

How important is innovation to the progress of the CEE (re) insurance market?

Innovation is a frequently used word in the business world, with innovation being seen as the winning card; whoever is able to innovate will be the one able to survive in an increasingly competitive market. Earlier, invention (not innovation) used to be the differentiator with invention defined as “an act of intellectual creativity undertaken without any thought given to its possible economic import” whereas “innovation happens when firms figure out how to craft inventions into constructive changes in their business model”¹.

Further still, the meaning of innovation is not limited to merely new products but also includes new ways of doing things, for example a company re-engineering its processes.

During May 2016, Trust Re published a survey report entitled “The Outlook for insurance and reinsurance in Central and Eastern Europe”. The report provides a general picture of the current condition and future expectations of the insurance and reinsurance sectors in Central and Eastern European markets. We should keep in mind that although CEE contains some different market dynamics and influences by sub-region and country, there are also some clear similarities.

In this article, Trust Re offers a perspective on the relative importance of innovation to the CEE (re) insurance market based on its above-mentioned survey.

Regarding innovation and perceptions in CEE, there was some interest in new product innovation around Solvency II solutions, cyber risk, health/life risks, as well as cover for drones. A participant from SEE said they really want a reinsurer to come with a new product, a ready-made product, and work together where of course they take a share of the risk. Areas for innovation which were mentioned, albeit, not several times, included additional capital/LOT issues and including retrospective solutions for capital, drones, cyber, ‘big risks’, reputational risks and specific/niche liabilities.

Also important to note is that, notwithstanding the relative scarcity of examples from the survey participants, there was little sense of appetite for more innovation. More specifically, such respondents said that reinsurers had already provided them with very good services, especially the top reinsurers. They believed that reinsurers have been adept at proposing solutions and means of offering capacity. Innovation is recognised and respected as being an asset for the benefit of the reinsurer but its success depends also upon specific market conditions. As one respondent in CEE said “new products have been developed in Europe, in Korea, but this market is not ready”.

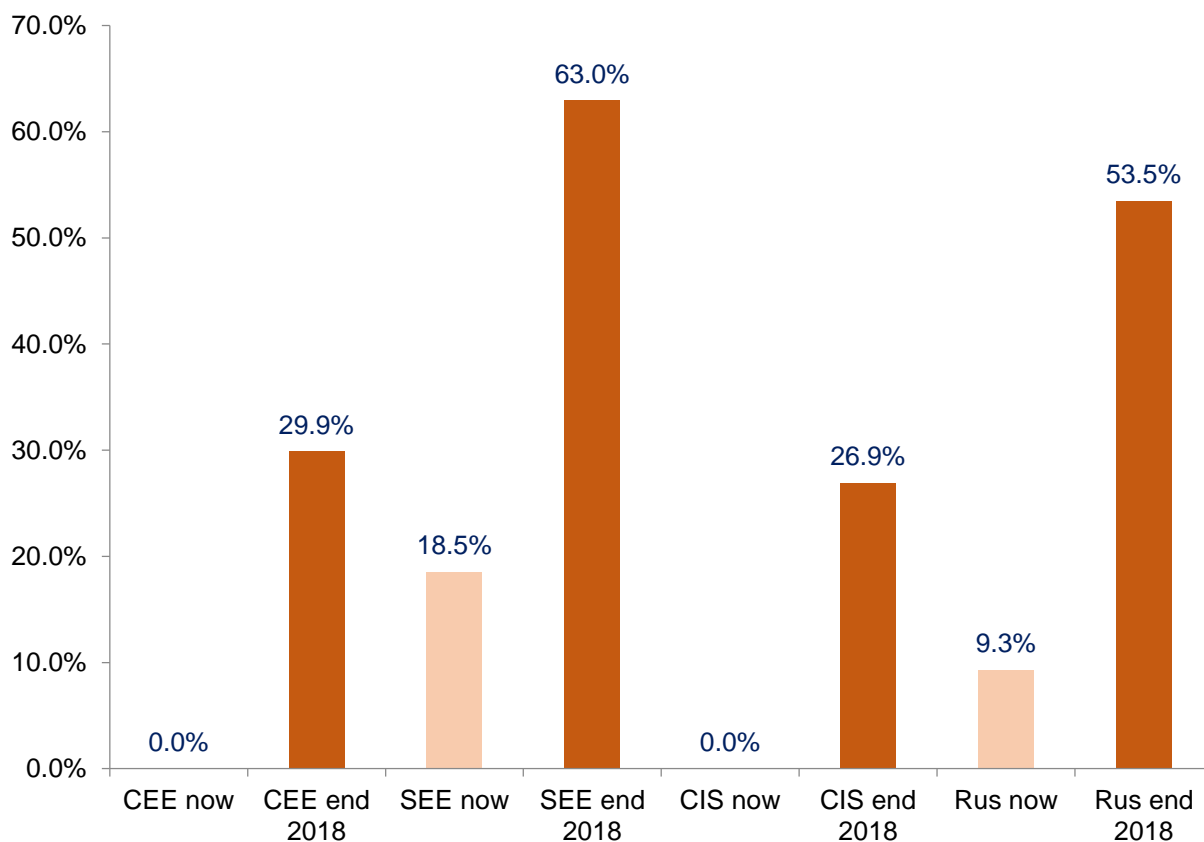
Cyber was one area where innovation is needed. On a global scale, having cyber liability insurance protection is widely recognised as being an essential risk mitigation measure against cyber loss events, the result of which could be loss of income, destruction of computer hardware and data and fraud.

Whilst developing cyber liability products is undoubtedly important as the potential for very large losses is huge, it must also be noted that it is a major challenge to price and underwrite coverage when so little data exists. Making the most of this opportunity will definitely require innovation yet innovation cannot be immediate; rather it is a longer term need when there is more data and better developed modelling capabilities. In the long run, the most logical conclusion is that cyber liability

¹ <http://www.theatlantic.com/business/archive/2013/06/innovation-the-history-of-a-buzzword/277067/>

will be much more relevant in 10-15 years' time because of the potential for very large losses; it is expected to perform as well as liability (according to the opinions of the survey participants). The most imminent challenge is to educate clients about why they should have this type of cover.

Expected evolution of participating insurers and brokers - cyber risks



Source: *The outlook for insurance and reinsurance in Central and Eastern Europe*

Also, on the liabilities side, survey participants believed there could be room for innovation. Areas they referred to were products/solutions for Architects, Engineers, Security Guards and Courtroom expert witnesses. A respondent in Croatia remarked that D&O insurance was not known in Croatia five years ago, but more and more enquiries are seen nowadays.

Advancements in technology have overtaken developments in cover. In the wider marketplace, developments in IT are fast and ever changing. The insurance sector must adapt to such quick change to keep pace with business, customer and regulatory demands. A recent report by leading consultancy company, Accenture, mentioned two ways in which insurers should pursue growth. Firstly by *“going “back to the future” with regard to the insurance industry’s role in society. This is to help make commercial and technological inventions, especially disruptive ones, into safe realities—in effect, helping to translate technological possibilities into human-centric solutions.*

Second of all, by becoming a trusted advisor to help customers meet the unique needs that will arise as technologies and societies change.”²

Partnership is key. Other than specific risks, what is important is how reinsurers could work better with insurers to innovate at a portfolio level (not on the individual risk) and by doing so, differentiate themselves. Amalgamating cover is the key thing, the idea of offering multi-line and multi-class is becoming a key differentiator.

In sum, it is not just products that are important to innovation, but the approach is too. Innovation, by means of a new product, will not on its own, improve a company’s performance. Instead it is how well innovation is integrated into the company’s practices and vision that will determine its success or otherwise.

To view the full survey report, please read here:

http://www.trustre.com/uploads/media_centre/research_surveys/Trust_Re_Market_Survey_2016.pdf

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² <https://www.accenture.com/us-en/insight-beyond-insurance-innovation-monetize-disruption>