Trust in Insurance

I have greatly enjoyed writing this paper. Not only has it opened my eyes to the outstanding contribution of the insurance industry to society, it's led to some great conversations and lit up the faces of many clients and colleagues alike as I shared more about it. Everyone has been so keen to help and to share ideas. So I'd like to start by thanking everyone that I spoke to over the last few months and say a special thank you to Tricia Guinn whose guidance and challenge helped shape the entire paper.

People don't trust insurance. Do they?

Much has been written about the lack of trust in insurance in recent times. Perhaps the dilemma is most aptly framed by Sian Fischer, Chief Executive Officer of the CII, when speaking at the launch of their manifesto in 2016:

"We all know insurance is a force for social good. Along with education and medical care it is one of the three great empowers of all our lives. The public believes two of these are provided by professionals. Today they don't think this about insurance. This is a challenge but also an amazing opportunity for all of us. Join with the CII on a shared journey to build a proud profession. And together we will build public trust."

In this year's Edelman Trust Barometer, as with previous years, the research points to the importance of trust within the financial services sector. Despite this, it finds that only two of the five major financial hubs are trusted. More broadly, it sees a fall in trust across business, government, NGOs, and media so rebuilding trust within insurance, or any sector for that matter, is going to be more challenging today with the additional headwind of society seemingly placing less faith in each other.

The Financial crisis has certainly not helped the situation by significantly colouring the public's perception of financial services more broadly, but insurance has a much longer history of not being trusted. Phrases such as 'Crash for cash' or 'insurance fraud' are all too familiar and across personal lines it's not unusual to find claimants inflating their claims anticipating a combative claims experience.

My intention through this short paper is to consider why our industry suffers this lack of trust and to offer up some suggestions as to what can be done.

So where did it go wrong?

There have been many high profile examples over the years where the insurance markets have failed. Perhaps the most high profile is that of the Lloyd's crisis in the late 1980s. Many people lost their lives over the debt that the names incurred at the hands of London market underwriters during the Lloyd's crash. This is both quite literally and metaphorically through ruinous financial losses. Much has been written about the combination of events and trends that led to this. These include underwriting discipline, lack of oversight placed on the market, ‘unlimited liability’ of the names and the reinsurance spiral (LMX). Whilst nobody could have predicted the huge influx of claims caused by asbestos law suits born in the courtrooms of the US, the industry was found asleep at the wheel and being careless. The LMX spiral is perhaps one of the more significant of these. The claims and financial losses exposed arrogant and complacent practices when it came to ceding risk across the market. Flawed by a lack of transparency, process and diligence, many would later find that they were far more exposed to losses than initially thought. Having been trusted with others money, it is no wonder that this carelessness left a bitter taste in many people’s mouths.

The press have certainly not been helpful on this journey. Whilst improving a little with the current wave of innovation, on the whole insurance coverage is almost always negative in mainstream tabloids. In the UK, the crash for cash scandal that saw organised gangs of fraudsters come together to cast another shadow on the industry. Through the exploitation of whiplash claims following staged car crashes, these groups have cost the insurance industry an estimated £400m a year according to Crimestoppers UK. It’s much harder to place blame at the hands of the insurers for this but the influence of the story on the integrity of the industry should not be ignored.

Finally, I come to insurance culture, processes and technology. This is where many senior executives are now diverting their attention. In my opinion, some businesses are not reviewing the core parts of their business for the right reasons. Automation, robotics and other new technologies offer equal benefits to the cost cutting CEO as they do the one that wishes to be famous for customer experience. The reflex of the industry continues to be to use innovation to cut cost rather than innovate around customer service. I believe the successful business models will be the ones where transformation blends both cost and customer, importantly not losing sight of the customer in favour of shaving a few points off the combined ratio.

Often described as the moment of truth, claims is a critical area that the industry needs to continually review as it provides rich insight into the customer’s perception of insurance. It is fair to say that there is a huge variation in the quality and timeliness of the processes across the industry and across different product lines with some taking days, months and even years. Challenging the status quo, Lemonade, a start-up insurance platform, have claimed to settle a claim in three seconds recently much to the surprise and delight of their customer.

"I was shocked by how easy the process has been with Lemonade," said Brandon Pharm, whose claim set the record. "I signed up for Lemonade because it was no frills, the most affordable option, and took no more than two minutes on my couch. I try to avoid making claims but the process with Lemonade was so simple. I already assumed there was no way that I'd recover my losses: other insurers either pile paperwork or deduct tons of charges that I don't understand. But this time was different. I signed an honesty pledge, answered a few questions, and Lemonade reimbursed me in a matter of seconds! Their service is amazing and I am so happy that I signed up!"

It’s interesting that in this quote the customer not only delivers praise for Lemonade but also shares his previous experience and heuristics in that he expected he wouldn’t recover his losses.

Another insurance process that often baffles clients is pricing. Pricing across personal lines to specialty is the secret sauce and often considered to be one of the main sources of competitive advantage. Stating the obvious, this secretive process often means that transparency is missing right from the outset of any new customer interaction. From a contract perspective, some Underwriters would view variations in wordings as amendments designed to protect the interests of the insurers rather than to adapt coverage to better suit the customers. Moreover, the wordings are often so complex and so long that clients are not given much of a chance to really understand the cover in place. Education is something that the industry commonly calls for on its products and services but I question whether the industry is really trying to meet the customer half way through simplification of products and services.

An example of this in the current market is Cyber. Regulators and many senior executives want clarity on what affirmative cyber they have in their book and what comfort they have that exclusions exist in other traditional lines. Yet, I understand from speaking to some in the market that the reality is that silent cyber is traded in the market. Some brokers and underwriters are all too happy to agree to neither exclude nor confirm coverage to ensure that business is not lost in a soft market.

The context for how insurance is sold is also something that I feel should be considered when unravelling the external perception of insurance. You hope you don't need your insurer because it means something has gone wrong. That's right isn't it? Well, it is right but it's a pretty negative way to market something that brings much greater value to society. Do we really need to just sell insurance in a cloud of negativity? Whether you consider life insurance, personal lines insurance or commercial insurance, the safety net of insurance allows the customer to protect their estate, well-being and economic progress. When a typhoon strikes towns and villages in emerging markets in Asia, insurance can ensure that these locations are not thrown back several decades in terms of infrastructure development and economic development. Another example is true if you consider drought in farming economies, something I will look at later in this paper. At a personal level, whilst life insurance is little consolation in the event of the passing of a loved one, it can ensure that the family of the deceased is able to preserve their quality of life. Finally, if you take a business, they too are vulnerable to crisis and insurance again offers them the chance to protect themselves against events that would attack the longer term prosperity and growth of the company. So when you look at insurance in this context, is it right to say the industry helps you when things go wrong? Whilst that is certainly true, I'd ask the question whether this is really underselling our industry.

I'll conclude this part of my paper with a personal experience. I was traveling to relatives after work at the end of a long week last year to attend my Wife's grandmother's funeral. My wife was also pregnant at the time. My car started to overheat about 45 mins into the journey so I decided to pull over into a nearby restaurant so that we were not on the side of the motorway and could wait in the warm whilst I spoke to my roadside recovery insurance. This was about 7.30pm. At 11.30pm, the restaurant closed and we were asked to wait in our car. The communication from the roadside recovery had been appalling and the goal of the agents I spoke to seemed more focused on getting me off the phone than getting me home. They had told me on two separate occasions that a truck would be with me within the hour. My father-in-law had actually offered to come and collect my wife earlier in the evening so that she could get some sleep ahead of the funeral but since the insurer kept telling me that we were due to be collected very soon I regret I didn't take him up on that offer. The truck arrived little after 2am and I pulled into my in-laws house after 3.30am. The compensation I was offered after filing a complaint was £35.

If I reflect on what the insurer lost, they lost £35 and a customer. They also lost a lot of several agents time as I called every 20 mins for about 4 hours. Could that £35 have not been offered to cover an Uber? I know that if there had been a little more acknowledgment of my situation with my pregnant wife and the funeral, I'd have been happy to wait with the car if they could have helped get her home. Beyond the simple management of the claim and thinking about how modern technology could have helped, it is not particularly innovative to think how an app could communicate the progress that the recovery truck was making towards our location rather than keeping me in the dark. The most frustrating thing for me was the lack of transparency of the way my claim was being handled. Needless to say, I moved my business elsewhere.

So what can be done?

Whilst I've outlined a few negative examples that are both high profile and personal in nature, I am a huge believer in the good that insurance does. The industry is phenomenal at managing huge complex risks and helping spread the losses of the few across the many. The principles of insurance, I believe, are good and true. Moreover, I know that there are far more excellent claims experiences and far more examples of exceptional innovation within insurance than your average person would know about. It for this reason that in this next part of my paper I want to bring to the fore some more positive innovations within our industry and to offer some thoughts on what more can be done to help insurance reinstate trust.

I didn't know that….

For those not aware, Blue Marble microinsurance is a consortium of eight companies collaborating as a for-profit social enterprise to extend protection to the emerging middle class. The collective group is building products to support wealth generation across Africa by offering insurance to farmers. The venture has accepted that there will need to be much investment to tackle both the lack of data and the resistance of farmers to purchase insurance in the short term. However, as touched upon earlier in this paper, the promise of Blue Marble is far greater than offering isolated insurance, with a stated goal of pledging to protect and support wealth creation through the protection products provided.

I was privileged to speak to Joan Lamm-Tennant, CEO of Blue Marble, as part of my research for this paper. Joan really helped bring this initiative to life and it's clear that her passion is to breakdown the traditional transactional mind-set of an insurer to help build the foundations for long term societal and economic growth. Joan shared that she felt the industry had struggled to break into micro insurance because of this short term transactional mind-set. She used an example with Nestle to highlight how they were looking at the problem differently, acknowledging the longer term opportunities and the role insurance plays in an ecosystem. The problem, Joan outlines, is that Nestle doesn't have a reliable supply chain. It buys its coffee from small holdings across Africa but many of these small holdings are vulnerable to drought which can seriously impact their output. Traditional methods would see insurers target a direct transaction with the small holding offering crop insurance. The likely result being that the small holding may not be able to afford the premium. Stepping back and looking at the wider opportunity, insurance can help Nestle and the entire supply chain. This helps the longer term prosperity of the small holdings, providing them with protection against drought but also providing their customer, Nestle, with a strong and more sustainable business in the long term.

Another example of emerging markets innovation is where Swiss Re have launched Insurance that helps herders save drought-stricken livestock in Kenya. The government of Kenya is paying about

USD 2 million to 12,000 pastoral households across six counties via a pioneering livestock insurance program reinsured by Swiss Re. The program uses satellites to monitor vegetation available to livestock, and triggers financial assistance for feed, veterinary medicines and water trucks when drought gets so bad that animal lives are at risk. This again has been designed with the customer need at the centre of the product given that the product seeks to respond well before livestock or crops are lost.

Much has been written about the protection gap and many immediately see this as an issue synonymous with emerging markets. However, one need only look at the recent Italian earthquakes to see that underinsurance is as much a problem of developed economies as it is for emerging markets. Industry association ANIA estimated less than 1 percent of 33 million homes had private quake coverage. Whilst the blame does not fall solely on the insurance industry's shoulders, we must continue to work hard at addressing this. Being and being seen to be part of rebuilding people's lives is a really important part of promoting our industry and one at the heart of our values. If we can start to move forward with this then perhaps when our children leave university and say that they want to give back or they want to save the planet, perhaps they'll consider a career in insurance. However, before we dare to dream about this, we have to acknowledge that the average student will likely never hear about any of the examples of innovation I reference above or any other for that matter if we don't tell them.

Turning to a different challenge that the world is facing and once again you find the insurance industry there. On 31st May this year several insurers alongside investors, health systems and pension funds signed a statement to the World Health Organisation (WHO) representatives and national health ministers calling for stronger regulation around tobacco control. The ultimate aim of the campaign is to highlight the links between the use of tobacco products, tobacco control and sustainable development.

Turn to climate change and yet again we find the insurance industry is stitched into the global effort to manage the risk that this poses to humanity. Many of you I am sure will be aware of The Actuaries Climate Index. A tool that has been put together as part of a research programme jointly funded by several actuarial societies and which provides data and analysis on extreme weather and sea levels on the climate for everybody's use.

When considering economic development and some of the world's high profile challenges, it's clear that the insurance industry is quite synonymous with many global efforts when you start to read about things in more detail. Again, I would ask, how far does the industry get credit for this? Do we communicate it enough to inspire people to join insurance and, perhaps more selfishly, do we communicate it enough to promote the industry as a trustworthy sector.

This next paragraph was inspired when a friend and client of mine, whom is a senior underwriter in the London market, arrived a few minutes late for a meeting at the end of the day. His hands still covered with flecks of paint, he apologised and shared that today was the company's Giving Day and he'd been painting at a local school. I think that's the best excuse I've heard in the ten years I've been working with the industry. The point I hope I've subtly made is that insurers are also active in our communities. Certainly all of the insurers that I know are active in their communities and seek to support charities where they can.

So in short, my first recommendation is for the industry to be more forward in promoting the good that insurance does. Globally, perhaps the highest profile example of this is the 2016 formation of the Insurance Development Fund. The fund continues to have the support of senior industry figures and with the sponsorship of the United Nations and World Bank Group has a stated mission of upskilling governments and ultimately building a more sustainable and resilient global insurance market in a world facing growing natural disaster and climate risk. In addition, in the UK we have started to see claims statistics being published by the ABI alongside some of the larger insurers to help promote the good that the industry does.

So whilst I accept that the industry is certainly not silent on this matter I think we could shout loader.

Just another Financial Services company…

I thought very hard about this next point and still find myself unsure whether there is a recommendation somewhere within this section. I have however decided to include this because I think as an industry we need to be thinking about managing the topics driving the positive and negative sides of our perception.

Strongly linked to promoting our values is managing our perception. I have already made reference to the financial crisis and whether we choose to accept it or not, we are seen as part of a Financial services industry that takes huge salaries and offers comparatively little in return to its average customer.

Executive pay is not exclusively an insurance problem, but it is a problem. It has even risen to the political agenda globally as countries grapple with the ever widening gulf between those that have and those that have not. At a time when many industries are following this trend and seeing the gap in pay from the top to the bottom expanding, why not as an industry take a stand? Why doesn't insurance look at how they can be the outlier and buck the trend?

The current situation in the London market is that everyone is concerned about the prolonged soft market conditions, poor investment returns, increased brokerage costs and lower premiums. Despite these headwinds, the Insurance Insider reported that the collective remuneration of the 50 highest paid executives in the P&C (re)insurance industry increased by 9.9 percent to $455.6mn in 2016. According to a study performed by Institutional Shareholder Services Analytics median CEO pay was just under $12.2mn for S&P 500 companies, a humble rise of 6.7 percent. Compare this with a report by the central bank in the UK that predicts the increase in average pay will decline from 2.7% to 2.2% in 2017. Go one step further and consider public servants across the UK. Those in our schools and hospitals for example have seen pay rises capped at 1% for a number of years and many we know have actually seen no increase.

I know that compared to other industries insurance is already doing a far better job at this. You only need to look at the high profile story in the Financial Times in June this year to see shareholders challenging a CEO remuneration of $200m at Alphabet.

Stepping back, I question whether this is actually an indicator for another problem that the industry faces. Talent. Could it be that there is simply not enough talent in the insurance industry? Is there a drought of strong future leaders meaning that leaders can command this growth in salaries? Simple supply and demand?

So I pose the question whether this is an opportunity for the industry to take a stand? Does this give us a chance to be something other than just another financial services company in the eyes of our clients? Do our customers even care about this? Or should we be thinking about other ways to excite and enthuse the workforce of tomorrow alongside suitable financial remuneration without further widening the wealth gap?

Technology = Transparency

My third recommendation is one that focusses on technology. Some of the new capabilities that are emerging across the globe are truly transformational. I believe that the key to unlocking this potential with my 'Trust hat' on is working towards a transparency first strategy.

With a wave of insuretechs sweeping the globe, we are spoilt for choice on where to look for the next big thing and the answers to all of our problems, if you believe some commentators, will be solved by Fintech. I have no doubt that the next decade will be a transformative one for the industry. Much has been written about the disruption to the current landscape, the value chain and how best to optimise for the client. This is all incredibly relevant to our industry and must be seized by incumbents and new entrants alike as the propositions of the future are created.

Lack of transparency, in my view, is one of the main causes of friction and issues. Whether we are talking about price increases being blamed on risk factors and market conditions, whether it's the lack of transparency across a complex process or customer journey holding back innovation or whether its transparency over where your recovery truck is while you wait in a car park with an increasingly upset wife. Technology should be able to help a lot here.

One could argue that the LMX spiral that contributed so significantly to the Lloyd's crash could have been curtailed by greater transparency over the business being written. Whilst the technology of today coupled with increased regulation will prevent this happening again, the fact remains that lack of transparency was a root cause to the poor risk selection and underwriting decisions taken.

Pricing is one area that I feel could greatly benefit from transparency. I read only the other day a customer complaint which commented on a 20% increase in their household insurance premium. This individual duly phoned the organisation and after speaking to three people in different teams he still couldn't get an answer beyond 'your risk ratings have changed' and the 'market has changed'. Some may find this acceptable but for many, including the individual that shared this blog, this is not. I know that there will have been a calculation drawing on hours upon hours of analysis that will have led to that ultimate price move but unless we arm the right people with some real tangible reasons then the customer will always be kept in the dark. You could even start to have a dialogue with your insured about them as a risk. Instead of providing them with a price based on a set of flat risk factors, why not tell them what single data points or combinations of data points are leading to a high price? You might find that they can alter some of them and you might find that their property is safer as a result. Is this not a natural win-win?

However, a 20% increase is nothing compared to some of the multiples that I have learned about speaking with one compliance officer. They shared that they had been a multiple of 15 times the initial premium being charged in some personal lines products which had been slowly increasing on an annual basis for a number of years. Whist I would hope that most insurers and intermediaries have stopped such practice a long time ago, the reality is that I know that some still have some parts of their portfolio that they wouldn't be proud of sharing.

It's different in the commercial market I hear a lot of people say. Although I refreshingly heard a senior executive recently say that he felt that we are too quick to fall back on this excuse in the commercial and London markets. Something that will remain a moot point with this community no doubt.

When looking at how we innovate in the London Market, do we treat each other like fellows of the same industry aspiring for the longer term prosperity of insurance or simply as competitors? Are we transparent with each other when we are considering what needs to be done to make our value chain more efficient? Or is there still too much focus on how to broaden MY part of the value chain? How do I maintain MY competitive advantage?

It is unfair and not right to say that we do not work together. There are great examples of where the industry is collaborating, the London Market TOM and 3BI are two examples where we have tried to break down the traditional walls of secrecy but more is needed in my opinion if we are to move the industry forward.

To conclude, I believe that transparency with our customers, colleagues and competitors will make us a more trusted sector. I also believe that technology can help us get there. Additionally, its more than likely to be a more efficient sector too, one which becomes easier to understand and ultimately more agile in adopting new technology and responding to changing social expectations.

Go beyond indemnity

My Fourth and final recommendation is one that I believe will separate the winners from the losers in the technology rich age. If you want to provide pure financial indemnity to your clients based on a set of data points then how will you differentiate from a basic derivative? The best phrase I have heard describing this is from my strategy colleagues at KPMG where they talk about aspiring to be a 'risk partner for life'.

The fact that clients might need something other than money at their time of need is not new. Travel, breakdown cover and in the more extreme, Kidnap and Ransom cover all provide the customer with more than instant cash promising to provide specialist skills or services at the point of claim.

However, I believe there is a growing demand for holistic solutions over products. Take cyber as an example. Whilst standard indemnity cover is important we see carriers and intermediaries seeking to offer breach response capability, legal support, PR advice and credit monitoring as part of some of the more sophisticated products. Moreover, some have gone one step further looking to offer additional guidance and advice via portals to assist with training or self-assessments.

I think there is an opportunity for the insurer to create a far more strategic relationship with their clients that goes above and beyond risk transfer. It is not that risk transfer and its significance is diluted, it is core to our offering as an industry. However, with surging amounts of capacity in the market and technologies like blockchain promising to bring instant transparency to the purchasing and settlement of claims will it be enough to only offer this in the future?

Commercially, I also believe this makes sense. Whilst I know that many of the additional services that insurers offer via portals in the cyber line of business are not taken up at the moment I believe that they will be more commonly used once education of the product matures. This all builds a stronger engagement with the client. It breaks down the expectation that your insurer will only be there when you need to make a claim and rebuilds the profile of the industry as one that is with you every step of the way.

Linking back to pricing, some are also starting to take a longer term view. Instead of focusing on the risk price for one year why not think about the value of that client for 5, 10, 50 years? This requires organisations to think about customers as individuals or businesses rather than a risk. The more you know about this customer the more you will understand how to protect them more effectively. This will mitigate more claims but, perhaps more importantly, build a different type of relationship between insurer and insured. To reuse Joan's words from earlier, it moves from a single transaction to a longer term partnership creating a win-win.

Over to you

As I conclude this paper, a conversation on the train leads me to question whether Trust should even be a significant factor in a highly regulated world. Will brand and customer journey be the king maker of the future successful companies? Why should we even care about this in a world where big brands can suffer tax scandals and still prosper? Where companies can be reckless with personal data and still prosper?

In my opinion, brand and customer centricity will no doubt be important but the sector as a whole could see tremendous growth if it can continue to enhance the level of trust it commands in the world. There is still a huge protection gap which I believe can only be tackled with a more trusted sector that makes it clear that it is there for the long run as a risk partner for life.

Moving forward, I believe that a trusted and more vocal insurance sector could also attract more talent moving forward. We are certainly going to need it as the industry innovates over the next decade and beyond.

So it's over to you as the current leaders to continue to strengthen our collective brand. As someone that hopes one day to lead a business I hope some of these thoughts have been helpful.