



Strategic Insurance Partnerships

The Efficient and Sustainable Path Forward

Prepared for TMPAA



The insurance industry ecosystem is shifting making strategic and sustainable partnerships increasingly essential. Industry disruptions and accelerated digital transformation is pushing insurers to rapidly adopt a new operating model that is modernized, flexible, and customer centric. The insurance agency of the future will leverage key partnerships to function efficiently and with agility while still offering consistency and customizability. Companies like Davies have the solutions and services that can help insurers extend their reach into new channels.

Connected insurance is no longer the stuff of science fiction. Artificial intelligence (AI), the internet of things (IoT), telematics, and other advanced technologies are fostering tightly connected digital ecosystems for the digitized world in which we live. For example, insurers can monitor customer driving in real-time, drone technology is assisting in property damage assessments, and predictive cost analytics can help to estimate claim amounts.

At Davies, we deliver operations, consulting and technology solutions across the risk and insurance value chain, including excellence in claims, underwriting, distribution, regulation, customer experience, human capital, transformation, and change management. Simply put, we do it all.

The Need for Strategic Insurance Partnerships

What was once considered a somewhat static industry has now embraced the need for rapid change. Whether because of the global pandemic, inflation, or the economic fallout from the Russia-Ukraine conflict, the insurance industry has had to adapt and quickly. Heading into 2023, this evolution is not showing signs of slowing down. If anything, the insurance investment model has grown even more complex and somewhat fragmented among acquisitions and product proliferation. For insurers to stay in the game, they need to tackle this complexity head-on by understanding market conditions, evolving customer expectations, changing business models, and ultimately transforming operations through holistic partnerships.

Market Conditions

According to Deloitte's 2023 insurance industry outlook¹, U.S. inflation is driving losses higher and faster by undermining underwriting profitability. In 2021, AM Best reports that the U.S. property and casualty industry faced a \$4.1 billion net underwriting loss² and a \$6.3 billion net underwriting loss at the halfway mark of 2022, \$11.4 billion down from the same period in 2021³.

Inflation is predicted to cause upheaval as the Swiss Re Institute⁴ forecasts higher inflation rates this decade than in the previous ten years, which will be most evident in rising claims costs — total premium volumes are expected to exceed \$7 trillion for the first time in history this year.

That is not to say there aren't growth opportunities. The war in Ukraine could prompt demand for niche segments such as aviation, trade credit, political risk, marine, and an increased interest in cyber insurance. Also, global premiums are expected to increase by 2.2% and life premiums by 1.9% next year.⁵ Gross premiums are forecast to grow by as much as six times to \$722 billion by 2030, with China and North America expected to account for more than two-thirds of the global market.⁶ While market conditions remain turbulent, a considered approach and shift from variable to fixed costs across the complete value chain can make all the difference.

The bottom line, more carriers should explore potential partnerships to capitalize on the growing embedded insurance market. Davies' end-to-end range and depth of complementary services and technologies means that, for the first time, MGAs can access solutions across the entire insurance value chain with a single strategic partner. We work with MGAs and MGUs throughout their lifecycle from the start-up phase through to maturity. The insurance market is in a period of transition and streamlining partnerships will be critical moving forward.

Customer Expectations

New market dynamics mean insurers need a fresh approach to creating value and keeping up with evolving customer expectations. As explained by Ernst & Young EMEA Financial Services Business Development Leader, Yamin Gröninger, “Contrary to traditionally held beliefs, customer-centricity is not about owning the customer relationship but about solving problems for customers with the highest level of convenience, with or without being seen.”⁷ Demand from customers for digital, multiplatform service solutions that can meet their rising expectations for simplicity, convenience, and flexibility is growing. This evolving customer demand is impacting all industries, with the retail sector leading the way with online self-serve solutions being the norm not the exception. In 2022, 53% of businesses believe their customers are very satisfied with their self-service offerings, but only 15% of consumers agree.⁸

The significant advantage of the MGA model is that it’s nimble and can change and evolve much more easily than more mature insurers. Through broker partnerships, MGAs have the advantage of controlling the service and customer experience. They can provide a level of attention that simply can’t be matched by the incumbent. The tools deployed can be technology related but most often are common sense business relationship processes.

Customer engagement and the accessibility of digital and omnichannel platforms are also increasingly important. In building a competitive

advantage, carriers must incorporate leading capabilities across customer insight, such as product design, risk assessment, pricing, and claims management. For example, data sharing among companies and platforms improves operational efficiency and has the strategic potential to reshape the insurance value chain⁹. Insurtech is the primary area where MGAs are leading the way. The customer experience is highly advanced, and effortless, like in the retail sector, and the insight into customer need can be established quickly. Consumers want an “integrated customer experience” and digital natives are causing customer expectations in terms of the quality and agility of insurers’ digital offerings to rise significantly.¹⁰

Using cutting-edge technology, Davies facilitates a fully integrated digital customer experience in five critical service areas, which includes analytics and BI dashboards, digital journey development, customer analysis, and intelligent automation. As a digital innovation partner for organizations worldwide, we offer a mix of both out-of-the-box and customized solutions that enhance every aspect of the customer lifecycle. Our customer self-service solutions give customers the control they seek to drive the digital insurance experience while reducing costs for insurers. Our solutions can also connect complex applications and legacy systems with the very best technology while enabling a fully digital CX.



Consumers have little patience and expect the highest levels of customer support. The top channels that companies use to offer customer service are e-mail (56%), messaging channels (51%), and Google search results (40%).¹¹ Additionally, only 31% of businesses offer customer service via chat despite 52% of consumers preferring chat.¹² Davies hosts a wide range of customer experience solutions from basic customer service to customer recovery. At Davies, we have market leading Software as a Service (SaaS) products that gather customer and employee feedback via interactive voice response (IVR), email, SMS, web, webchat, and in-app surveys. We also use speech and text analytics technology alongside the SaaS products to analyze customer interactions in real-time, pinpointing areas for operational efficiencies, providing quality and compliance assurance as well as insight on why customers have given the rating they have.

Additional tools such as the Davies all-in-one data capture and reporting platform, Bedrock™, allows insurers to view and analyze their customer experience data. CX dashboards provide customer feedback making tracking easier than ever before. With a comprehensive and intuitive suite of KPI Insights™ and Verbatim Insights™ reports, clients can drill down into the most granular detail to make sense of what customers are saying, prioritize areas of frustration, and drive process optimization. In April 2022, Davies also acquired Worksmart, a supplier of regulatory technology for people and process management. Worksmart's complaints management platform is the number one platform for complaints management and feedback in the Lloyd's market.

Exceeding customer expectations can also mean lucrative savings for insurers. Customers that use Davies' technology save 30 minutes per claim processing time and \$145 in cost per case while improving the customer journey. Handling more than 200,000 claims per year, our database has significantly enhanced commercial and customer service benefits. Not to mention, companies that use the Davies proprietary platform identify 50% more fraudulent claims saving \$1 million annually.



Review

We conduct thorough assessments that uncover both quick wins and longer-term opportunities to sustainably improve customer-facing operations.



Operating Model

Our team explores and defines the CX companies really want to offer then designs the right mix of tools, people, and processes to optimize operations and achieve business goals.



Technology

We work closely with clients to evaluate and source the right technology to better enable an efficient CX strategy, all while streamlining procurement and driving value from existing investments.



Sourcing

We help companies navigate the CX sourcing market, advising on strategy, helping with supplier selection, guiding clients through the procurement process, and to transition to new contract.



Change

Our team provides support from evaluation through to design, delivery, and integration — all with a clear end goal: effective CX built for commercial success that creates value quickly.

Changing Operating Models

Shifting customer expectations also forces insurers to revise their business models to remain relevant. Carriers will need to rethink every aspect of how they operate, from their technology and structures to their processes and people.¹³ Efficiency will be a critical factor in all regards. Meaning, the need for specialists and TPAs continues to grow. MGAs and TPAs must work together, remain flexible and create new ways of working to achieve success and positive customer outcomes. Having a strategic partnership helps to reach the desired outcomes, retain customers, and grow the MGA vehicle. Across the industry, businesses should work with fewer partners to maximize the value of their investment and to improve customer satisfaction and protect costs. Ultimately, MGAs play an integral role in insurance distribution and help brokers structure risk appropriately.¹⁴

MGAs can drive efficiency across the value chain. According to a 2021 Clyde & Co. survey¹⁵, market access remains the most desirable trait in an MGA and the capacity for longevity and sustainability is the biggest requirement when selecting an MGA as cited by 89% of respondents. But MGAs need

to add value through new opportunities rather than marketing existing carrier capabilities and provide end-to-end service across the value chain. James Cooper, Global Head of Insurance at Clyde & Co. stated, "To lock in capacity and ensure that partnerships are long-standing, MGAs need to deliver consistent value within an agreement that balances the strategic ambitions of MGA and carrier and that enables both to benefit in a way that is perceived by all to be fair and equitable."¹⁶ When MGAs are starting out, they should be planning for where they are going to be in three or five years. The investors in the business want to look ahead. A sale of the MGA to another party is most often the inevitable outcome. This includes to another firm, consolidating the market. Over the last 20 years, the industry trend has been one of consolidation then fragmentation as entrepreneurs look to move on to their next venture. Change should not be seen as a threat, but as an opportunity to make positive change and respond to constantly evolving customer needs and technological advancements.



Davies has launched 60 MGAs and is the Lloyd's Market Association's preferred credit-control service provider, managing \$20 million of syndicate earned premium income across the 2020 to 2022 open years. Our binding authority management service has improved coverholder management and performance for several Lloyd's managing agents, processing more than 65,000 bordereaux annually. In addition, we provide core operations and capacity management services for brokers and MGAs, and we are the leading provider of legacy solutions for end-of-life broker portfolios. Our Lloyd's business, Asta, is the leading third-party managing agent and over the last two decades has helped over 35 syndicates launch successfully. Our range of solutions includes the Lloyd's Syndicate, Syndicate-in-a-Box, Special Purpose Arrangement, and Captive Syndicate. Ian Pettifor, co-founder & CFO of Azur Underwriting explains, "The team at Davies Insurance Services guided us through the process with expertise and, crucially, without fuss and didn't overly burden us with information requests; this was crucial to us at a time when we were negotiating the Shareholders' Agreement with AIG and another institution, establishing the company's infrastructure from the ground up and performing the TUPE transfer of 20+ staff from AIG."

Now is the time for insurance carriers to scale up agile practices. With the traditional insurance value chain model the carrier has full control and ownership, which can be costly and cumbersome. Within more modern insurance value chain, the carrier takes on less control and ownership through partnerships. Meanwhile, the Davies insurance value chain serves as a one-stop-shop for Lloyd's syndicates, MGAs, brokers, insurers, reinsurers, and international captive owners. We have a highly successful fixed fee incubation model that allows the business to obtain scale then seek its own regulatory permissions and absorb elements of its operations. We also ensure that our clients have the required level of resources and structured regulatory oversight controls and processes in place to guarantee that they operate to the highest regulatory standards.

No other supply partner can support MGAs with specialist skills across the full insurance value chain. Davies also helps facilitate introductions to fronting carriers, reinsurers, InsurTech solution providers, policy administration companies, third-party administrators, audit support providers, and additional experts that are important to the successful implementation and operation of insurance programs.

“ The team at Davies Insurance Services guided us through the process with expertise and, crucially, without fuss.”



Capabilities Across the Insurance Value Chain

1. Distribution, sales and marketing

- ✓ Analytics and BI dashboards
- ✓ Customer experience consulting
- ✓ Digital journey development
- ✓ Policy administration

2. Underwriting

- ✓ Actuarial support
- ✓ Data and analytics
- ✓ Pre-risk inspections
- ✓ Underwriting audits

4. Servicing and operations

- ✓ Analytics and BI dashboards
- ✓ Complaints management
- ✓ Customer analysis
- ✓ Intelligent automation
- ✓ Operating model consulting

3. Product and pricing

- ✓ Financial and regulatory filings
- ✓ Product design and pricing
- ✓ Product rating
- ✓ Reserve certification

5. Capital, risk and ALM

- ✓ Analytics and BI dashboards
- ✓ Asset management consulting
- ✓ Captive set-up and management
- ✓ Lloyd's syndicate set-up including SIAB
- ✓ Market conduct exam readiness
- ✓ MGA launch and host
- ✓ Operational resilience consulting
- ✓ Regulatory compliance advice
- ✓ Remediation of regulatory issues
- ✓ Run-off solutions

6. Claims management

- ✓ Analytics and BI dashboards
- ✓ Automation technology
- ✓ Claim audits
- ✓ Cross-class field adjusting
- ✓ End-to-end TPA
- ✓ Fraud identification
- ✓ Subrogated recoveries



Davies Insurance Value Chain



Building Sustainable and Strategic Partnerships

Partnerships and collaboration are significantly important as the insurance industry continues to grow and transform. However, it's equally critical to adopt a genuine alignment of interest. In the past, insurers have often worked from a 'fear of missing out' perspective in terms of distribution or loss of customers and to some degree technology and innovation. But, when it comes to achieving the original business goals, the insurer is often far more risk averse and can stymie the venture. Even in the case of distribution partnerships, utilizing embedded insurance or something similar, there is often an impediment when product is not the core activity or revenue stream. Therefore, it is where the insurance product is a genuine enabler that bigger wins can be achieved.

To remain relevant and solvent in today's insurance landscape, strategic and sustainable partnerships will be crucial. Being more transparent, streamlining operations, and developing strategic partnerships is no longer a luxury but a necessity. A shift in approach to the existing operating model taking into consideration innovation, a customer-centric focus, and relationships that are proactive and profitable across the entire value chain is critical.

Customers will no longer accept anything less. As reported by MAPFRE by the end of the decade, insurers will hardly notice that they enjoy all encompassing insurance services because they will be so ingrained in our way of life. In fact, 67% of insurance industry leaders believe that current business models will have changed beyond recognition within the next five years¹⁹ making partnerships invaluable. Digital ecosystems will also be critical through the collection, aggregation, and analysis of data from a variety of sources making it possible to build hyper-personalized value propositions for new and existing consumers. Robust partners that offer a one-stop-shop yet customizable approach, like Davies, will be at the forefront of this new industry evolution providing the services and solutions for Lloyd's syndicates, MGAs, brokers, insurers, reinsurers, and international captive owners. Davies' specialized technology and professional services make it a full-service partner for insurers. We deliver a whole range of insurance specific technology and consulting solutions to help MGAs, insurers, and brokers strengthen their customer journey. This capability is a major differentiator in the market.

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