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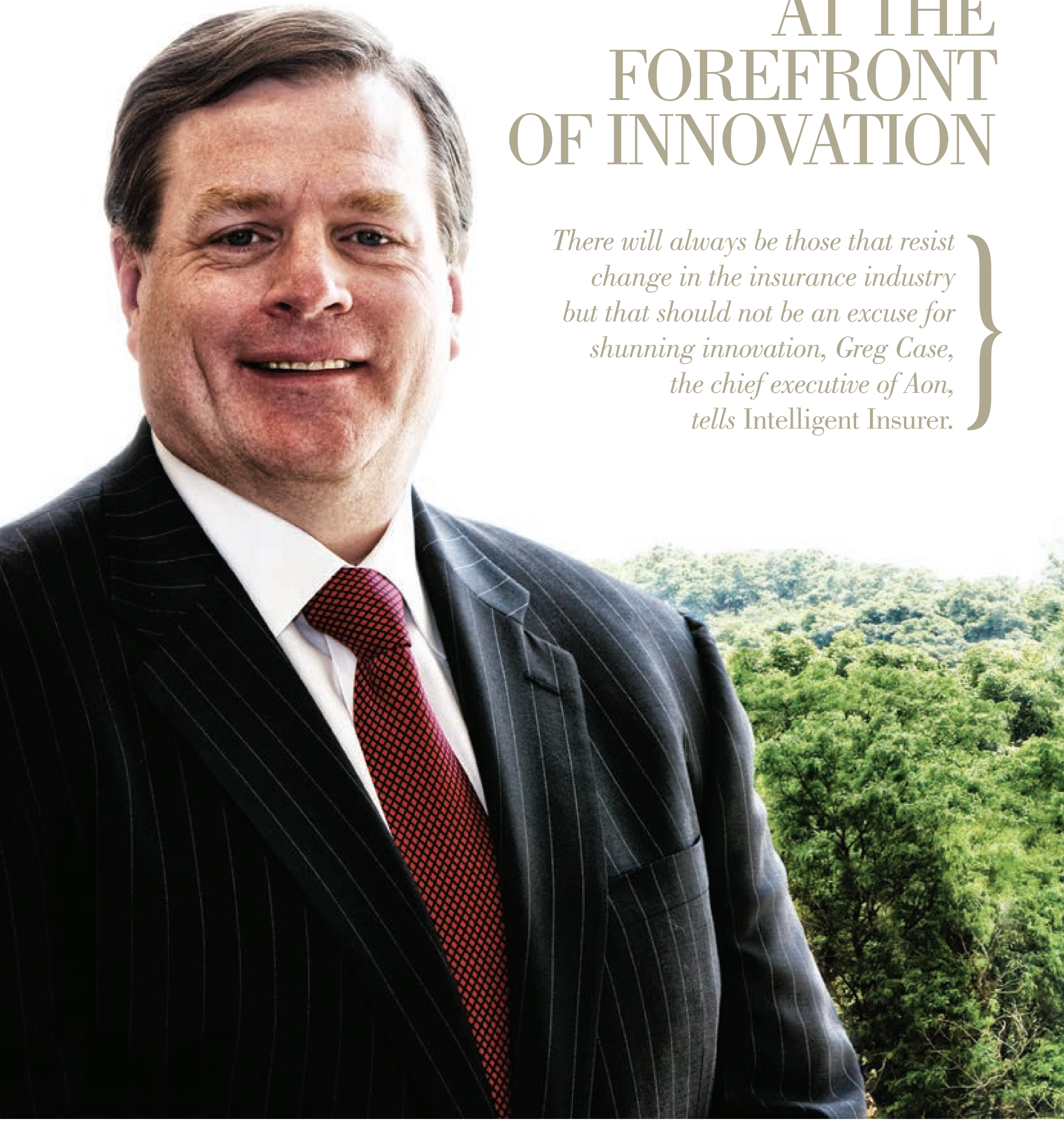
AT THE FOREFRONT OF INNOVATION

There will always be those that resist change in the insurance industry but that should not be an excuse for shunning innovation, Greg Case, the chief executive of Aon, tells Intelligent Insurer.



The insurance industry must work harder to stay ahead of its clients and anticipate their challenges and needs as the global risk landscape changes at an ever-increasing pace.

That is the belief of Greg Case, chief executive of Aon. He thinks it will be the companies that are best able to innovate and adapt that will become the market's leaders in the future in an industry he sees as slow to change and even resistant to change in some areas.

Case's rhetoric may not appear particularly revolutionary: most industry leaders would use similar language, acknowledging that things are changing fast in what has historically been a deeply traditional sector.

The difference is that Case is not content with mere ideals. Talk is cheap, he notes. Instead, he has spent his nine years at the helm of Aon directing and investing in turning the idea of innovation into something far more tangible. He can point to substantial investments that have been made and operational projects and platforms that are up and running. He also bears the scars of some criticism directed at Aon for some of its more controversial and revolutionary ideas.

Case describes such criticism of innovation as "to be expected" from an industry sometimes resistant to change. Standing still is not an option, however, says Case.

"We, as a collective industry, have to adapt and evolve faster than our clients," Case says. "Instead of reacting to challenges, as we are now, we must be more proactive and actually anticipate both problems and potential solutions.

"The magnitude, complexity and speed of risk are increasing. Our clients know the level of risk is rising. Their challenges are bigger than ever and their need for risk advice is greater than ever before. What is more, to maintain relevance, we must evolve faster than our clients around the topic of risk.

"Increasingly, brokers must have a greater focus on value creation. We all face the same challenge: we are data rich, information poor and insight starved. Our challenge now is understanding how to measure and mitigate risk using all of the information, technology and expertise at one's disposal."

SEEKING TANGIBLE RESULTS

Case says many types of risks are evolving far faster than the industry can react. He names cybercrime, global warming and supply chain risks as being three areas that are top of the agenda for many of Aon's clients, and thus for the broker as well.

But he stresses that potential solutions do not necessarily revolve around insurance. "In the case of cybercrime, the first question clients want to ask is how to protect valuable data and then, if there is an incident, their brand and reputation. All aspects of this will be important to them and only part of the solution will involve insurance."

In relation to climate change, he says companies are not only concerned by the potential direct effects but also the wider issue of sustainability and all the challenges around that faced by a company wishing to do the right thing. "They have to consider regulation, the cost of compliance and many other issues that could affect their business model. Insurance is not always part of that equation."

A similar dynamic exists in supply chain risk, he says. Many companies have developed increasingly complex and global supply chains in recent years, he notes, in an effort to reduce costs. But that, in turn, has introduced greater volatility into the supply chain. "And in some cases, this volatility is a bigger negative for them than the positive gains they enjoy from reducing costs," Case says.

Case's perspective on the role Aon should fulfil for clients is an interesting if not revolutionary one and somewhat removed from the traditional view of brokers simply placing insurance business for their clients and reaping the rewards of commission in different forms.

The evolution of Aon has been taking place for some time, Case argues, as it moves towards a broader and more consultative role for its clients.

But while the language he uses is closer to how a consultancy business might be described than a broker, he remains fixated on ensuring results are tangible and measureable for clients.

He is focused on ensuring its proposition is geared around creating tangible value for clients. Aon has invested heavily in recent years in developing the systems and tools to enable it to do this.

Case wants Aon to become a valued partner to companies wishing to analyse complex dynamics such as this and understand and manage the relationship between risk and return. Clients, he notes, want to do this with very tangible benchmarks in mind, such as how a decision affects their share price, earnings or the strength and stability of their balance sheet.

"Understanding some of these dynamics can be very complex," Case says. "It has to be done in a way the client can measure and understand in relation to benchmarks that matter to them. That is why I want to work on the basis that we take specific actions and the client can quantify the value of those actions.

"It has to be quantifiable. Talk is cheap. I want Aon to be known as a business that creates real value and in the market as a whole creates the best value against the price we get paid. The client return on that basis needs to be greater than anywhere else in the market. The cost might be higher but the value will also be higher."

The shift in emphasis by Aon has certainly paid dividends. In the past eight years, the broker has enjoyed an extraordinary period of growth and profitability—growing, albeit more slowly, even during the economic downturn.

Between 2005 and 2013, Aon's total revenues increased to $11.9 billion from $6.4 billion, its operating income to $2.3 billion from $830 million, its margin to 19 percent from 13 percent, its earnings per share to $4.83 from $1.48 and its market capitalisation to $24 billion from $7 billion.

INVESTMENT IN INNOVATION

Aon has invested heavily in recent years in systems, processes and data analytics that can help it deliver on this vision. Case declines to detail just how much has been invested or what the company's annual budget is in terms of developing new technologies but he maintains that it is "a vast amount more than our rivals put together".

Such a claim is hard to substantiate. But he can point to the creation of several very tangible projects in recent years which, in their own ways, have clearly revolutionised different sectors and would certainly not have been cheap to develop.

While the total spend on innovative projects such as these is difficult to pin down, Case does note that the broker spends more than $500 million a year on analytical expertise.

The Aon Global Risk Insight Platform (Aon GRIP) is a case in point. The platform, conceived in 2008 and launched in 2010, is a global repository of risk and insurance placement information. By pooling this vast quantity of information in one place, the accessible data can help identify the best placement option regardless of size, industry, coverage line or geography.

The project measures key metrics such as limits, deductibles, pricing and exposure details by class and geography around the globe in real time and makes them available to Aon Risk Solutions brokers and their clients, as well as insurance carriers.

The logic behind the platform is simple: it allows Aon to leverage what the broker sees as its two greatest assets—its people and its data.

Another example is the Aon Active Health Exchange, a new market for group health insurance developed by the broker where multiple carriers compete to offer employees a choice of fully insured group plans. It is designed to curb employer costs under the rapidly changing US healthcare system while giving employees greater choice. It works by allowing employers to pre-set how much they are prepared to contribute towards health costs; employees can then choose from a menu of plans based on how much extra they are willing to pay.

"Both these examples illustrate our new ethos in the firm: to create a firm in which new insights plus different actions equal client value," Case says. "We have been working very hard on leveraging some of the data we have access to in a way that can create real value for clients.

"The key is that we have to be able to quantify the results for our clients. We want to be known as providing the best value for price. We need to offer clients a return on investment that is greater than they can get anywhere else. That is the reason we have been working so hard and the reason we have invested hundreds of millions of pounds in data analysis to give us new insights and new ways of linking our services directly to client value."

There are other ways in which Aon has evolved in recent years. In 2007/2008, it sold off its underwriting businesses—moving it clearly in the direction of focusing on risk and human resources solutions.

"We have been working very hard on leveraging some of the data we have access to in a way that can create real value for clients."

It has also invested heavily in Aon Capital Securities, the division that focuses on bridging the re/insurance world with the capital markets. As well as working with large cedants on structuring insurance-linked securities, this unit also works in other areas of the market such as the structuring of sidecars and risk-transfer mechanisms such as industry loss warranties.

CONTROVERSIAL MOVES

Perhaps Aon's most headline-grabbing innovation of recent years was the sidecar facility it formed with Berkshire Hathaway, whereby 10 percent of all business it places in the Lloyd's market is ceded to the highly rated carrier. The facility provides retail clients with access to AA+ rated capacity normally exclusive to reinsurance markets.

The creation of the facility caused an outcry when it was first revealed, with some claiming the arrangement favoured Berkshire Hathaway and would lead to smaller players potentially losing business as a result.

Case says he was unsurprised by the reaction in the marketplace, noting that such a reaction is almost unavoidable when launching something that has never been done in a market before.

"We know that when we truly innovate there will always be a reaction—there was also a reaction to GRIP and the health exchange," Case says, "but the truth is, everything we do is about client value and that sidecar has been extremely beneficial to clients and brought a lot more business into Lloyd's.

"People have claimed that such a platform changes the dynamics of the market but I am not sure it does. It simply matches capital with client needs—it is a natural evolution of the market."

Case says that client response to the sidecar has been very positive. By the end of 2013, 2,500 individual policies had used the capacity, representing over $1 billion of premium, representing 70 percent of eligible premium. And he expects the uptake ratio to improve further in 2014.

He also claims that 26 percent of all sidecar placements resulted in an increased London order, either through business being placed in London for the first time or because the sidecar order was incremental to the existing order.

Finally, he says that Lloyd's figures show that the premium volume placed by Aon clients into Lloyd's increased 3 percent in 2013—which is actually 5 percent if you take into account the reduction in certain lines due to trade sanctions. What is more, this increase was greatest in the lines where the sidecar is most used.

Such change and evolution are clearly needed in the market, according to Case. "The industry we are part of is absolutely not evolving fast enough. At Aon we have urgency in our desire to innovate and drive actions to help clients succeed. We have invested heavily in that and we will continue to do so until we are innovating faster than our clients are changing."

Case likens Aon's commitment to innovation to the way in which a manufacturing company might have a research and development (R&D) department with its own budget. "We have to be a R&D factory, only concerned with risk—how we help clients understand risk, measure risk and ultimately mitigate it. But everything we do must also be based on delivering tangible outcomes for clients."

Despite the challenges clients face, Case sees opportunities. "The world of risk is getting bigger and more complex all the time," he says. "But that means the scope we have to help our clients is growing as well. I believe there is a real opportunity there. The same is true on the reinsurance side of the business. Our insurers want to find ways of growing profitably and we are there to help them do that."

He says part of the challenge is the varying levels of growing sophistication among clients. All companies are different, he notes, but most are very open to a dialogue in which they are prepared to discuss a wide range of issues. "That has changed compared with 15 years ago," he says. "The door is very much open now and they are willing to discuss a wide set of solutions.

"At Aon we have made significant investments in our global network, our broking capability, and in our ability to attract, develop and retain the best talent with one goal in mind—clients." □

LONDON RULES

In an increasingly global and interconnected world, it might seem strange that a truly worldwide company would switch its headquarters from one international business hub to another.

But this is exactly what Aon did two years ago when it moved its headquarters from Chicago, its home since the company's formation in its current form in 1987, to London.

Case says the fact that Aon is a truly global company is part of the reason for the change, combined with the fact that he regards London as the international capital of insurance and risk transfer—in no small part because of the location of the Lloyd's Market in the UK's capital.

"Our clients are clearly global and when you think about that, there were two natural cities perfect for a firm that wants to sit at the heart of the global insurance market," he says. "They were New York and London. The big advantage London had was the existence of Lloyd's.

"It is a unique institution that offers unique business opportunities for us. We are the largest provider of business to the market and its most significant business partner in its 325-year history. That made London the perfect choice for us to enable us to be closer to our clients and at the centre of our market."

Case says the response from the market to the move has been very positive, with even US clients understanding the firm's shift of emphasis. While he agrees that the firm's brand is global, he maintains that its offering must be local and "more insurance connections happen to take place in London than anywhere else in the world".

"There is no doubt in the mind of Aon—and those of our clients—that Lloyd's and London is the epicentre of the global risk management industry," he says. "Lloyd's and the London Market are more important than ever with a resilience and strength that comes from its deep history, its unparalleled level of expertise, and the connectivity that exists between brokers, underwriters and clients.

"London simply has no equal as a city when it comes to the highest concentration of insurance market partners."