Match customers with insurance needs to insurers
- Discover new insurance needs
- Carry risk

### Distribution channels

<table>
<thead>
<tr>
<th>Category</th>
<th>Independent intermediaries</th>
<th>Tied agents</th>
<th>Affinity</th>
<th>Direct</th>
</tr>
</thead>
<tbody>
<tr>
<td>All GI</td>
<td>58%</td>
<td>7%</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>Personal lines</td>
<td>40%</td>
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<td>31%</td>
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<td>83%</td>
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<td>MAT</td>
<td>91%</td>
<td>5%</td>
<td>0%</td>
<td>4%</td>
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<tr>
<td>Personal lines Motor</td>
<td>35%</td>
<td>9%</td>
<td>13%</td>
<td>43%</td>
</tr>
<tr>
<td>Personal lines Property</td>
<td>41%</td>
<td>6%</td>
<td>35%</td>
<td>16%</td>
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</table>

Source: ABI
What do intermediaries do?

EBITDA - London Market (£k)

What do intermediaries do?

EBITDA - Commercial
What do intermediaries do?

Treating customers fairly?

“This house believes a low ratio is consistent with treating customers fairly”

Legal expenses market example:

<table>
<thead>
<tr>
<th>Claims</th>
<th>Commission</th>
<th>Expenses</th>
<th>Insurance profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>21%</td>
<td>12%</td>
<td>42%</td>
</tr>
</tbody>
</table>
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”