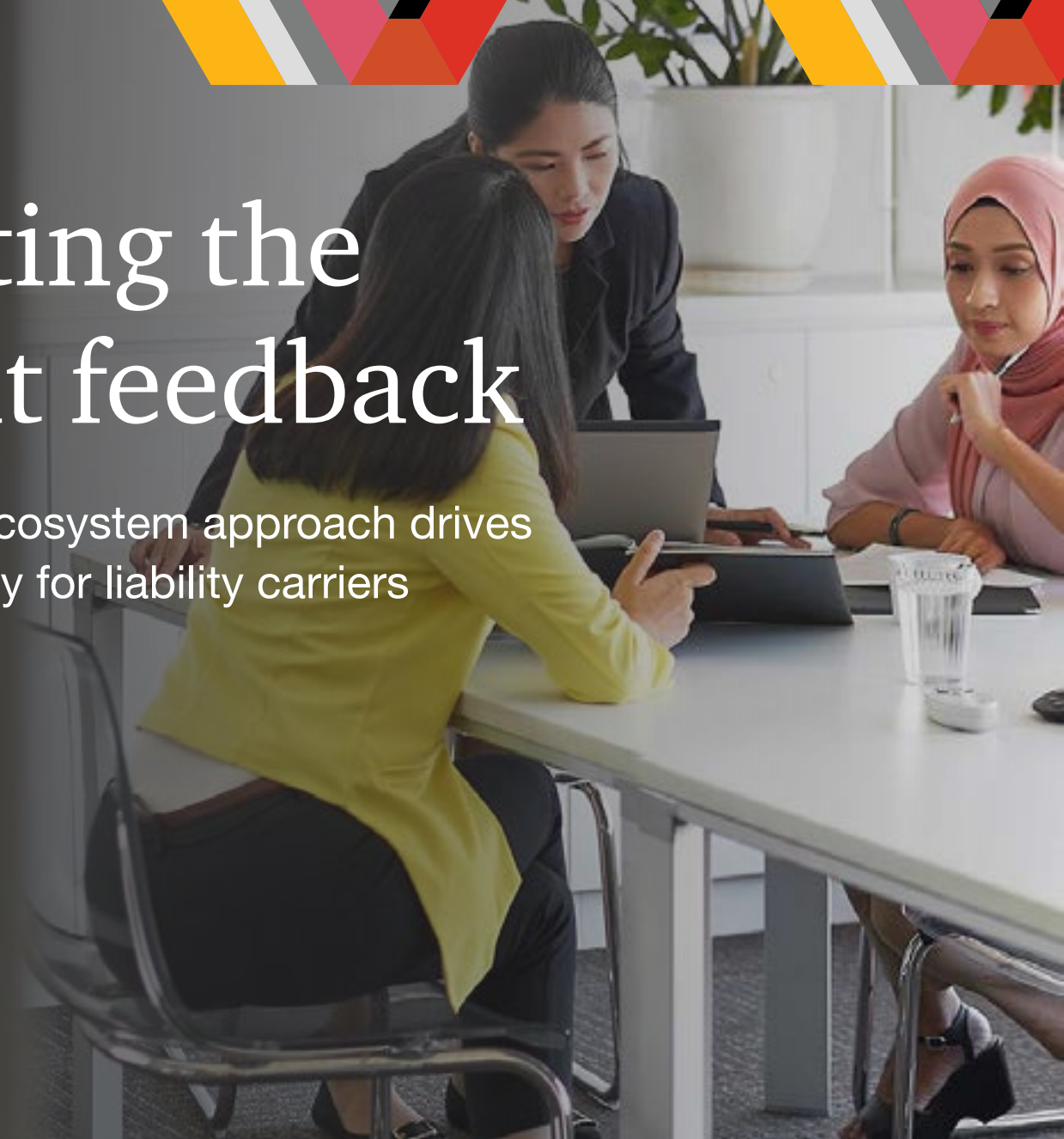




# Getting the right feedback

How an ecosystem approach drives profitability for liability carriers



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## Introduction

Success in liability insurance requires patience, diligence and an acceptance of volatility. When managed well, liability insurance can provide strong returns across the underwriting cycle; however, without diligent oversight, unforeseen or changing exposures can challenge profitability. Greater awareness of long-term injuries or illnesses, improving diagnostic capabilities, increasing and shifting litigation outcomes, and inflationary (economic and social) pressures are some of the factors that challenge profitability for many liability insurers.

Within this article, we will examine the steps insurers can take to proactively plan for new opportunities and potential emerging threats within the liability insurance ecosystem. Carriers who take action in each of these areas will be better prepared to meet future challenges and realise their strategic objectives.



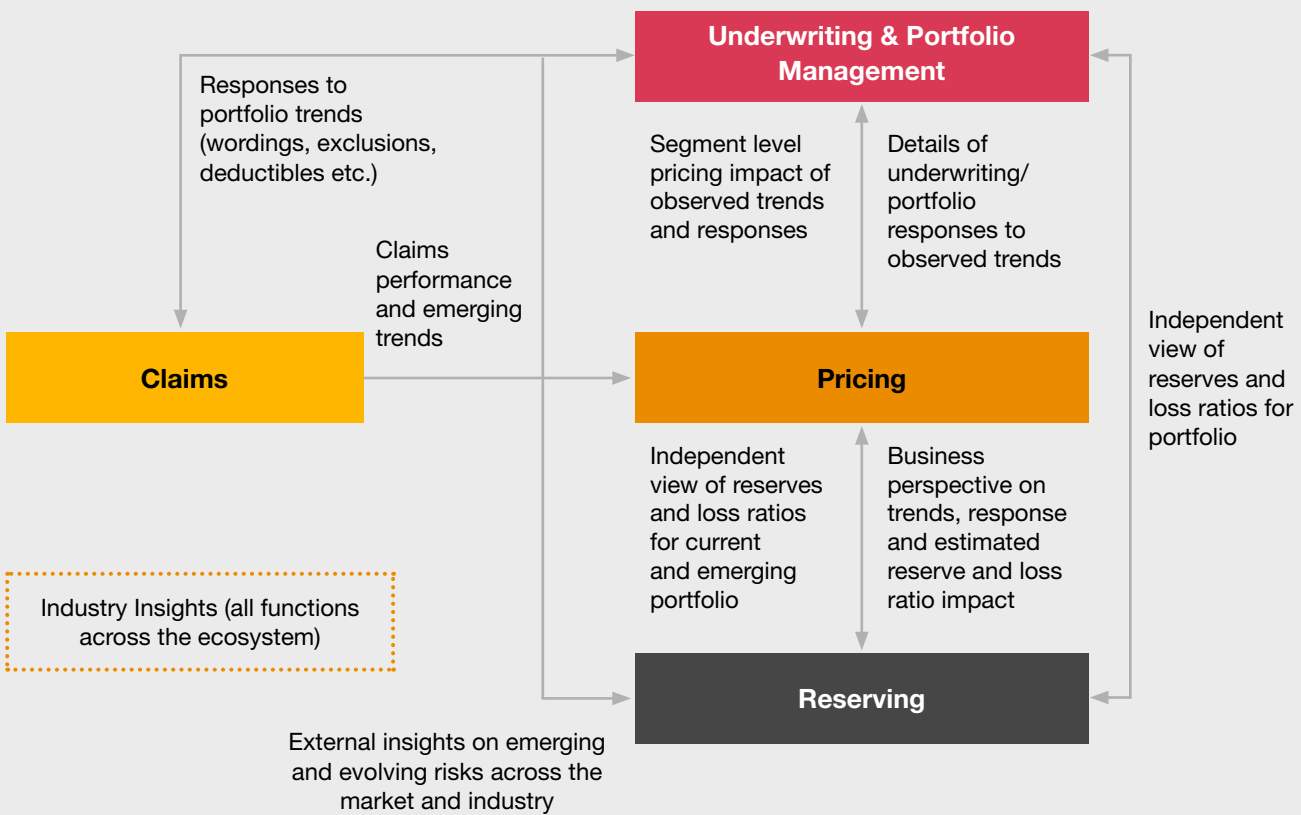
# Step One: Managing the ecosystem

Proactive management of the liability ecosystem is key to identifying, assessing and responding to portfolio trends, both to seize market opportunities and to reduce exposure to unfavourable developments. As a long tail product, liability is a complex exposure where insurers “lock in” future outcomes as soon as they write a liability policy. Given this dynamic, leading

liability insurers can benefit from having well functioning ecosystems, which help to differentiate their performance from their competitors.

The liability ecosystem includes the key functions of an insurer that inform capital allocation, pricing, risk selection, underwriting, and claims as illustrated below.

## Liability Ecosystem overview



## What separates leading liability insurers from other organisations?

Within top-ranking liability insurers, we consistently see the below characteristics within their ecosystems:

### 1 Unified functions

Their ability to support the business by acting in unison, rather than as singular functions, provides early warning of opportunities and issues, which helps decision-makers “see around corners.” It is not sufficient to have strong individual functions (e.g., a market leading claims function, or talent-rich underwriting team); functions in leading carriers operate in unison to identify and quickly respond to emerging issues, trends or threats.

### 2 Embedded ways of working

Ways of working need to be embedded to support and ensure collaboration, interaction and information sharing in a timely and effective manner.

## Step Two: Operating model enablers

In our experience, there is no one leading practice operating model (or organisational design) for liability insurers. What is required is that key operating model enablers outlined below are clearly defined, understood and operating effectively across the ecosystem to assess and respond to emerging issues, trends or threats.



### Clear accountabilities

Clear accountabilities, governance, and formalised processes – with the right people asking the right questions based on the right information at the right time – help ensure that potential issues are identified early, and that timely appropriate actions are taken. Operating models should enable corporate strategy, and there needs to be clear accountabilities for market, portfolio and product performance. Paths for escalating decisions should be well understood and followed, to ensure decision making is occurring at the right level in the enterprise.



### Good processes

Clear and well-understood business processes are a critical corollary to accountabilities. Some insurers discount the importance of business processes, relying on the notion that “people know how things get done.” However, without a clear process to identify and respond to issues, teams will generally operate in silos, and supervisors of those teams will not know how or where to raise opportunities or threats that may arise. Further, when staff leave, their corporate memory of “how things get done” goes with them.



### Sound capabilities

Sound capabilities within individual functions are the starting point for excellence. If these are in place, leaders, supervisors and teams can manage to clear accountabilities around strategic objectives, business planning, portfolio management, pricing, and underwriting performance. While most insurers have highly competent staff in key functions, leading carriers adopt a learning mindset to ensure that staff are continually developing their abilities.



### Data management

Data, reporting and timely management information are key ecosystem enablers. High-performing insurers have a single set of business, team and individual KP/RIs that are used across their business, i.e., teams are not allowed to pick and choose their own metrics. Targeted reports and dashboards are developed with minimal manual effort, and widely shared to support consistent understanding. These dashboards often include key metrics with different reporting bases, such as financial reporting/calendar year, accident year and underwriting year, to provide granular insights when required.

Poor data quality is a persistent issue with liability products, but leading insurers find ways to “win ugly” by accepting the data landscape for what it is, and making the best of it, rather than relying on multi-year, “big-bang” harmonisations. Dedicated squads working on tactical data fixes to support reporting, with a particular focus on addressing challenges from legacy systems, can form the basis of system upgrades which improve data across the ecosystem.



### Culture

In many ways, culture is the most critical ecosystem enabler. Culture refers to the behaviour, feeling, thinking, and believing that drive how things are done within an enterprise. In leading insurers, there are key behaviors that support the early identification and response to potential issues. For example, leaders, supervisors and teams are held accountable for portfolio performance and risk mitigation; managers invest time and resources to define and manage underwriting and risk appetites, which often involves the use of standardised dashboards as well as ad hoc analysis to understand and track business performance. Teams are thus incentivised with a mix of group, business unit and class performance targets that provide a continuous line of sight from actions to outcomes.

# Summary

Liability insurance can be a challenging product when viewed alongside less complex short-tail lines. Nonetheless, by focusing on the entire liability ecosystem, rather than individual functions within the ecosystem, along with its operating model elements, leading insurers have been able to effectively respond to new opportunities and emerging threats to generate sustained profitability across underwriting cycles.

If you would like to find out more about how you can enable a sustainable liability insurance ecosystem, reach out to the contacts below.

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