Growth, discipline, innovation and service top of agenda for the new Chubb

BY ADRIAN LADBURY

One of the main questions that people have asked Andrew Kendrick in recent months is whether he was surprised by the news of the acquisition of Chubb by ACE when the news broke last July.

The straight-talking Lloyd's veteran concedes that he was surprised because it was a very well-guarded secret and because of the sheer size of the deal.

But, like the rest of us, once the dust had settled for Mr Kendrick the reasons behind the acquisition quickly began to make sense.

"As soon as Evan set out the reasons for it, it made perfect sense. And as we have started the process of integration planning over the last few quarters and it has started to become reality, I can honestly say that here in Europe, those reasons have come to make even more sense," said Mr Kendrick.

The former Lloyd's underwriter, who is head of Chubb in London and Europe, said that the acquisition will help the new Chubb address the three major areas of challenge and opportunity that the European insurance market is facing: growth, discipline and service.

First up Mr Kendrick tackled the tricky area of growth in a persistently volatile and under-performing global economy.

"Global markets have had a very volatile start to the year. They are clearly trying to tell us something and, if you can look beyond all the daily noise, it's not too difficult to work out what that is: global economic growth is falling short of expectations," bluntly stated Mr Kendrick.

The Chubb European leader explained that, according to World Bank figures, global GDP [gross domestic product] growth fell again in 2015, slowing to 2.4% from 2.6%

Andrew Kendrick, Senior Vice President of Chubb Group.

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in 2014. Moreover, growth is now projected to recover at a slower pace than previously hoped. According to the World Bank, it will barely reach 3% in the next few years.

Indeed International Monetary Fund (IMF) forecasts have been revised downward by 0.2 percentage points for both 2016 and 2017, added Mr Kendrick.

"Now that might not sound much. But when you consider the low growth rates we are seeing today – and the fact that some European economies are still struggling to shake off the impact of the global economic crisis – it presents a slightly gloomy picture," he explained.

Since the onset of the financial crisis and subsequent global economic downturn , the natural reaction of European companies, including insurance companies, has clearly been to compensate for that sluggish or even negative growth in core European markets by seeking growth in faster growing markets in so-called emerging regions of the world such as Africa, Latin America and Asia.

But this is not as simple as it seems. Recently, there has been a continued deceleration in emerging and developing economies, amid weak commodity prices, poor global trade growth, and lower capital flows, pointed out Mr Kendrick.

To compound the problem, as companies such as Chubb and its customers seek to maintain growth in this difficult macro-economic environment, there are plenty of 'real downside risks still lurking out there,' pointed out Mr Kendrick.

"One is the possibility of a sharper-than-expected slowdown in emerging markets. Another is the possibility of fresh financial market turmoil. And then there is the risk of increased geopolitical instability. On the other hand there are the threats to Europe from within, relating of course to Brexit, Schengen and other issues" he explained.

At the same time, the insurance and reinsurance market has seen a 'huge swathe' of capital coming into the insurance and reinsurance industry in recent years, said Mr Kendrick.

This new capital is not going to go away quickly and, at the very least, the mobility of capital and the ease with which it can be deployed is now very different than before, he added.

Mr Kendrick explained that the three big brokers (Aon, Marsh and Willis-Towers Watson) estimate that alternative sources of capital now represent between 12 and 17 percent of global reinsurance capital. Moreover, while total reinsurance capacity overall has started to level out and even fall slightly in response to market conditions, alternative sources continue to increase their share.

In these conditions, revenue growth becomes 'very difficult' for any insurer globally, let alone in Europe, and so action had to be taken, concluded Mr Kendrick.

"As a combined organisation, we are now the world's largest listed P&C insurer and, for example, number one financial lines insurer globally. That gives us even greater collective know-how and market firepower," he said.

Mr Kendrick said that the new Chubb will benefit from greater market presence, and not only in the US, where the Chubb brand is very powerful. "Legacy Chubb has operations in 25 countries and 11 of those are in Europe. So we will be even stronger together in Europe and this is good news for our clients and our broker partners who will benefit from an even broader offering," he told clients at the event in Amsterdam.

"We also have the benefit of complementary businesses. For example, here in Europe, legacy ACE is better known for its global accounts and multinational leadership, while legacy Chubb is better known for its middle market expertise. Yet both companies have experience in these segments, and when you put us together, that gives us a stronger platform from which to grow – and to help our clients grow," continued Mr Kendrick.

"In short, we are confident that acquisition will create higher growth potential than the sum of the two

Illustration by Tiago Galo

companies separately. And we are very clear that becoming bigger does not stop us from growing further. If you look back at ACE's history of acquisitions over the past twenty years or so, from Brazil and Mexico to Thailand and Indonesia, you can see a strong track record of adding diversification and building strength, whether in terms of products, distribution or geography." he added.

The second big focus for Chubb, and any other serious insurer, in these challenging economic and market times, is clearly discipline.

Mr Kendrick has seen a lot of change and experienced some very challenging periods since starting as a junior underwriter at Lloyd's in the later 1970s. But, he said, that today's market is the most challenging he has seen and will need some very tough decisions to navigate successfully.

"I honestly can't remember another time in my career when the rating environment has been so challenging, and over the past 12 months it has only got tougher and tougher, particularly in the large account space," he explained.

"The days of easy profit are long gone. As an industry, we now likely need to target a combined ratio of around 90 just to meet our cost of capital," said Mr Kendrick.

"And our assumption has to be that, in terms of pricing, this is as good as it gets. We simply have to build our plans for the future on the assumption that things will not get any better," he added.

The simple fact is that the record low interest rate environment in the developed world means that it has become harder for insurers to make money from their investments. Even the most optimistic of insurers have to concede that all the latest indications suggest that this is not going to change any time soon.

"I mean, we even have negative policy rates now in some markets. Several of Europe's central banks have cut key interest rates below zero and kept them there for more than a year. Now Japan is trying it, too. So make no mistake, it is a challenging outlook for any insurer!" said Mr Kendrick.

In the good old days it was possible for insurers to underwrite at a 100% plus combined ratio and still make a decent return on the back of investment returns. Not so now, stressed Mr Kendrick.

In this environment only insurers and reinsurers with the willingness and ability to underwrite for profit will survive and prosper and, thankfully, both ACE and Chubb have a tradition of doing so, he said.

"Both our legacy companies were renowned for their strong underwriting cultures. At our core, we are underwriters – we share a passion for the art and science of underwriting. And I hope you will agree we are pretty clear about our risk appetite. So we share a lot in common when it comes to our underwriting approach and our focus on discipline. I believe we are a good fit, and that we will all enormously benefit from being together. Together, we are even better positioned to face the challenging market conditions," he said.

At the same time, as the focus of insurers and reinsurers has to shift to disciplined underwriting there also has to be a sustained effort to reduce costs in this market environment.

This largely explains much of the recent mergers and acquisitions (M&A) activity in the international insurance and reinsurance sector, said Mr Kendrick.

"The theme of discipline applies to costs too. A high cost base and a competitive market is a problem for our industry. And it is one key reason why there is so much M&A activity going on right now. XL-Catlin, Mitsui-Amlin and nearly Zurich-RSA. I can't remember a time quite like it," he said.

And, Mr Kendrick is convinced that this consolidation process is not over yet. He said that almost 50 deals have either closed or been announced so far this year, at the time of his speech, the first quarter had not even been completed.

"This trend is unlikely to be over. In the non-life sector, competition remains intense. Companies are under pressure to diversify, encouraging them to look towards acquisition. As a general rule, the softer the insurance market, then the more incentive there is to acquire," he said.

While it is difficult to argue with Mr Kendrick's conclusion that underwriting discipline and cost control are absolutely critical for success in such a tough market, that does not mean that underwriters can forget about customer demands.

Those insurers that simply focus on price and cost control in an effort to maintain short-term returns to investors will inevitably lose the best accounts and embark on a downwards spiral that will be difficult to break out of.

Herein lies perhaps the biggest challenge of all for the commercial underwriting community: How to rise to ever more challenging and complex customer demands of corporate and multinational customers in particular in such a tough market environment.

Mr Kendrick and his fellow management team at Chubb are clearly aware of this conundrum but believe that the combination of ACE and Chubb will help deliver the answer.

"We have been very clear that one of the reasons for the Chubb acquisition is to drive greater efficiency. The acquisition will allow us to realise real synergies, that will in turn allow us to invest in the areas that matter to our clients, and in particular in enhancing our service," he said.

The critical need for this focus on improved service and innovation in the corporate insurance market has been well documented in Commercial Risk Europe's annual survey of risk managers: Risk Frontiers.

Chubb carried out its own research last year with European risk managers, that was endorsed by FERMA, and explored the changing role of the risk manager.

Not surprisingly, one of the key findings of this research was that, in future, a resounding 79% of Europe's risk managers believe they will need to think and behave as 'innovators' and 'futurists' reported Mr Kendrick.

But, as he pointed out, risk managers clearly cannot be experts on everything on their own. Mr Kendrick said that some 22% of those risk managers who part in the survey reported a current lack of knowledge about emerging risks, as one example. "So, it will be increasingly important for tomorrow's risk leaders to build the right relationships and partnerships inside and outside the business," he said.

How then should the insurance industry respond to this difficult challenge, asked Mr Kendrick.

Well the good news for insurers is that Chubb's research suggests that risk managers (78% of the survey) regard the insurance industry as a key part of the solution when it comes to the management of change and the new wave of emerging risks.

The big question is whether the industry is actually going to rise to the challenge or just talk about it. Mr Kendrick, for one, believes that there is no other option.

More generally, legacy Chubb's strength in delivering high quality service, from claims to loss control services, is something that we are very proud of and we will continue to build on.

"I believe that the industry will simply have to innovate to provide the service that clients and brokers need in the future. If we don't, they will find other solutions, elsewhere," he said.

The problem is that it is one thing agreeing that a response is needed and another actually working out how to do it for it is crystal clear that for the market to really deliver what the customers want will need collective and not just individual action.

Mr Kendrick clearly recognises this challenge and opportunity.

"Today sometimes I think, as an insurance market, we don't always pull together our skills and experience in a way that really works best for our clients. There is often too little energy going into making things easy to understand, through clear wordings and definitions. Many emerging risks – already complex – are being further complicated by a patchwork of mismatching approaches across the market," he said.

The bottom line is that, as Commercial Risk Europe's annual Risk Frontiers survey clearly identifies each year, innovation is not just about products but also about approaches and the delivery of more holistic and deeper reaching risk management as well as transfer solutions. "We also need to broaden out the solutions we provide if we are to remain relevant for our clients in the future. There is often too much emphasis in our industry on 'pushing product' – inflexible solutions that don't meet individual needs. We also need to go beyond financial compensation, and deeper into risk management expertise, loss control services and 'hands-on' incident response, throughout the whole relationship," said Mr Kendrick.

"Innovation is rarely easy. But the insurance market wasn't invented to do the easy things, and we don't become leaders by sticking in our comfort zones. Tackling complex risk problems is what we're here for," he continued.

Mr Kendrick conceded that Chubb does not have all the answers. But, he argued, by bringing the two companies together it has made a big step forward in this sense.

"We now have a greater pool of talent, expertise and ideas. Already this year, we have announced a new service in the area of cyber risk, where we have made available a 24/7 incident response service in partnership with Crawford & Company. And we will continue to invest in bringing these added-value services to market across a range of lines, in order to innovate beyond the wordings of the insurance policy," explained Mr Kendrick.

Multinational programmes is an obvious area where improved service is way more important than simple product or price for risk and insurance managers. Chubb recognises this, said Mr Kendrick.

He told the gathered Dutch and Belgian risk managers that its research with risk managers of European multinationals showed that fewer than 30% of risk managers were very satisfied with overall service levels from their insurer in respect of their multinational programmes. Fewer still were happy with claims performance. Mr Kendrick reported that, based on Chubb's research, currently around 70% of European risk managers say they are dealing with more claims outside their home market and they are generally experiencing more complex multinational claims than they used to.

"Good claims outcomes are surely the test of success for any global insurance programme so this is something that we all have to get right," he said.

Another area for improvement based on the research is with effective technology solutions. As a result Mr Kendrick assured risk managers that Chubb will continue to invest in enhancing its Worldview platform.

"More generally, legacy Chubb's strength in delivering high quality service, from claims to loss control services, is something that we are very proud of and we will continue to build on," he promised customers.

"So there you have it – three core themes and challenges that I believe we face here in Europe right now. A growth challenge, a need for discipline, and a demand for innovative and high quality service. As the new Chubb, I believe we are better positioned than ever to address these and we look forward to working with you under our new brand," concluded Mr Kendrick. •