Insurance Times

Briefing: Marsh, Aon, Guidewire, reinsurers - how the Covid crisis will greatly benefit them

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The likes of Aon, Marsh, Guidewire and Accenture could be on the cusp of a golden opportunity

By Content Director Saxon East

'The best way to predict your future is to create it,' said Peter Drucker, the greatest business management leader of our times.

This statement is very true now for a plethora of very fortunate insurance companies: Aon, Marsh, Guidewire, Accenture, reinsurers and their peers.

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There is no downside. These companies are about to experience either an outstanding opportunity, or even better, something game-changing that will lead to significantly increased growth.

Crisis means opportunity

Why is this? Every crisis of our time presents opportunity.

In the 1970s, there was the oil crisis as OPEC countries starved the West of energy because they had supported Israel in the 1973 Yom Kippur War.

This led to a focus on 'energy risk', leading to intervention in the Middle East and a renewed focus on finding alternate oil supplies from friendly countries.

The 2008 banking crisis, partially caused by the creation of complex financial products and an over-leverage of bank balance sheets, led to the age of 'financial risk'.

Banks, insurance companies and asset managers, under increased focus from regulators, had to buttress their capital.

The 2020 pandemic crisis has shown the clear risks from an interconnected world. This will lead to a focus on 'shutdown risk'.

Western governments and regulators will focus on pandemics, cyber failures and systemic terrorist threats.

The greatest opportunity here is if governments create the framework where companies have to set aside a certain portion of their capital to manage shutdown risk.

The opportunity is astounding.

McKinsey predicts global corporate revenue of $185 trillion by 2025.

The global insurance non-life premium is around $4 trillion.

If just a fraction of that income is used to manage risk, it will increase the role (re)insurers play considerably.

For example, 1% of company income equates to a 50% increase in non-life premium under global management.

Shutdown risk will dominate corporate thinking

The risk mitigation will come in various forms: traditional insurance, captives, cat bonds and asset management.

Competition will be fierce as banks, asset managers and investors compete for the capital.

But the (re)insurance industry has the greatest possible first mover advantage one could imagine: managing shutdown risk such as cyber and business interruption is their job. They hold all the data.

Having companies, not the taxpayer, manage this risk will be politically appealing to voters.

Companies are distributing an ever greater share of their profits in dividends and buybacks, yet when a crisis comes, there is so little cash on the balance sheet it is once again the taxpayer that foots the bill.

Easyjet hands out £174m dividends, then the next day turns to the government for a help.

One can argue the rights and wrongs, but one thing is clear: it does not sit well with the taxpayer.

Even if there is no action from governments and regulators, many companies will by themselves turn to mitigating the risk of a shutdown by using the services of global brokers, reinsurers and consultants.

Guidewire's Cyence, a cyber data and risk information provider, will greatly benefit from this increased focus as firms worry about a cyber-induced shutdown.

Major consultants such as Accenture will be asked to help shape companies' vision of handling risk.

Reinsurers, experts in using capital for risk mitigation, will be called upon.

Aon & Marsh retail pressure

This sea change cannot come soon enough for the brokers such as Aon, Marsh and their peers.

Cyber risk will be place an even greater role in boardroom thinking post-Covid

Retail broking has arguably reached the maximum limit of its profit margins.

There have been multiple regulatory investigations over remuneration, first following Spitzer, and then the FCA examination last year. The European Insurance Distribution Directive is aimed at creating transparency for customers to ask exactly how their money is being spent.

There will surely be more in time.

The diversification and expansion of income streams away from retail broking will therefore be welcomed.

It is an immense, potentially gamechaning. new world for insurance firms.

The thinking starts now.