

"Industrial insurers, whose progress is rapid and flexible, will become even more important in the future."

How industrial insurers can remain relevant in ten years' time

Dr Edgar Puls

The insurance industry is facing major challenges. According to a McKinsey report, the situation is as follows: "After decades of stable returns, insurance is now a value-destroying industry in which half the players do not earn their cost of equity."¹ The report states that 54 per cent of publicly listed insurers had a return on equity below their cost of equity over the past five years.

The other side of the coin is that almost half of insurance providers deliver better results. So how do successful companies differ from the mass of underperformers? What are the future challenges and success factors?

In this context, I am focussing on industrial insurance. As an industrial insurer, we first assess our client's operational risk. Then we design individual insurance solutions for them. Our products are generally customised to companies that often have locations in many different countries and are dealing with various jurisdictions.

What if trends are misjudged?

Let's first look at why it seems difficult to operate with a profit in industrial insurance. In my experience, one major contributing factor was that for roughly 15 years the premium-to-risk ratio had become increasingly unbalanced. Premium revenues were lower than the expenses for damages and costs. Above all, this meant that the sharp increase in large or major losses could not be offset. A brief glance at Figure 1 shows a driving factor: natural hazards! The number of relevant insured events has roughly tripled in the past forty years. The current loss figures of the German Insurance Association confirm this trend. In 2021, German insurers recorded the highest claims volume in their history. The reason for this was the extreme weather event named "Bernd". Across Germany, the damage caused by natural hazards such as storms, hail, floods and heavy rain amounted to around EUR 12.7 billion.

The burden of major man-made damage has also grown considerably.²

We've seen a trend in recent decades of moving away from frequency losses to large and major losses. Why is that?

Over the past few decades, basic or frequency losses in industrial property insurance have declined thanks to factors such as predictive maintenance or more sophisticated protection and safety technologies. The simultaneous increase in major losses is difficult to explain by means of singular causes. The following trends are likely to play a role, as evidenced by the significant increase in business interruption losses:

- Increase in value concentration
- Increase in the concentration of added value
- Decreasing redundancies
- High specialisation of raw materials and products
- Increased supply chain complexity as well as internal and external dependencies

- Social inflation

In sum, this means that the occurrence of a loss is less likely, but that the impact of a single loss event becomes more catastrophic for the company that is affected. On the one hand, this underlines the increasing importance of industrial insurance. Single losses are becoming increasingly unaffordable to companies. On the other hand, the argument for a singular risk-adequate premium is becoming more abstract as significant losses only occur every x-100 years.

Distorted perceptions require a lot of explaining

Paradoxically, however, the insurance industry is often the object of public scrutiny as it is widely held that insurers do not fulfil their social responsibility. A common complaint is that when claims are made, policyholders would all too often have to fight for their rights and their money. This is an unfortunate distortion if we look at the big picture. Claims must be settled transparently, quickly and fairly. A company must quickly be repositioned as though the damage had never occurred. The amount compensated should neither be less, nor more than the cost of the damage – not least to protect the collective.

In order to be successful in the future, industrial insurers will have to make insurance trends, risks and pricing much more transparent than before. It is only by increasing awareness in large parts of the insurance collective that we will be able to maintain a willingness to pay premiums appropriate to the transfer of risk in the future. This kind of risk dialogue with clients requires the best employees.

Recent catastrophic events – the "black swan" known as the pandemic and the storms across Europe – have contributed to opening a new dimension of dialogue. Prior to these events, some companies would sometimes send mere "insurance buyers" into talks about insurance solutions. Consequently, these talks often revolved solely around the price of a policy. The insurance policy as such therefore became somewhat of a commodity. Insurers lost sight of the risk dialogue.

Factories being flooded and at a standstill as well as lockdowns and interrupted supply chains, along with the rising cost of industrial insurance, have acted as a wake-up call. Board members keep asking questions, wanting to understand why a certain risk remains (un)insured, how the price of international liability cover is calculated – or why industrial insurers refuse to cover cyber risks if a company's IT is not sufficiently protected upon closer inspection.

Fig. 1: The number of loss events caused by natural disasters and man-made losses

Source: Munich Re; GDV

Natural disasters Number of events	Man-made Number of events exceeding EUR 250 million in total loss (adjusted for inflation)
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Underwriting champions offer explanations for all of these connecting factors. Furthermore, they only develop products that companies actually need to reduce their operational risks and often tailor these products to the company. Successful industrial insurers know the companies they insure so well that they are able to assess the situation from their client's perspective, and not just from the perspective of their own product development. This allows them to meet their client's needs and ensure outstanding customer journeys.

Centring the client as a success factor

In order to be successful in the future, we need to focus firmly on the client – both in terms of an agile mindset and in terms of extensive expertise. Our task is to find ways and means of making the new risks in the manufacturing and research industry insurable.

Examples of this can be found throughout the entire insurance industry and here within the HDI Group as well. We now offer risk transfer for special risks that are very individual as well as for digital business models. We also offer consultations and tailored insurance to customers all over the world. Our insurance spans political risks and renewable energy sites as well as solutions for traditional industries.

In addition, we have established an underwriting team in Switzerland for the digital solutions sector. As an insurance partner, this team advises companies with digital business models regarding their ecosystems. For example, we insure hot wallets for storing bitcoin and other digital currencies. Together with us as an insurer, this provider can underpin their safety promise to their customers. A further example can be found in Canada where we insure self-driving shuttle buses in public transport.

These are all examples that illustrate how modern industrial insurance "greases the wheels of the economy". In other words, insurers are enablers of innovation and progress. This also includes offering support during the green energy revolution. This is not only done by means of green investments or reducing one's own carbon footprint with less long-distance travel or energy-saving buildings. We provide our customers with coverage as they move towards carbon neutral technologies. New technologies equal new risks! Using hydrogen to produce green steel? Together with our clients, our experts evaluate these new risks and reduce them to an insurable level. There would be no green revolution without industrial insurance.

In addition to insuring risks, consulting is becoming increasingly important. We use our claims experience to advise our customers on damage prevention measures; this also applies to natural hazards. We also advise our customers prior to potential damage – ideally during the planning process of a location. Our motto is "ensuring before insuring". We understand our purpose as follows: Together we take care of the unexpected and foster entrepreneurship.

The most valuable asset of industrial insurance is the people

What does it take to successfully fulfil this mission and purpose? According to my observations, there are two factors: people and data. In my opinion, the providers who have the best employees and the best digital platforms will have the greatest success on the market in the long run.

Let's take a look at both factors and their importance for success in industrial insurance. I'll start with the "human factor", with the employees. These include underwriters, loss adjusters, engineers, account managers and software programmers as well as pharmaceutical and medical specialists, lawyers, insurance clerks and nautical experts. At the HDI Group, we refer to this phenomenon as the House of the Hundred Professions because so many people with different qualifications and profiles work under one metaphorical roof. They all combine the know-how that distinguishes us as an industrial insurer. They are our capital, which ideally makes us more valuable as an insurer than others.

In the last two years of the pandemic, the human factor has again increased in importance. As we move out of the lockdowns and home office and are establishing the new normal, we find ourselves in the middle of the Great Resignation. Unfortunately, the period of attrition has had an effect on many people. Many were no longer able to identify with their employers. Countless people left their

jobs and are looking for new meaning in their work, for new work time models, a new work-life balance or new challenges. The Great Resignation is exacerbating the labour shortage that has been prevalent in many sectors and industries for several years - even in industrial insurance.³

Successful companies see this challenge as an opportunity. They find ways to hold onto their most important capital – and attract the best candidates on the job market. In my view, the decisive factor here is the culture of the organisation. In the past, this might have been referred to as the work atmosphere. Company culture must act like a magnet on people. In order for this to happen, the culture of an organisation must keep pace with the demands and expectations of young talent as well as with those of experienced, long-time experts in the industry. Successful industrial insurers will create a work environment that moves with the times, with the culture of people and society. Important aspects in our business are agility and flexibility – both in people's minds and in processes.

Careers in progressive companies follow a different path today than they did in the past. Hierarchies are dying out in which promising young talent had to wait many years before they could prove their potential. Successful teams are needed instead. And these teams are strongest when they are heterogeneous – or in other words, diverse. This diversity of experience and skills combined with the common goal of team success usually leads to the best results and helps avoid management mistakes. Intense discussions may sometimes be the price. However, as long as the best arguments for the success of the organisation prevail, we must continue to undertake these challenges. In fact, we must actively seek them out in order to achieve success.

Sometimes change can be measured based on outward appearance. For a long time, our everyday life in the insurance industry was characterised by a suit and tie or blazer and blouse set. Today, we see jeans, shirts and t-shirts. Formal salutation in emails have also become a thing of the past. Today, emails sign off with requests such as:

[#CallMeByMyFirstName](#)

As a company with locations across the world, the question remains: How do we navigate the formal and informal "you" typical to some languages? In English, the question doesn't even arise. However, as an industrial insurer with business activities across the globe and an international mindset, the more generic use of "you" as is the case in English seems to be most appropriate. After all, English is a must! Also, one and two-person offices are a thing of the past. Today, spatial concepts enable agile and results-oriented collaboration. Walls were torn down in all senses of the expression – on the executive floors as well. Most of all, many of the walls in our minds have come down. That's what really counts. High potentials are drawn to companies that offer a particular kind of company culture.

[Risk dialogue on equal terms](#)

Why do industrial insurers need these types of employees? Because working with them will ensure the success of our business in the future. Because they are able to talk to our most challenging policyholders on equal terms. This requires open and flexible access to the complexities, challenges and operational risks of these companies. Successful industrial insurers need all teams to have a willingness to engage in lifelong learning so that they can understand the business processes of the clients and identify their risks.

This attitude is important because today the world of insurance not only takes place on an international stage, but always operates under the pressure of change. Only those who remain agile and are quickly able to meet new challenges in this world will be accepted by clients and will be able to build the necessary trust there. This access is a prerequisite for explaining our business time and

again during risk dialogue, for meeting the client at their level during risk transfer and for finding the appropriate price.

Data as a success factor

In addition to the "human success factor", the combination of digitalisation and IT is the second major engine contributing to the economic and social relevance of insurance in the coming decades. That is why this factor will contribute to the significance of our industry in the coming years. In industrial insurance, we need to see progress in digitalisation for three reasons: 1. As an industry, we must increase our productivity and continue to network with clients. 2. We want to work closely with partners in ecosystems. 3. We need good data for good risk selection, adequate pricing and the early identification of trends.

As the saying goes, "data is the gold of the future". In the insurance industry, those who most cleverly put together, analyse, understand and translate data into products and services are among the strongest providers of insurance solutions.

Underwriting the operational risks of large and often internationally active clients is a complex process in industrial insurance. Often teams of various experts across multiple locations work on international property and liability insurance programmes for global players with sites in twenty or more countries. They must always be aware of client requests, risk exposure, changing threats, new locations, competitive pressure, regional regulatory authorities and much more.

Digital interfaces to clients and business partners are very important – but at the same time they are still in the making in our industry. Linking insurers in ecosystems can only work if IT interfaces allow for the smooth exchange of data. The best-case scenario would be interfaces to clients in connection with sensor networks and artificial intelligence that will create a completely new concept of insurance. We will then move from an approach of "Repair & Imburse" to "Predict & Prevent". The best loss is the one we prevent.

Conclusion

Soon, there will be no use for industrial insurers who remain at a standstill or are reluctant to get on board. I am convinced that industrial insurers, whose progress is rapid and flexible, will become even more important in the future. New technologies, changes in global structures, the transformation of cultures are just a few examples that keep our business in industrial insurance varied. Then there is the exchange of ideas with people in diverse teams, both inside and outside of a company. And also being able to contribute to "greasing the wheels of the economy" to protect livelihoods and enable innovation. All of this has made me passionate about industrial insurance for the past 20 years. And I enjoy it more with each passing day.

Comments

¹ McKinsey & Company: Creating Value, finding focus: Global Insurance Report 2022, February 2022, p.16.

² For example, fires caused by technical defects.

³ See McKinsey: 'Great Attrition' or 'Great Attraction'? The choice is yours, September 2021.

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