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# What can insurance learn from asset management … how to reduce cost

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# What can insurance learn from asset management?

**Insurance transaction costs have remained stubbornly high whereas other industries, such as asset management, have achieved large cost reductions**

- Insurance transaction costs (measured as expense ratio) have fallen only 8.7% over 15 years
- Equity investment transaction costs have fallen 55% in the same period

**In commercial lines these costs can still be as high as 30 to 40% of premiums, limiting the value clients get from their insurance and reducing its relevance**

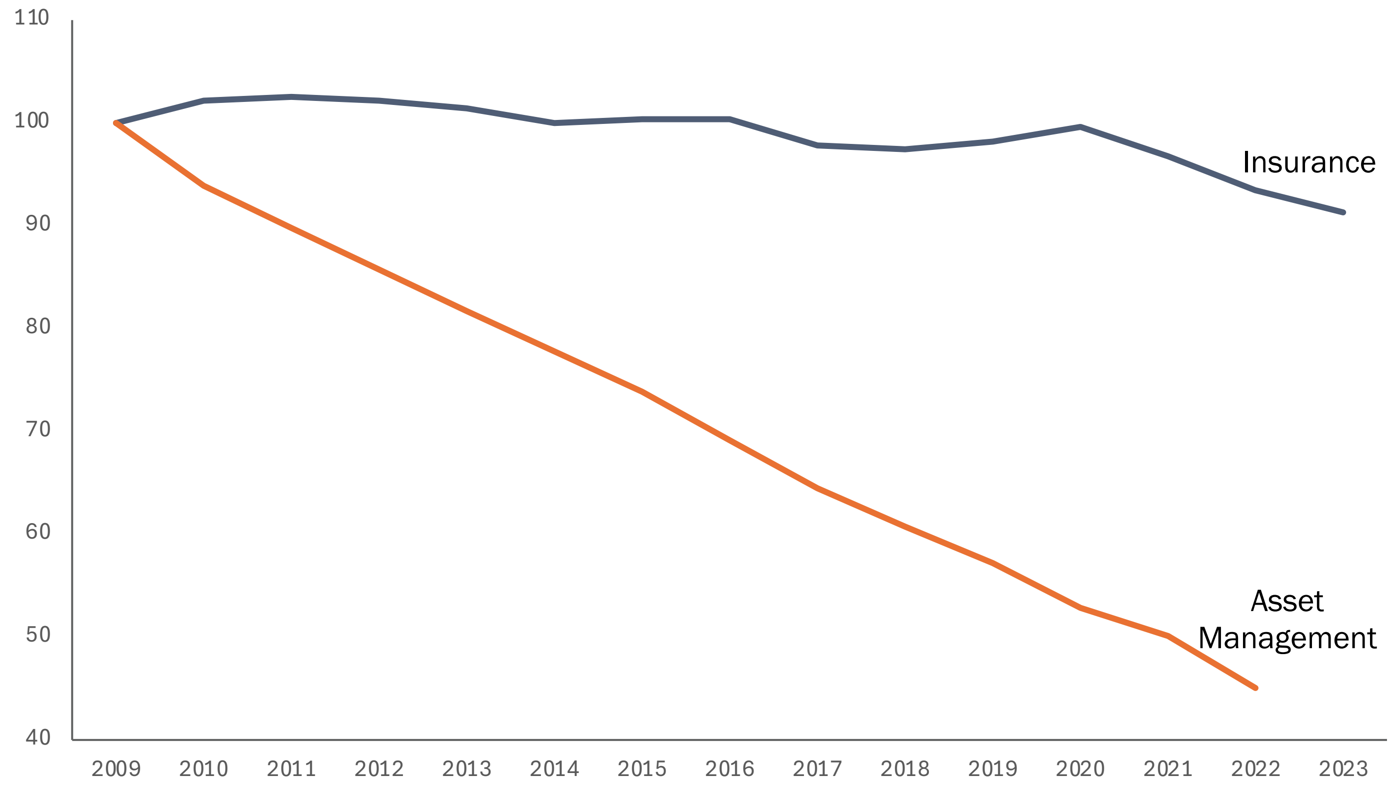
**Asset management has pulled many levers insurance can learn from**

- Created pricing and product transparency, unbundled services, leveraged low-cost distribution platforms, consolidated and driven scale, shifted to passive products, digitised and deployed technology

**While commercial insurance has not had the same pressure to reduce costs there is an opportunity to learn lessons from industries like asset management and leverage technology to radically alter the industry's cost structure, driving client value and increasing insurance relevance**

# Insurance transaction costs have remained stubbornly high compared with other similar industries

## US P&C vs Asset Management transaction costs[1] (Indexed)



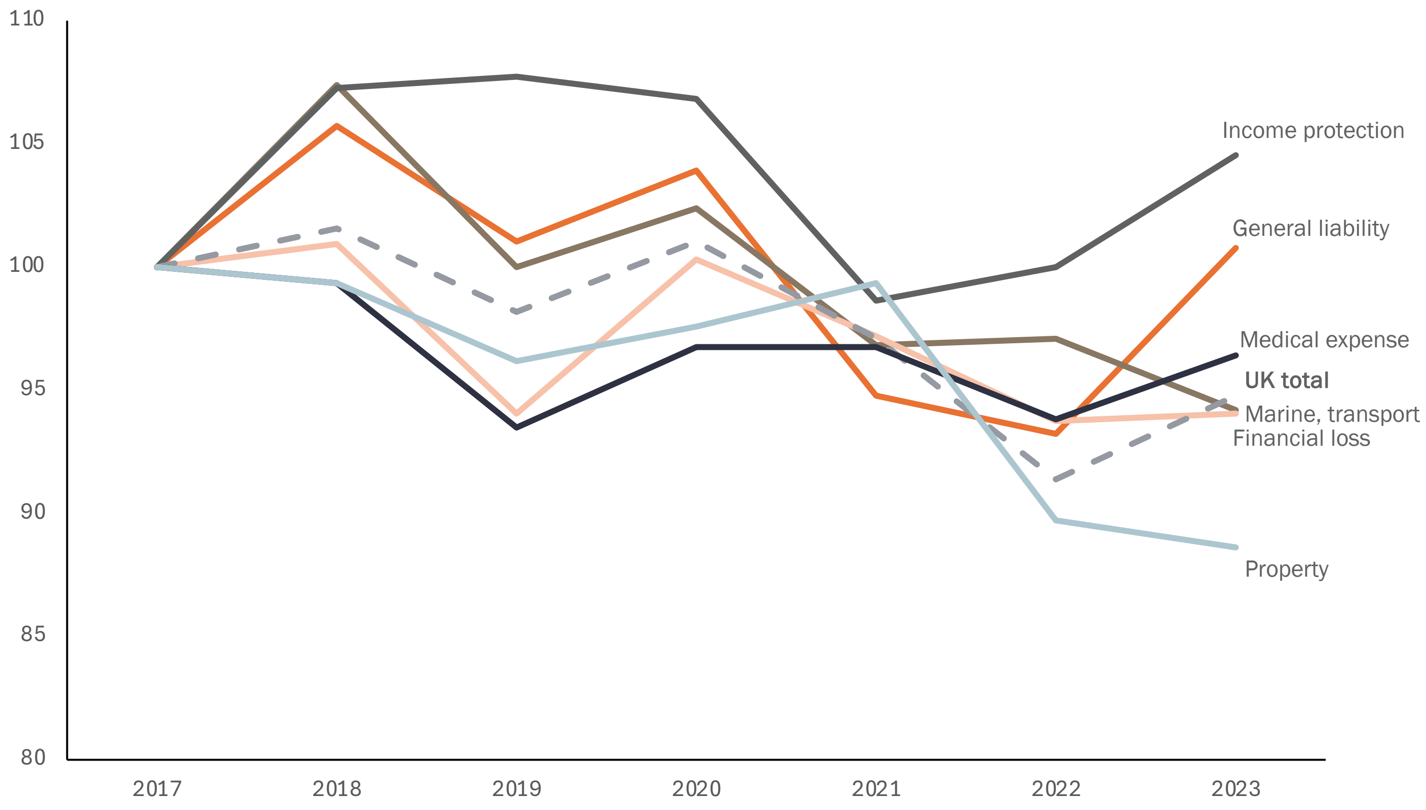

- US P&C insurance transaction costs have only fallen 8.7% over past 15 years
- In contrast, asset management costs have reduced 54.9% in the same time frame
- Even the decrease in insurance costs since 2020 has been driven by large premium increases (9% pa growth post 2020 vs 4% pa growth pre-2020) not structural change

1: Insurance industry transaction costs measured as Expense Ratio; Asset Management transaction costs calculated as the average charges paid by investors
Source: 2023 National Association of Insurance Commissioners; 2022 Investment Company Institute Research Perspective 29; 2023 Morningstar Direct U.S. Asset Flows Commentary

# Similar picture across different countries and lines

Example: UK

UK P&C client transaction costs by line (Indexed)




- Despite significant premium growth since 2017 UK insurance transaction costs have not reduced
- With post pandemic cost reductions not maintained in most UK lines
- No clear indication that investment in technology and higher scale is reducing transaction costs

Source: Bank of England: Insurance company data

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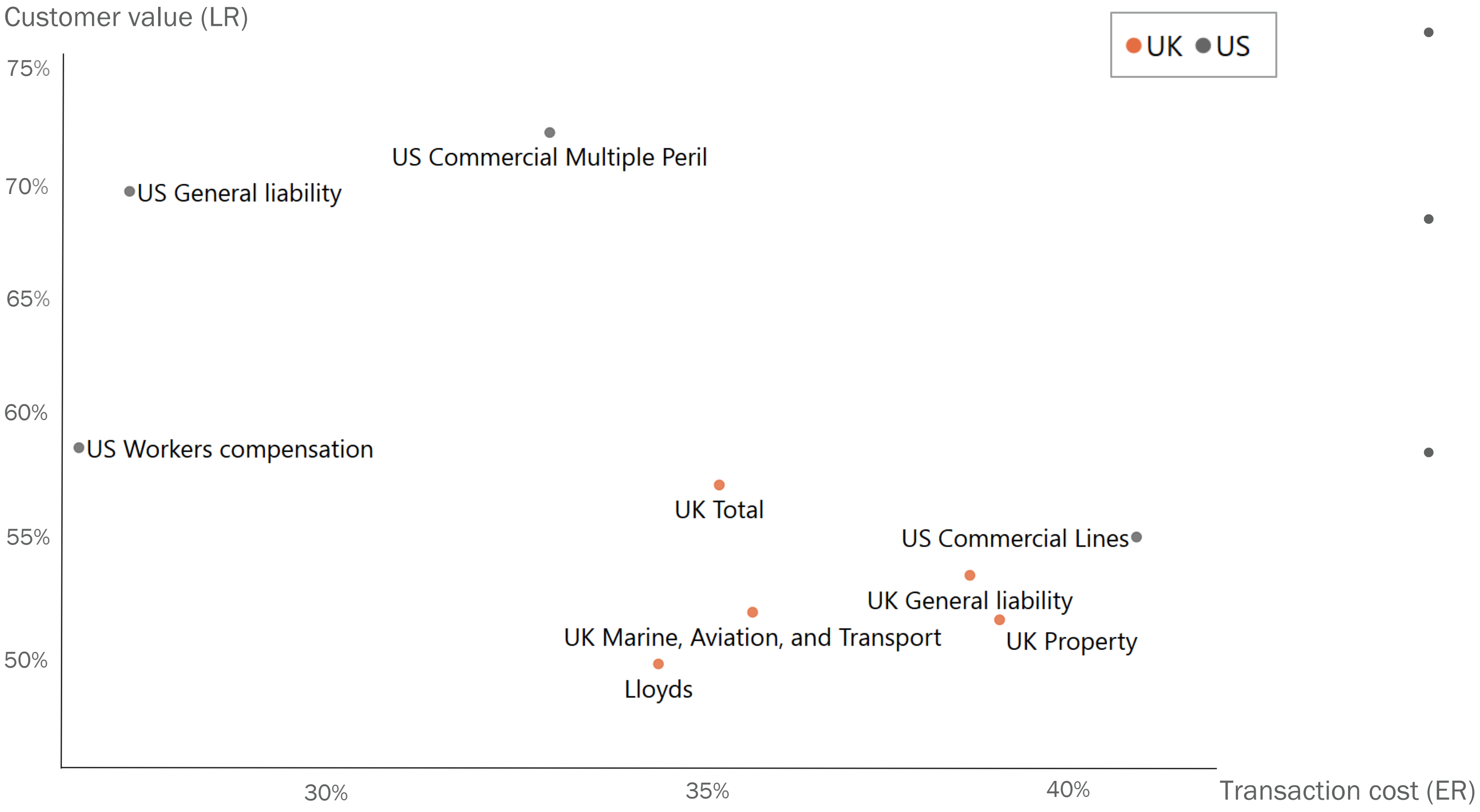
# Commercial insurance transaction costs are more than 35% of premium in some lines

## Commercial lines - customer value vs transaction costs (%)




- Commercial lines transaction cost between 25 and 40% of premiums
- High transaction costs limiting value to commercial clients, with loss ratios less than 60% for many commercial products
- UK costs tend to be higher than in US, potentially showing benefits of greater US scale

Source: National Association of Insurance Commissioners; Bank of England: Insurance company data

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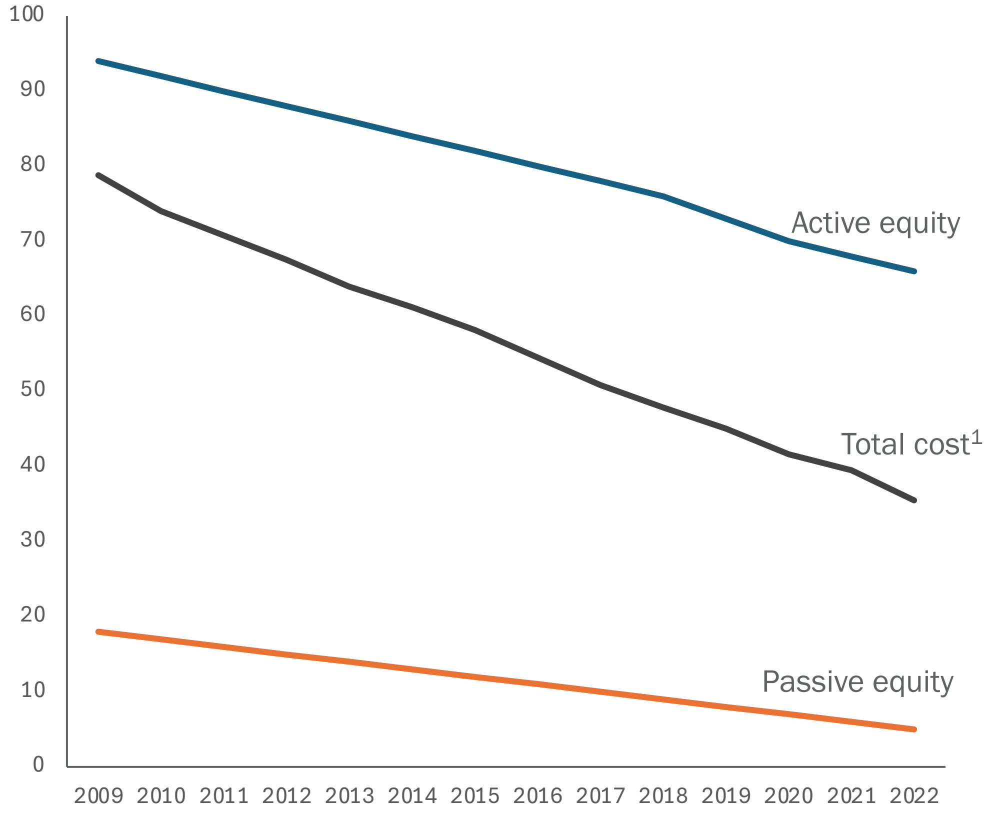
# How have other industries lowered costs?
## Example: Asset Management

### Equity investment costs (bps)




### Why have asset management costs reduced?

**Pressure:** Both regulators and customers have actively applied pressure to reduce costs – with direct interventions, such as forcing transparency

**Distribution cost:** Services have been unbundled (e.g. advice) to enable customers to only pay for what they value; as well as a shift to low cost, digital distribution platforms

**Specialism:** Emergence of specialist 'passive' players, enabling a better educated customer base to shift to cheaper, higher value, passive funds

**Scale:** Consolidation of asset managers as well as emergence of much larger, scale funds, driving significant economies of scale

**Technology and operations:** Aggressive investment into process optimisation and technology to reduce processing costs, at both an industry and individual player level

1: Total cost estimated based on active and passive portfolio mix
Source: ICI Research; Morningstar Commentary; Trimstone analysis

# Commercial insurance has been unable to respond in the same way

| | |
|---|---|
| **Pressure** | • Clients have focused on obtaining capacity and coverage vs lowering transaction costs<br>• Regulators have not been focused on costs, and even when they have reviewed they have accepted status quo they have not taken a holistic approach to the industry (e.g. London Market Wholesale Review) |
| **Distribution cost** | • Distribution approach has not changed significantly, despite increased availability of technology and data<br>• Services tend to be bundled into a single core charge, with limited use of digital platforms and exchanges<br>• Insurers continue to subsidize inefficient distribution to maintain ‘competition’ |
| **Scale** | • Market remains highly fragmented with large numbers of both brokers and insurers<br>• Value chain highly complex with many intermediaries arguably adding little value<br>• Focus on traditional products vs taking a holistic view of risk also limiting ability of clients to get best value |
| **Specialism** | • Preference for maintaining risk by risk approach vs adopting broader portfolio-based underwriting<br>• Resistance to the adoption of risk exchanges and unbundling of service<br>• A few modest signs of change, e.g. algorithmic ‘follow’ capacity, growth in parametrics |
| **Technology and operations** | • Industry has struggled to adopt key enablers such as common data standards, creating significant friction<br>• Limited use of technology in core processes, with high reliance on people<br>• Fragmented ecosystem has made it tough for any individual player to have an impact |

# But new technology provides an opportunity to radically change insurance transaction cost and value

1. **Unbundling services:** separating risk transfer from other ‘value added’ services, creating transparency, enabling use of efficient risk exchanges, creating more ‘lead’ and ‘follow’ specialists and increasing competition

2. **Restructuring the value chain:** leveraging data to better analyse and distribute client risk, ensuring the most appropriate capacity with the least steps and fewest intermediaries

3. **Digitising underwriting:** focusing people only where they add real value and automating decision making processes, except in very limited cases, and moving from historic product lines to a more holistic view of client risk

4. **Creating common data standards:** building a common data approach to enable a much more efficient value chain, stopping duplicated activity and enabling fully digital processes

5. **Consolidation:** Consolidating the industry into fewer, more specialist, players, with sufficient technology and scale to drive down costs both within and across country markets