

# Fresh thinking on risk:



## FastFastForward

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# *Sorry, there is no such vacancy...*

Rather than being a job for one person alone, innovation in (re)insurance is something we should all be striving for constantly



**Mike McGavick,**  
chief executive, XL Group

**T**here is no 'head of innovation' at XL. We believe that innovation is not an occupation, not a discipline in its own right.

Contemplating new ideas, advancements and improvements should be what we all strive for, in all areas of our work. It's not the job of one person.

But innovation is essential. The longevity of any (re)insurer – any business in general, for that matter – requires continual reinvention. And it is easy to think of examples of former household names that failed to innovate or didn't see how the macro trends were unfolding – to their cost.

Innovation in (re)insurance is happening all around us, at the moment mostly concentrated in the form of capital being applied to products. Call it convergence, call it alternative or call it third-party capital, the idea is the same – sources of capital traditionally found in financial markets are being used to seize opportunities to innovate what has been the domain of the traditional (re)insurer.

Yes, it's a new source of revenue for funds searching for yield in this continuing low interest rate environment. Yes, it is causing enormous pressures on reinsurance

pricing. And yes, these capital sources can be seen as a threat to the way business has been done in the past, but they are likely here to stay for some time.

To our clients, who are increasingly agnostic about the source of the capital being applied to their risk, it's a means to a better solution. And that's where (re)insurers need to focus while continually questioning and asking: how do we innovate alongside, in anticipation of, and in service to our clients' evolving risk needs?

**'Addressing the risks of our clients, before they themselves can articulate the issue, is our goal'**

Mike McGavick

Famously, Steve Jobs' belief in the iPhone as a success was in the delivery of a product that the public didn't know it needed or wanted. Addressing our clients' risks, before they themselves can articulate the issue, is the goal.

The bottom line is: if we are not innovating, we are not working. And our sector is in danger of continued disruption.

Each (re)insurer's culture is unique and will harness this mantra in different ways. But, there are a few principles that cut across our sector.

First, we cannot expect to make judgements on today's risks based on long data sets. That's counter to our history. But the pace of change means the industry can't afford to collect 10 years of data before providing a solution. Whole industries will come and go in that time.

Second, don't leave your best people on the most profitable business. Get them on the challenging business, stretch them and stretch the business to go beyond. We are all driven by near-term results objectives and reliable profit centres are a source of comfort. But your best people should push in new, unexpected directions.

Third, do accept and expect failure – there is a cost to innovating and it's a cost we should be willing to ringfence

## RIGHT OF REPLY

**‘The term ‘innovation’ often calls to mind large-scale examples of technology. However, it also comes in much smaller packages, and can simply be a case of making life easier on a day-to-day basis – both at work and at home.’**



**Adrian Guttridge**, executive director,  
Xchanging Insurance Services

and bear. The goal should be the right bets, placed in the right amount over the right time. And the notion that the right attempts, even if unsuccessful, can be celebrated alongside standout success is an incredible catalyst to a stronger innovation environment.

Fourth, we can be made stronger by looking for specialist, intellectual horsepower outside of our industry and creating partnerships to bring that expertise inside.

A top IT programmer for instance, will have his or her sights set on working for a number-one tech firm, and so they should. But by seeking consultation with such individuals and their respective employers, we can harness first-class insights and knowledge.

The longevity and reinvention ability of the (re)insurance sector has been demonstrated throughout our history. And the current environment, spurred by technological change and the blurring of the traditional business structures in which we have long found comfort, should be embraced for opportunity.

Our societal role has long been in solidifying what comes next.

In asking the same question of ourselves, we can maintain this position for the long term and into the future. ■

**‘In the rapidly growing emerging markets, risks change all the time. As an industry, as a company, we fail our value proposition if we cannot come up with new answers.’**



**Eckart Roth**, chief underwriting officer,  
Peak Re

**‘Innovation is at the heart of success. It is about being nimble, placing the right bets, utilising talent and engaging in strategic partnerships. This is easier said than done due to legacy infrastructure and a conservative culture.’**



**Mary Trussell**, insurance partner,  
KPMG