

The core purpose of the insurance industry is to enable economic growth, the taking of risk and innovation. I like to think insurance offers not only freedom from the financial and emotional burdens of loss, but also freedom for the pursuit of innovation, investment and the creation of value.

Risk is intrinsic to our quest for discovery, productivity, wealth creation, the improvement of the human condition and virtually all other efforts that aim to produce value. Our industry is a strategic partner in protecting value and in encouraging opportunities for growth. The dynamic is elegant and simple: without insurance, there is no investment, there is no innovation and there is no growth.

In addition to our role of spurring economic growth, we also protect against the downside. Thanks to our industry, lives and livelihoods get rebuilt following loss. Our people and our companies supply the products and services that enable businesses to function and innovate, communities to grow and individuals to thrive.

Shifting sands

Let us consider the shifting risk landscape and this chaotic, disruptive, somewhat scary, wonderfully complex world of ours – and the implications and opportunities it presents for the global insurance industry.

First, going all the way back to the dawn of time, each civilization had those who thought the end of the world was just around the corner. And yet, somehow, the end of the world just has not happened. Yet.

I am not persuaded the level of risk and uncertainty is higher today than it was 10 or 100 years ago. Every generation generally believes the world is more complex and riskier than ever before. In 2015, our worries range from the refugee crisis, to Islamic State, to financial market gyrations. In 2014, we were worrying about the spread of Ebola. Time to put things into context. In the Middle Ages, the bubonic plague claimed more than 100 million lives worldwide and an estimated 60% of Europe’s population; in 1918, the flu pandemic infected 500 million people and killed 3%-5% of the earth’s population. And then we had the carnage of World War One and not long thereafter, World War Two. It is important for us to maintain perspective, balance and context.

The second thing is that, for all the unprecedented challenges, dangers and risks we face in the 21st century, there has never

THE ROLE OF INSURANCE DEFINED

Dan Glaser recently spoke to the Insurance Institute of London, outlining his vision of the role insurance will play into the future

been a better time to be alive. More people have been lifted out of poverty in the past 20 years than at any time in human civilization.

Moving forward, we face an unclear terrain. There are plenty of geopolitical faultlines. This adds to the financial and economic-related travails we have struggled with for the past seven or eight years. And it is not a matter of a few troublesome conflicts. We may be in for a longer period – at least a decade, perhaps more – of global geopolitical volatility. In late July, President Obama remarked: “Part of people’s concern is just the sense that around the world the old order isn’t holding and we’re not quite yet to where we need to be in terms of a new order.”

Political risk consultant Eurasia Group sees it the same way. In its view, we are at the beginning of a period of creative destruction of the old, US-led international order. And a new one has not yet emerged. Which countries will line up with each other? And how? Some nations, like the US, UK, Japan, China, India and Germany, appear to be rising. Other large economies are more fragile – like Russia, Nigeria, South Africa, Brazil and many others – including highly developed, natural resource-rich countries such as Canada and Australia.

Modern risks

Adding to the sense of unease is the rapid introduction of ‘smart’ services and products that rely more on artificial intelligence (AI) and robots than on humans. Nick Bostrom, an Oxford University philosophy professor with a background in physics, computational neuroscience and mathematical logic, believes there are two ways artificial intelligence could go.

AI could greatly improve our lives and solve many of the world’s problems, such as disease, hunger and even pain. Or, it could possibly take a malevolent turn with dire consequences. As it stands, Professor Bostrom believes the catastrophic scenario is more likely.

He makes a harrowing comparison between the fate of horses and humans: horses were initially complemented by carriages and ploughs, which greatly increased the horse’s productivity. Later, horses were replaced by automobiles and tractors and horses soon became obsolete as a source of labour.

In the past year, new AI capabilities have been announced in humanlike abilities such as speech, language understanding, image recognition and sentiment analysis, among others.

Closed-circuit television cameras are so widely used here in the UK that a recent survey



revealed there is one camera for every 11 people. With the advent of advanced facial recognition technology, how far are we from unsuspecting families strolling down Oxford Street being tracked – not necessarily by MI5, but perhaps by Selfridges and John Lewis, who will immediately ping individualised special offers to their multiple devices?

Another critical area of ambiguity and uncertainty that prompts fear is climate change. Climate change is an environmental, social and economic risk, expected to have its greatest impact in the long term. Undeniably, climate change presents a series of risks with tangible effects on insurable interests – risks that must be approached strategically and creatively. But what is also clear is when we put our energies into innovation, we are often able to accomplish unimaginable things.

Modern advantages

When we think about life in the present day, technological advances have often led to tremendous benefits. Here’s one: food production. In the 18th century, economist Thomas Malthus argued population growth would quickly outpace agricultural production, leading to mass starvation. Even though hunger

is a daily reality for many, the global population continues to grow and most humans have ample food to live.

Technology has made agriculture more productive. In many cases, we do not actually need soil to produce crops, our reliance on arable land is greatly reduced – and our production efficiency is enhanced.

The role of insurance

Innovation and interconnectedness have helped to accelerate human productivity. So how can the insurance industry make a greater contribution to our clients and society?

Consider the following: directors’ and officers’, employment practices liability insurance, environmental, cyber, terrorism, trade credit, political risk, microinsurance... what do these all have in common? They are all examples of insurance industry responsiveness to emerging risks.

The list of emerging risks is long and getting longer – climate change, cybersecurity, water scarcity and the sobering demographic reality of a smaller number of young people supporting a much larger number of older people.

New risks are coming at us faster than ever before. The insurance industry has a

vital role to play in risk identification as well as assisting clients in determining which risks should be avoided entirely and which ones can be appropriately managed. When it comes to emerging risk areas, the industry’s risk management advisory capability and spreading of best practices to otherwise competing market participants may be every bit as important as the actual insurance risk-transfer transaction. We rarely are credited for loss avoidance or prevention, simply because it is hard to measure loss avoidance. What may have happened had we not avoided or mitigated that particular risk?

Also, in this uncertain environment, we should try not to add our own blend of volatility, uncertainty, complexity and ambiguity. An unfortunate tendency in our industry is that we build complexity and ambiguity into many products.

Rather than developing customer trust and confidence, we often create a sense of vague apprehension around how a policy will respond in the event of a loss. Instead of differentiating by offering broad policies that engender customer loyalty, many insurers often take the easy route – limited coverage at a low price.

Our focus should be on far broader coverage terms at a fair price – not restrictive coverage at the lowest price. Competition in our industry should be based on what is most important to the vast majority of clients: breadth of coverage, contract certainty, claims performance, service, responsiveness and yes... price.

We should keep our purpose top of mind – remembering that we exist to enable economic growth, the taking of risk and innovation. Strategies based on innovative products and high quality service offer better margin potential and longevity than lower value offerings featuring relentless price competition. The result will be broader, more strategic relationships built on a foundation of transparency, trust and certainty.

Our industry is integral to the flow of commerce and the regeneration of the world’s productive prowess. This is our broader purpose and we should not lose sight of it. If we can do this, we will ensure prospering in the age of volatility, uncertainty, complexity and ambiguity will indeed be the defining accomplishment of our time. 🎯

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This article is based on the recent IIL lecture given by Dan Glaser on the 9 November 2015 at Lloyd’s Old Library, London