MAY 2024

Reshaping London's Speciality Market

The Impact of Technology and Data



Comprehensive insurance technology, including powerful data capabilities, can help the London Market address ongoing initiatives and position insurers for long-term success.

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Contents

Executive Summary 02

The State of the Nation 03

The Need for Digitalisation 04

Keeping Pace with Lloyd's Blueprint Two Initiative 05

Data Diversity is Impacting the Market's Ability to Meet Client Requirements 08

How Earnix Can Help 10

Synthetic Data Can Be a Model for Future Success 12

What Can Synthetic Data Help Solve? 14

Summary 16

Grow Through Change with Earnix 17

Executive Summary

Facing changing market conditions, new consumer expectations, and digital transformation reforms by the Lloyd's Blueprint Two initiative, insurers in the London Market need proven technologies with a track record of delivering.

More notably, insurers need new ways to collect and model data for better insights, reliable governance, and more informed decision making. While past technologies have fallen short, today, modern, comprehensive insurance technology can now overcome past challenges and enable London Market insurers to reap the full benefits of their digitisation vision – and in doing so, gain a new competitive advantage.



The State of the Nation

London is proud to be called home of the world's specialty markets. It is the insurance centre where solutions for risks that cannot be placed elsewhere are found.

For 300 years, the London Market was by far the globe's leading (re)insurance centre. Steeped in tradition and with a concentration of capital and expertise that created the subscription insurance market, London has long led the way when it comes to the product innovation for new and established risks.

But the very traditions and structures that once contributed to London's success have now become the biggest threats to its future, especially as new technology leads to new ways of conducting business.

Globalisation has delivered a new technology-driven industrial revolution, and as new centres emerge, they are ready to take advantage of available new technology. For example, in Asia and Africa, we have seen financial services sectors built on digital foundations that use mobile technology to deliver and manage personal insurance and banking products.

Additionally, the emergence of powerful new economies in Asia and Latin America have brought new risks and demands as to how their insurance needs should be met.

In the UK, higher volumes of personal and small commercial risks are now being distributed, placed, and underwritten in a range of digital channels as the industry looks to engage with consumers in the way they prefer to conduct business in all aspects of their lives.

This trend emphasises the need for insurers in the London Market to implement modern technologies capable of keeping pace with these changes, and in doing so, improve their own operations, make better decisions, and deliver the best customer experiences possible.

The Need for Digitalisation

It is not to say that London has not accepted the need to transform its processes.

For over a quarter of a century, the London Market has seen the rise of a myriad of initiatives that all claimed they were the key to transforming the way insurers did business. However, they all withered on the vine, having cost the market tens of millions – if not more – in lost investments.

More recently, insurers sought to integrate technology into their operations, including artificial intelligence. In the cases where they created their own solutions, they usually found that those systems couldn't speak the same language, and as a result, impaired insurers' drive for efficiency.

If anything, the COVID-19 pandemic provided the London Market with tangible proof of the many benefits that can be achieved with technology. For example, the enforced closure of Lloyd's and the offices of the underwriters in the London Market led to technology-enabled hybrid and remote work settings.



Keeping Pace with Lloyd's Blueprint Two Initiative

As the world returns to normal, the London Market is pushing on with the ambitious process reform proposals driven by Lloyd's Blueprint Two initiative.

Change is required. When the International Underwriting Association (IUA) asked insurers what they saw as the biggest challenge for companies, the response was resounding – operational efficiency.

The IUA published its Technology Trends and Innovation Survey 2023 (Digital Transformation (iua.co.uk), which concluded "if such efficiency can be achieved through a combination of digital and automated processing of transactions, it will open the door to faster, cheaper services and enable more effective scaling of business capacity."

Survey responses also revealed that digital adoption and advanced data analytics are critical initiatives for insurers and reinsurers. Yet merely adopting central market digital processing services – notably, modern day insurance technology – is only the beginning. Many see this to be a minimum requirement for operating in a digital marketplace, and organisations are now dovetailing new technologies with their own broader digital journeys.

Meanwhile, the IUA reports that there is much room for growth in the maturity of data platforms to assist business decisions. For example, most companies interviewed considered their own data maturity to be average at best.

> *There remains a positive outlook amongst companies in the London Market that the future holds a great deal of opportunity. New digital processing services have the potential to deliver more joined-up systems, better customer experiences and greater efficiency, unlocking capital for more underwriting capacity.*



Kim Darrington
Senior Market Modernisation Executive, International Underwriting Association
Technology Trends and Innovation Survey 2023

The IUA said that whilst its members are all at different stages of their digital journey, it is apparent that all have carefully considered how technology will shape the future of their organisation.

The industry continues to see maturity around data governance and architectures and is successfully unlocking value from data to enrich what matters: good conversations between customers, brokers, underwriters, claims handlers, and all those supporting the value chain.

> *In recent years a wealth of new technologies has arrived, promising business insight through data analytics or operational efficiency through digital processing, robotics, and automation. We have barely even scratched the surface of what artificial intelligence tools will do for business in the future.*



Dave Matcham
CEO, International Underwriting Association
Technology Trends and Innovation Survey 2023

On One Lime Street, Lloyd's is determined to make progress on its blueprint, but is following a pragmatic and deliberate approach to implementation.

The Blueprint Two digitalisation programme is on schedule and will be delivered in two phases, with Phase One going live in a single market cutover on 1 July 2024. Phase Two services were planned to go live in October 2024, but earlier this year it was announced Phase Two will be moved to April 2025 to respond to requests from the Lloyd's Market Association (LMA).

> *Our foremost priority is championing Blueprint Two integration and digital evolution. This means engaging, challenging, and ensuring that the promised 'faster, better, cheaper' vision is realised for managing agents. This year our efforts are directed towards propelling the market towards a vision of increased efficiency and cost-effectiveness.*
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> Sheila Cameron
> CEO, Lloyd's Market Association
> *LMA Strategic Focus 2024, January 2024*

The market-wide transformation is providing specialty underwriters with a backdrop to what is already a challenging environment.

Whether they are reacting to continued inflation and supply chain issues, post-pandemic workforce dynamics, climate change, new and more aggressive competition, indecision about emerging technologies – or all the above – insurers now find themselves at a pivotal inflection point.

What are the issues that are preventing the market from achieving the full range of possible benefits from digitalisation?

While there has been no definitive answer, insurers recognize that, despite early progress, a market-wide and fundamental shift in the way the London Market does business is not a one-size-fits-all solution. Instead, they will need to find solutions that work for their individual company and unique objectives and goals.

Data Diversity is Impacting the Market's Ability to Meet Client Requirements

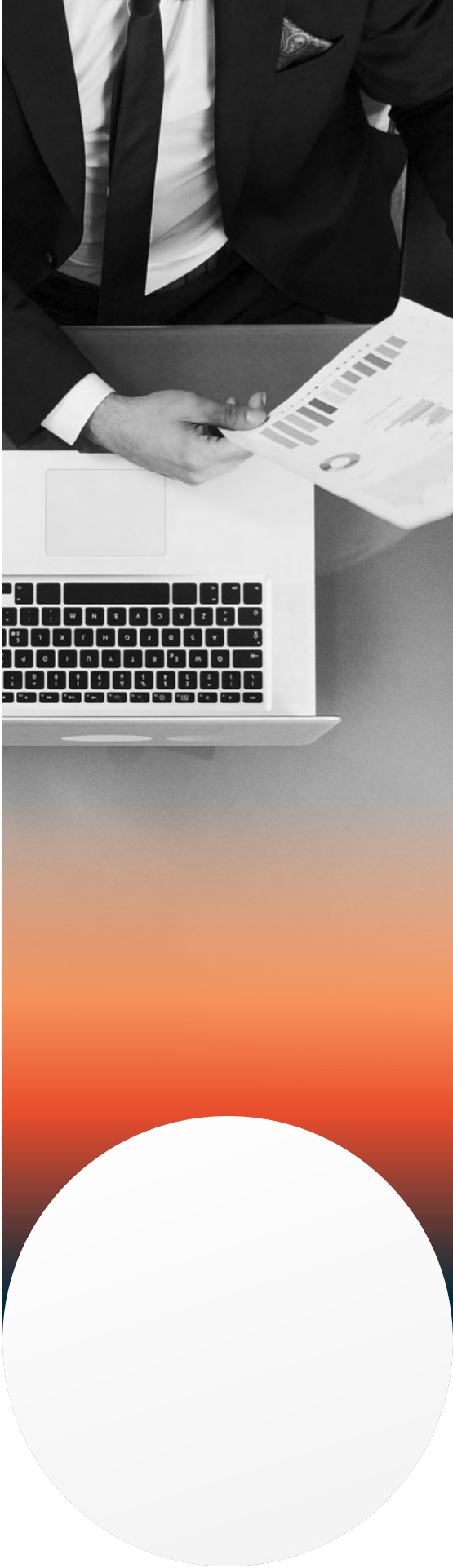
The challenge for the speciality market is that it remains a collection of small operations, which are focused on remarkably diverse and distinct risk classes. This requires them to access and receive data from a wide range of sources. The varying nature of those data sources adds to the disparate ways they operate, from weather to maritime movement data, to crime data, and data from a rising number of InsurTechs that feed information into the underwriter or underwriting processes.

Insurers can access data from these third parties, but they are also looking to create their own data sources and data sets. By not using data to their full advantage, they have inadvertently increased frictional costs, to the point where Lloyd's and the London Market are now attempting to reduce expense ratios from their current range of 30-40%.

> *As it stands, it is imperfect, inefficient, and it is not really fit for purpose.*



Charles Clarke
Group Vice President, Guidewire Analytics



The challenge the market has set for their technology partners is to create a framework and the tools that will allow underwriters and the wider insurance operations to bring together all the necessary data from a disparate range of sources into a single system. From there, insurers can collate the data and deliver it in the way that best suits the needs of each employee who is required to access the data as part of their job requirements.

Yet such a framework must be efficient to enhance the accuracy of the data and the speed that specific tasks can be completed.

For the speciality market, the risks and the breadth of classes lead to challenges in how a business can create a return on the collation of data (e.g. marine or aviation for instance).

Specialty companies' needs are as complex as the risks they underwrite. When it comes to how they can better access, analyse, and deliver the data-driven insights to improve their performance, they want a system that will enable them to price a risk more accurately, understand the risks more effectively, and do so more quickly.

Achieving this requires a strong and clear framework where the data can be accessed and distributed across the organisation. Yet such a framework must have the flexibility to adapt and change to the specific needs of the business and the constituents using it.

These demands are not natural bedfellows. A requirement for a clear framework and with-it rigour does not naturally fit with the need for flexibility.

How Earnix Can Help

At Earnix we understand the need for best-in-class technology that has the capability to integrate seamlessly with an insurer's existing systems. Solutions must add a new layer of intelligence that make it easier to understand complex and bespoke risks.

We recognise the complexity that comes with the specialty market compared to personal lines underwriters, but we believe there are lessons that can be taken from the rapid growth of technology in the personal lines industry.

The huge amount of data that can be collected and used must be managed efficiently and effectively. More importantly, it needs to be organised so it can be easily digested and analysed to reduce the time underwriters need to devote to access the information that supports their decisions.

In any class of insurance, the data and analytics are there only to support the underwriter's ability to make better and more-informed decisions. Yet it is especially true for speciality businesses where human expertise is so vital – and the cost of failure and success so significant.

As such, the data needs to be grouped into distinct clusters where its variables are recognised and understood. The speciality market requires far more sophisticated algorithms, but there are ways the data can be collected far more efficiently.

For example, the Internet of Things (IoT) has created the ability to track individual containers on their journey from manufacturer to end user. Now cargos and other shipments can be continually monitored for factors such as temperature during transit. Not only does this give insurers the ability to identify potential in real time, but they can also access huge amounts of data for future risk assessment and pricing decisions.

In specialty risks, it is critical to understand the nuances of the risks. This means data systems must be able to identify the subtleties in the information provided. Doing so creates a more granular understanding, which will pay dividends in shaping future decision-making.

Both how the data is presented to the underwriter and the system's ability to collect and analyse vast amounts of data from various sources and understand the data is critical to success.

Earnix provides a common language for those throughout the organisation. This allows the same platform to be accessed and used by teams across the business, with the confidence that the data delivered has been shaped to the requirements and demands of the user.

The specialty market is like no other, and as such, its technology and systems must embrace and reflect those differences.

The right system can become a powerful tool with the ability to deliver a competitive advantage at a time when the debate over digitalisation has moved from "should we?" to simply, "how do we?" And "how do we do so in a way that delivers the maximum benefit?"

The message for the underwriters and insurers is that they need to "stick to their knitting" and partner with those who can create the necessary critical mass to meet their data delivery needs as well as the right technology platform to capitalise on the opportunity this new data model represents.

> *"Data is a one of the world's most valuable commodities but for the specialty market it needs the data to properly model new and emerging risks. The use of synthetic data to fill in the gaps could change the way the market approaches the use of data.*
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> 
> Reuven Shnaps
> Former Chief Analytics Officer, Earnix

Synthetic Data Can Be a Model for Future Success

Technologies and frameworks such as generational adversarial networks (GANs), transformers, and large language models (LLMs) have accelerated the production of synthetic data enormously. The thirst for business and competitive advantage, combined with this ability to generate synthetic data more readily, has allowed its use in solving multiple commercial problems.

The London Market's effort to access and utilise ever increasing amounts of data have seen underwriters and brokers look to the use of synthetic data. This has helped to fill in the gaps and do so in a way which speeds up the ability to assess the risks they are being asked to assume. Its use can create new opportunities, but its benefits and limitations must be understood.

While in use in academia for 30 years, synthetic data has just recently found its way into mainstream commercial use. Gartner estimates that as of 2021, only **1%** of data was synthetic, but that by 2024, that figure will have grown to **60%**.

The value of data has increased significantly as the use of technology now creates the ability to access even larger amounts.

Businesses are asking themselves, "What if you could produce infinite amounts of data? What business leverage would that generate?" Unlike producing large oil, gold, or diamonds, producing vast amounts of data can be accomplished quickly and cheaply.



1%

of data was synthetic in 2021

60%

of data is estimated to be synthetic in 2024

Data that is produced, rather than gathered, is termed “synthetic data.” Synthetic data technology enables practitioners to digitally generate the data that they need, on demand.

For insurers and other financial services companies whose products are intangible, and for insurers whose businesses are, in effect, a promise to pay should a loss of an agreed type occur, data is an invaluable asset, both at times of the placement and binding of risks and at the point of claim. Therefore, a business’ revenue, profitability, and market share are largely dependent on using data to create a competitive advantage.



What Can Synthetic Data Help Solve?

Filling Data Gaps

With synthetic data, InsurTechs, FinTechs and their financial services clients can access the data they need to develop and test their products without compromising data security and customer privacy. As a result, the insurance sector has experienced a surge in new ideas and technologies that are transforming the industry.

Privacy and Security

Synthetic data preserves confidentiality while offering the ability to perform critical analysis. In a world of widespread data availability (both legal and in such places as the dark web), those who store, manage, and manipulate data must go beyond simple anonymisation. They need to use synthetic data techniques to make the subjects of that data comfortable that their personal data will not be made available for identity theft, fraud, and other nefarious uses.

Analytical Support

Synthetic data supports more, and more accurate modelling, simulation, and testing.

One of the significant advantages of synthetic data in risk assessment is its ability to account for extreme or rare events that form the basis for the specialty market such as floods, hurricanes, droughts, and wildfires. Certain events may occur infrequently but have a significant impact when they do.

With synthetic data, insurers can simulate these rare occurrences and assess their potential consequences, allowing them to develop more robust risk models without waiting for an actual adverse event to occur.

Simulations, Stress Testing, and Data Expansion

By generating synthetic data insurers can improve the performance of their predictive models, leading to better fraud detection, conversion models, and other analytical insights. One of the strongest use cases is the ability to create simulations and stress test the models when applied to new situations. This changes the way insurers may introduce new products, serve new or expanded segments, or enter territories where they have little to no data.

Synthetic data's use in commercial enterprises is in its infancy but holds the promise of helping to solve any number of critical problems in financial services. It opens new opportunities for specialty insurers providing the ability to generate endless amounts of data. When combined with AI, machine learning, and advanced analytics, it can help address such vexing and time-consuming issues as filling data gaps, protecting privacy and security, and fraud detection.

Summary

The London Market reforms are at a point that has not been reached in 30 years of effort to modernise the way it does business. Today, the speciality market has an opportunity to turn data into the most valuable commodity in its organisation.

Modern insurance technology can now help any insurer tap into the vast potential data represents. While this helps with their immediate goal – to embrace the need for digitalisation – modern insurance technology can also help them make better decisions related to pricing and risk, accelerate their time to market, and provide more engaging customer experiences.



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Grow Through Change with Earnix

To see how Earnix can help insurers complete their digital transformation efforts and gain a new competitive advantage, book a demo today.

Learn more →

About Earnix, Ltd.

Earnix is the premier provider of mission-critical, cloud-based intelligent solutions across pricing, rating, underwriting, and product personalization. These fully-integrated solutions provide ultra-fast ROI and are designed to transform how global insurers and banks are run by unlocking value across all facets of the business. Earnix has been innovating for insurers and banks since 2001 with customers in over 35 countries across six continents and offices in the Americas, Europe, Asia Pacific, and Israel.