Redefining Risk with Sompo

Episode 1: Casualty in focus: Shifts, risks, and emerging trends

Christian Crozier.

My name is Christian Crozier and I'm Sompo's Head of Corporate Casualty in the UK. And it is my pleasure to host this episode of Redefining Risk with Sompo. For this episode, I'm joined by Sally Roberts, Head of Corporate Casualty in London. We are digging into the shifting market dynamics in our industry, the evolution we are seeing in risk profiling, how AI is impacting the way we perceive risk in casualty and more. Join us for this episode and subscribe on your podcasting platform of choice to receive the latest insight.

Christian Crozier

Welcome to the Redefining Risk with Sompo podcast. I'm Christian Crozier. I'm joined today with Sally Roberts, and we have been in the industry now for over 50 years. A combined number that, not individually, I hasten to add. And today we will be talking about the market dynamics, the specifics around product, risk profiling of products, how that's changing, emerging risks, and things that keep us awake at night. Moving from hard market to a soft market, we experience various challenges.

Sally Roberts

We certainly do.

Christian Crozier

Yeah, and we're often, obviously we're in a soft market for a lot longer than we are in a hard market. But the dynamics are shifting and have shifted over the last, what, probably 12 months or so?

Sally Roberts

Oh, very much so.

Christian Crozier

What have you been seeing in terms of day-to-day around behaviours from other markets, from other underwriters, other lines of business, whatever you, what experience have you seen?

Sally Roberts

We can't ignore it. There is a drop in rates. There are some areas that are holding rates, and I would say that for certain industry sectors, like healthcare, for example. It's an area that you constantly have to be on top of. Heavy exposed risks, like US, I mean, that's just incredibly topical at the moment. Everyone's talking about it. it's just, where's that market going? And how sustainable can it be? So parking that aside, yeah, there is a drop. There is some unpredictable behaviours that I'm seeing from various markets. It's a bit of a fight out there. Yeah, And it's tough. It's a tough marketplace to be. It really is.

Christian Crozier

Yeah, that behavioural piece is difficult to navigate, actually, and try to predict because People are starting to protect their portfolios a bit more. I think there's retention is becoming key. Probably adequacy of rate is much higher off the back of our market. So they are becoming a bit more possessive around their portfolios. Interesting you say about... US exposures actually is having, that's a pocket where we aren't seeing as much movement in rate, right? And we're seeing opportunities from a FAC point of view where carriers are buying facultative reinsurance.

Sally Roberts

And they're reducing their capacity. So that area, you know, we're seeing, and obviously for us being fairly new, it's, there could be some, you know, good advantages to take, but obviously making sure that we are having a sustainable rate applied when looking at those risks.

Christian Crozier

The US is on everybody's agenda, and especially around liability, less so on other lines of business, but on liability, it's a lot more volatile at the moment. So that's having a funny dynamic on everything, I think, and back to the point about behaviour and what we're hearing from our US colleagues, at least, and from other markets. is there's much more caution around capacity deployment and the volatility of losses that are happening. And I think some markets in London are acknowledging that, are seeing that and feeling that, but it does come down to communication internally between their US operations and their operations in London.

Sally Roberts

Yeah, how close they are.

Christian Crozier

Yeah, how close they are, or sometimes how close they're not.

Sally Roberts

Yeah, very much so. We talk to our guys all the time. And the average loss, gone are those days where your average private car loss is 1, 2 million. You're now seeing it kind of skyrocketing to 10 million.

Christian Crozier

I don't think we're really seeing any consistency in general market behaviour. It is really quite, just I keep using the word volatile, but it feels...

Sally Roberts

But it probably is the right word as well, because it does feel, like you said, volatile, and it does feel, we mentioned the word unpredictable, and you're kind of seeing some markets looking at risks, which they wouldn't normally do. And it's hard to predict that kind of behaviour as well. And the lengths that some people are going in terms of dropping rate, you know, is that sustainable? You know, when you look at the depths and how much, we've seen risks drop by half a million. They're big numbers. It's not little numbers, they're big numbers. And it's, that's to retain risks.

Christian Crozier

Yeah. I think also, I don't think there's any individual market that is behaving in a certain way. There's inconsistency between insurers. We're still getting inconsistency within insurers as well. And it also depends on the risk profile that's been looked at.

Sally Roberts

And it's kind of like, where does this level out? Where does this, how long does this go on for as well?

Christian Crozier

It makes me think about actually integrity, because there's the overall approach and principle of business, right? But I think there'll be a lot of underwriters, insurance companies will be challenged around that. But also I do think that performance, so there's been some results recently being published for Q3 for various insurers. And because of the relatively low CAT season, there hasn't been too much impact across other lines of business. Some of the performances, loss ratios at low 80s to high 80s, which is quite remarkable. So, yeah, you're maximizing it, yeah. So, that's the case of, well, if this business is running at this performance level, even if it drops by 10% in rate, why would you not keep hold of it? Because it's still performing really, really well.

Sally Roberts

And it always makes it harder then as well, doesn't it? And it's that tough balance, isn't it? We've been around for many years in terms of targeting it when you know that price level is now here. But equally, on the flip side, you can kind of understand, I mean, our book's relatively new, so we haven't got, in terms of that, you know, it will come to us, that renewal piece and the large accounts to secure and hold on to tight.

Christian Crozier

Yeah, definitely.

Sally Roberts

The decades are changing, aren't they? I mean, industry is changing. how we trade, how we evolve. I mean, we've seen brokers change. We've seen, I mean, some people wouldn't even have like brokers if we looked at a slip and the actual stamping. I had to do that recently. It was like, you have to stamp every page? You have to. So everything's changing as we go along. And the hard cycles and the soft cycles change as well. So it's different disciplines and it's, we are in the AI era. And that's changing again, isn't it?

Christian Crozier

Yes, it is. Either the use of AI within industry, on the actual, from a broker and underwriting point of view, you mentioned there about trading, right?

Sally Roberts

Yeah.

Christian Crozier

This feels like there's more trading platforms. It's becoming more of a commodity at a certain level of business, simpler business, but how many conversations have we had with brokers around facilities, So you talk about AI there. Well, we know obviously there's existing platforms out there, but we're being asked, what platforms have you got that can help with that trading? And then how do we as an industry use AI internally? And then obviously from a client's perspective, what are they doing integrating AI into their products? And how does that change the risk profile?

Sally Roberts

Because if you go back to, I mean, a few years back, when we're trading and we are going back to the manual with stamping slips, you think how long that's taking away from actually doing business, when now it's a few buttons to press and it's a lot quicker for both the broker, for us, which AI has given us to turn around and go, right, that's done. Now I can concentrate on this.

Christian Crozier

Yeah, I use that the old sign, the old saying, sorry, time is money.

Sally Roberts

Yeah, very much so.

Christian Crozier

If anything can be traded quicker and more swiftly and more effectively, why would you not do that? And from a customer's point of view, a client's point of view, integrating AI into a manufacturing process that just makes it quicker, can churn the product out so much so much faster. Why would you not why would you not do that, within regulations? Of course. So that's it. I think we're all trying to figure out ourselves what is AI, what does it mean, right?

Sally Roberts

What does it mean to us in our line of business?

Christian Crozier

I think there's a lot to come on this. So then actually, so then thinking about it as changing of risk profile, right? So it starts to, we start to get blurred lines a little bit, I think, with cyber. So there's obviously, there's a lot of things that have happened recently. on cyber attacks and certain retailers have been targeted and there seems to be inconsistencies of how.

Sally Roberts

Airports.

Christian Crozier

Who's being targeted, right? I think it's bigger companies, bigger organisations, bigger effects maybe. I don't know. There seems to be, I've been talking to our cyber underwriters about that. It isn't necessarily certain areas that are being targeted, right? Or certain businesses are being targeted for whatever reason, right? But there are cyber attacks, we don't know what's going on. They don't always show. But the blurred line piece, I think, becomes about from a coverage perspective, where you've got integration of AI into a product, so autonomous vehicles actually is a good one, right? Autonomous vehicles. If there's an accident from a car that's been manufactured arising from the AI that's been deployed, Where does that sit? And if that's been attacked from a cyber perspective, okay, we used, I think we were talking about an example the other day of a major manufacturer of autonomous vehicles. If their network is compromised and then they're now able to control vehicles and it causes, clearly causes accidents and incidents, is that a motor BI property damage claim? Or is it then merged over across, it originates from a cyber attack? And then how do the policies respond?

Sally Roberts

Or is it a product? Depending on whatever it is. Because, you know, with the EU directive coming into play and adding in software, et cetera, as a recognised product, all those lines are blurred. Which is always the case. As much as we can prepare, look at it, strategise, plan it out, it's never going to be 100% clear. There's always going to be, like anything in liability, blurred lines, grey areas. I mean, that's the beauty of what we love about what we do. And you're right, case law, et cetera, will start to help us define those areas.

Christian Crozier

It's funny you say that. It makes me think about the last X amount of years of my career. where liability I was pulled and attracted towards it because of the breadth of it, the kind of the grey area that was always very interesting to me. I've become very comfortable with that grey space and it's kind of fascinating in a way specific to casualty line of business.

Sally Roberts

And I love that as well because products and things are ever changing, it's exciting. It's new stuff coming through. How do we, how do we solve that problem? How do we find a solution?

Christian Crozier

So solutions, that's what really drives me, it drives me personally. I know that there's others and I know you're very like-minded, right? The ability to sit down and have an engagement with a client, have an engagement with a broker, and maybe claims as well or risk engineering, whatever it might be, look at the problem, try to understand the problem, and then try to create a solution around coverage, around products, around gathering data around that particular issue and being creative. I think that's when you think about the quite often referred to triangle of risk, and you've got simple risks at the bottom, many of them small businesses, the corner shop.

Sally Roberts

Yep.

Christian Crozier

Okay, not really going to come up with anything particularly solution driven there, really. What we're talking about is sophisticated big corporate organisations where they've got risk management departments that you can sit down with them and really talk about specific issues. So that's why I always quite like the grey area, right?

Sally Roberts

Yeah, I love the innovation. And it's always… It's difficult because insurance is always the bit behind running after to find a solution for that. Whereas these guys, and you could take that anywhere are kind of running ahead, you could take from the AI and the wearables in the healthcare space. It's wearables now. We all talk about, we're getting to that age of going, how did you sleep? And you've got now wearables to tell you, I've got 4 hours last night.

Christian Crozier

Yeah, there is going to be a point where there's almost kind of information overload.

Sally Roberts

Yeah. But is that a product? Is there an issue with the algorithm and is it become like a PI? Does it become a medical malpractice or a device?

Christian Crozier

I think for not only for insurers, but for clients and brokers, there has to be an acknowledgement of what that is. An education around what that means, and then also from purchasing from a product point of view, an insurance product point of view, is it, does it satisfy the scenarios that may be created because of that?

Sally Roberts

Exactly. And should a claim arise, where does that, what bucket does that sit in? Who comes first?

Christian Crozier

I think we've, so between liability and cyber, I think it's relatively clear at the moment around product definition in the sense of cyber stop at the BI and the PD, body injury and the property damage piece, right? They're more about the financial loss and the financial impact. And then you have obviously casualty. You'd be possibly expecting us to be picking up PD and BI arising from that event.

Sally Roberts

If we add in financial loss.

Christian Crozier

So we had to be, I think actually both lines of business had to be conscious of where do they meet, where do they dovetail or where they don't. And that's a really interesting area that I think should be explored or researched. Cyber is a very when you look at the scenarios that have happened recently and the impacts and the costs.

Sally Roberts

And who's to say, with AI, where it's going in a few years' time, it'll be holograms sitting here. Won't be us physically sitting here.

Christian Crozier

Could be. Could well be. Could well be.

Sally Roberts

The podcast done by the holograms of Christian and Sally.

Christian Crozier

Thinking about future, we talked about future and AI. How that's advancing, how quick that's advancing, and that's an area of emerging risk or profile. Whatever areas for you have a few in mind about what's emerging or what's concerning or what keeps you awake at night in a sense of problems and challenges, for example, social inflation. It's not emerging, it's kind of here.

Sally Roberts

It's not emerging, yeah, and it's been coming on for a while now, and it's not just in the US, it's in Europe. It's taken a momentum of its own. So it is a concern, and that's not going away. That's I mean, that's going to just get louder and louder as time goes on as well.

Christian Crozier

I think it's the control around that.

Sally Roberts

It really is, yeah.

Christian Crozier

And there are, I think, insurance companies and legal entities who are dealing with claims have a responsibility to try to control that.

Sally Roberts

Yeah. And the generations coming up, Christian, you know, they're more empowered. They're a very different generation to probably what we are, and they know their rights. they want the wrongs done of the past and it's...

Christian Crozier

Yeah, having kids myself and where they're getting to in life and their age and generations, it's a very different, very different world now to what it was 20, 30 years ago. Absolutely agree. I think what it is also doing, so another thing that kind of keeps me concerned is inflation. Inflation is a thing, not only personally because everything costs more, but when it comes to claims, especially in liability. And also property, obviously, because the cost of materials is obviously increasing and going up, is that from a modelling point of view, so actuarially, when we are reviewing risks, the factors of which we have to apply to get the go-forward position, I mean, we see it ourselves, I mean, the inflation factors and the social claiming trending factors are increasing considerably over the last five years. Versus prior, it's so less stable, and what that means is it's getting harder to be able to price business when there's volume and client claims heavy accounts, right?

Sally Roberts

Yeah, very much. So, there's a lot there to unpack, and I think probably for today, Christian, I'm not sure about you, but I think…

Christian Crozier

We've covered a lot at a high-level perspective.

Sally Roberts

We could talk about this all day. So yeah. I hope for us to close out for now. Until next time.

Christian Crozier

Okay.

Sally Roberts

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