UNIQUE PERSPECTIVES

THE AMAZON PARADOX

The competitive nature of London's insurance market should engender efficiency and innovation. So why does it struggle to satisfy customers while Amazon, with its market dominance, sets new standards for service?

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Our customers really value our subscription market. It is a highly efficient means of spreading risk across high quality insurers with one contract wording and one claims settlement mechanism.

It is a widely held belief that competition is good and monopoly is bad. Competition promotes innovation of product, efficiency of delivery and responsiveness of service. Market winners invest in technology and talent.

Oligopoly or monopoly produces the reverse. High barriers to entry create an inertia that ill serves customers, disincentivises investment and creates poor capital allocation. External disruptors eventually find a way of sweeping away the old model and better serving markets and customers.

So, the question is does the highly competitive London subscription market conform to that norm and deliver real value to its customers, people and shareholders? Or, have defects developed in this model to cause significant concern for our future.

Looking through the prism of Amazon

Amazon may have it detractors, but it's impossible to not admire it. Its growth is remarkable. It is rapidly approaching 50% market share of the e-commerce sector in the United States, a market worth $400 billion. This near monopoly position has not prevented it from providing an ever-superior customer experience. It continually reinvests in research and development. Its cloud provider services are a motor for a whole wave of emergent technology driven companies which will define our era.

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In contrast the specialty insurance market is subject to the highest degree of competition. No single business has as much as 4% share. Liberty is globally ranked number seven in this space and we have around 2.2%. It is a highly populated and competitive market.

So, what is the result of all this competition? Our combined ratios are too often north of 100%. Our customers consistently complain about our lack of product innovation and the cost of getting the product to market is high due to poor technological solutions and uneconomic distribution methods. To put it another way, in that respect, competition may not appear to be working in the subscription speciality and commercial insurance market in the way that would be hoped.

What is not working?

There are a number of characteristics of the market that are performing sub-optimally, and how we organise ourselves as leaders and followers across market subscription placements is a key one.

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When we analyse our portfolio – albeit varying by lines – we see that more than 75% of our contracts are renewals and 75% of those are as a following line. This – by dint of arithmetic – will be true of the market as a whole. And yet we collectively resource ourselves as if we are leading each contract as a new proposition. It seems that every market pretends to have genuine lead market capability in virtually every line.

Another is product development. The reality is that businesses running at a 100% plus combined ratio, with sub scale market share and offering small lines, are not going to invest in innovation. They can't afford to. Consider cyber as an example here. Of the 60 plus businesses offering a cyber product coverage, very few are at a scale which allows for genuine long-term investment in product capability to meet emerging customer needs. Is the next business offering a cyber insurance product meeting the unmet expectations so often voiced by risk managers? Or are they another lookalike market embracing portfolio diversification?

And finally, there is delivery. Risk selection is at the heart of our market. But once this selection has been made we must execute the delivery of the risk transfer with much more speed and efficiency. Viewed by outsiders from our market the process is inexplicable. It may soon be indefensible.

A new direction of travel

Our customers really value our subscription market. It is a highly efficient means of spreading risk across high quality insurers with one contract wording and one claims settlement mechanism. It is a powerful proposition which serves policyholders well, and which I think many of us have grown to take for granted. It is our best means of preserving London as the natural home of specialty commercial insurance.

The recent response from the market in paying claims from Harvey, Irma and Maria has also been widely praised. Indeed, the London market has been widely regarded as being the most responsive. This is a huge advertisement for our product, our capabilities and the value of the London market as a whole.

This is the customer experience that we have to promote to repair the vast global protection gap. 70% of global economic loss is uninsured, with an even larger proportion in emerging markets. This gap presents a huge opportunity for our market if we can organise ourselves properly.

The solution lies in our ability to cooperate for the wider good. It's about using the unique position of the London market and our natural preference for subscription and risk sharing.

To this end I propose three pointers in a direction of travel:

- Enabling Lloyd's and London market bodies to facilitate greater co-operation between our businesses to benefit clients – as dating agencies if you like – rather than referees adjudicating a fight to the finish. We are highly competitive, but we need to resolve the current paradox where fragmentation does not always lead to better outcomes for our customers.
- Such co-operation where it can appropriately be achieved will allow for a more honest acknowledgement of leaders and followers and – as importantly – how we resource these capabilities. This may end up with more facilitisation, more consortia and more innovation in structuring syndication. This will benefit policyholders so long as it is driven by market efficiency rather than increased broker commissions.
- We need better mechanisms for recognising genuine investments in customer value. We need an honest and impassioned conversation with our brokers as agents of our customers that delivery of value needs to be properly recognised. At Liberty Specialty Markets we are rightly proud of our continued high performance in broker surveys of claims capability. But we do not delude ourselves that there is a straightforward link between this and the future flow of opportunities from those same brokers. This can't be right for our market or for our customers.

To conclude – we are uniquely fortunate to be working in the London insurance market. The strengths of subscription, appropriate co-operation and deep resources of talent mean that we have much to shout about. But with syndication and competition must go a sense of reality – even humility – about how we organise ourselves for the good of our customers, our people and our shareholders.

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