

# Portfolio management in the London Market: What separates the best from the rest?

Incorporating the results of the 2019 Lloyd's/ Willis Towers Watson  
portfolio management survey

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With expertise earned over centuries, Lloyd's is the foundation of the insurance industry and the future of it. Led by expert underwriters and brokers who cover more than 200 territories, the Lloyd's market develops the essential, complex and critical insurance needed to underwrite human progress.

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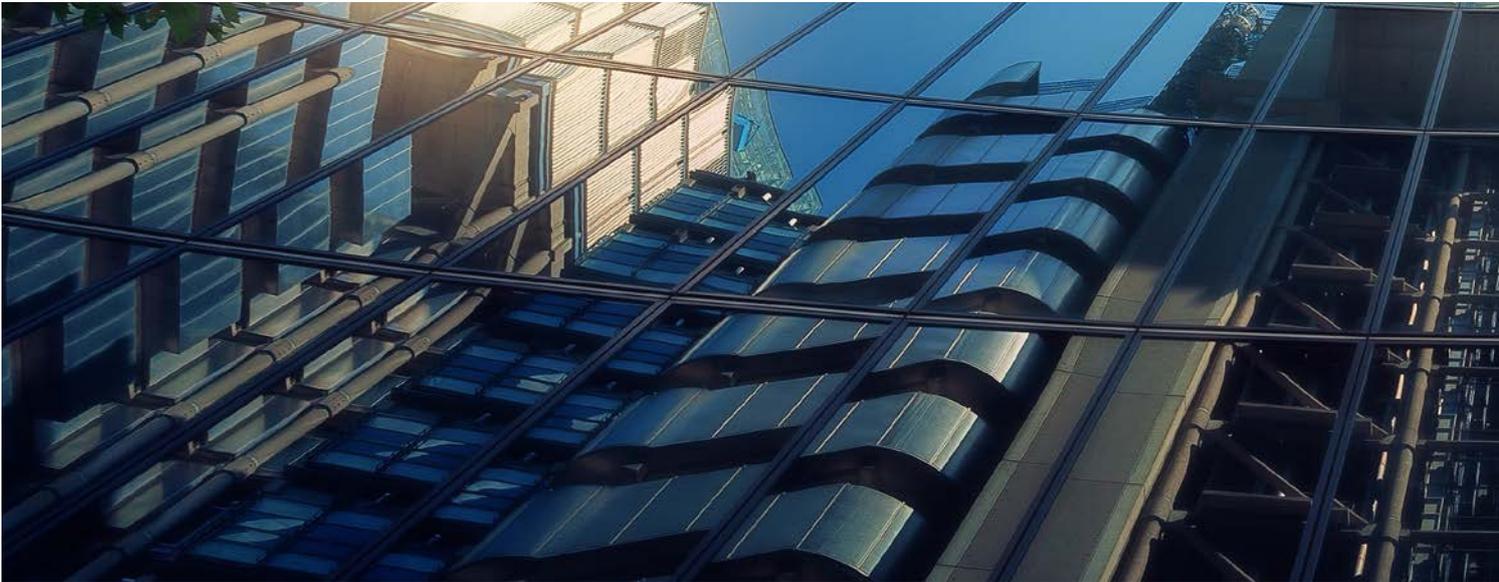
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# 1. Foreword



First-class underwriting performance is one of the critical foundations upon which Lloyd's strategy to build the most advanced insurance marketplace in the world is based. Blueprint One, which was published in September 2019, and which sets out the details of the Future at Lloyd's strategy, states the importance of maintaining the highest underwriting standards to protect customers, the market's reputation, the central fund and our credit rating, and to ensure the long-term sustainability of the Lloyd's market.

Earlier this year we announced that, throughout 2020, Performance Management Directorate (PMD) is launching a series of reports, presentations and workshops focusing on the latest portfolio management trends in the insurance industry, including analysis of good behaviours in underwriting, pricing, and portfolio and data management.

In the first deliverable of our portfolio management series, we conducted research to establish the key attributes of top-performing underwriters. In doing so, Lloyd's has identified a direct link between certain underwriting behaviours and the likelihood of an underwriter delivering sustainable profits over time.

In the second report of our portfolio management series, we have partnered with Willis Towers Watson, who are experts in helping insurers implement market-leading portfolio management functions. This report focuses on describing best in class portfolio management, and includes the results of

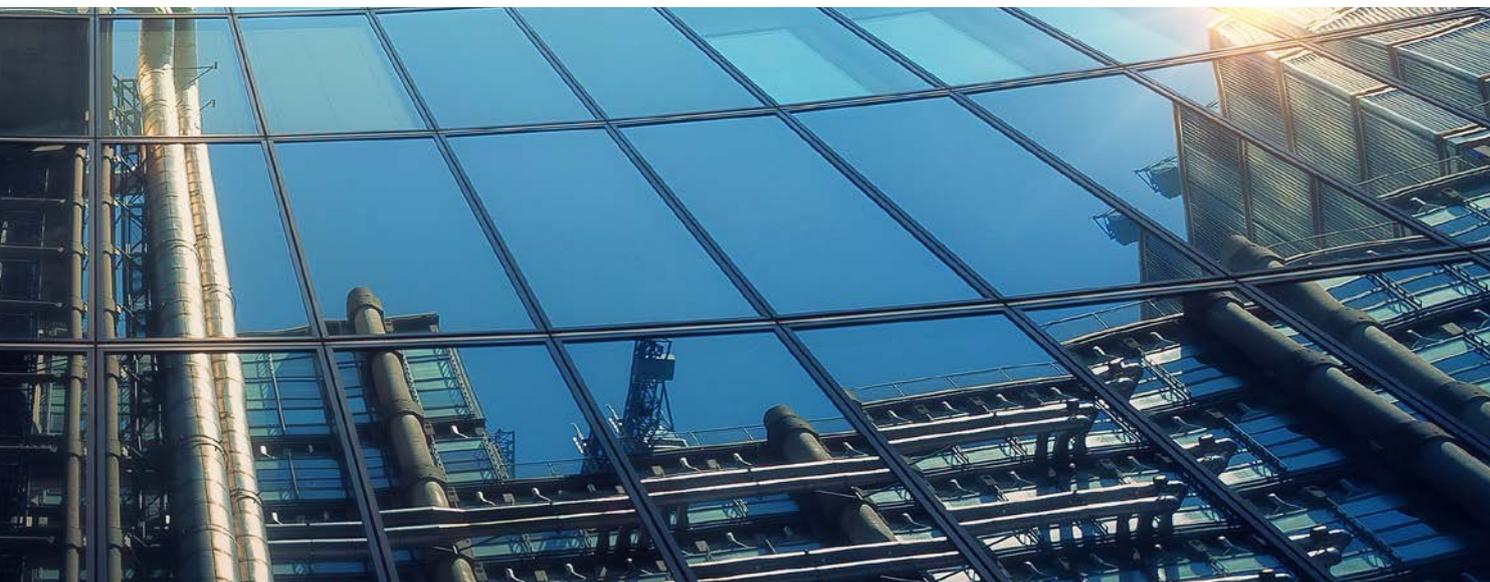
a benchmarking survey spanning 44 organisations from across the UK insurance industry. The Lloyd's market organisations surveyed represent 75%<sup>1</sup> of Lloyd's gross written premium, providing robust insight into portfolio management practices in the Lloyd's market.

From the survey results, we have identified the principal features of good portfolio management and the competencies, tools and corporate culture needed to be successful in managing an insurance portfolio. Moreover, by contrasting the results of our survey with publicly available Lloyd's underwriting performance data, we have established a link between good portfolio management and the likelihood to deliver sustained underwriting profit. Our research concludes that strong portfolio management capabilities typically translate into upper quartile combined operating ratios, with the competitive advantages that confers.

We believe that this report, together with the follow up reports and activities that we will be conducting throughout the year, will benefit Lloyd's market participants by describing what constitutes a strong portfolio management capability, which may allow them to systematically fully understand and improve the performance and financial sustainability of the different parts of their business.

**Caroline Dunn**  
Head of Underwriting  
Lloyd's of London

<sup>1</sup> Excluding SPAs, SPSs, Life syndicates, RITC syndicates and Monoline syndicates



From the perspective of Willis Towers Watson, we consider that there are three strategic drivers impacting the London Market today. These are performance remediation, market modernisation and culture (which for us includes the skills needed in the future as well as how we behave).

Portfolio management is a critical capability that operates transversally across all these drivers – where its role in performance remediation is perhaps the most obvious. However, we consider that it will become even more important as insurers move to adopt new business models as the market modernises.

Furthermore, as a market we need to have skilled individuals who know how to interpret and then drive action in their businesses, and those same businesses need to be able to identify and develop this talent.

We consider that raising the focus and improving how we all execute portfolio management across our market is increasingly essential in how we run our businesses, and develop our plans for the future.

I sincerely hope that the contents of this report are of practical use to you, the reader, and help the market as we look to the future.

**Richard Clarkson**  
Head of London Market Consulting  
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## 2. Executive summary

The competitive benefits of proactive portfolio management to London Market insurers are becoming increasingly apparent to those who, as Lloyd's does, have an industry-wide overview. Yet, relatively few companies have looked in depth at what constitutes best-in-class portfolio management and what advantages there are to adopting best practice.

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This report steps through three elements which help to bring some clarity to what portfolio management means in the London Market today.

This is particularly relevant for the underwriting function, where the roles are evolving to become more rounded, managing portfolios rather than being just single-class specialists. This report, the first in our portfolio management series, will show how upper quartile underwriters manage their portfolios by engaging in forward-looking cycle management with less churn in their portfolios, faster more agile reaction on rate and a smoother trend line on lapsed business.

### Defining portfolio management

This type of activity may be described as 'active portfolio management', emphasising the need to look forward, not just back on past performance. It also alludes to the range of insurance company functions that need to be involved to harness the benefits of portfolio management, regardless of who has ultimate responsibility for its delivery.

The wider availability and awareness of data and analytics, an expanding suite of technology and tools to work with, and people and skills to execute are all important features of good portfolio management. This report finds these capabilities correlate to the ability to navigate markets and competitive pressures profitably.

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### Benchmarking across the London Market

The results of our survey of senior executives and underwriters in the London Market on portfolio management show:

- Portfolio management has a material impact on profitability.
- There is a wide range of capability across the market.
- Most are taking steps to actively improve their portfolio management.
- Having the right tools is only part of the story – how they are used makes a critical difference.
- There are challenges in defining and monitoring portfolio mix, which are foundational competencies and appear to distinguish bottom quartile performance from the rest of the market.
- Some of the factors that have the biggest impact are:
  - Portfolio management skills in senior people.
  - How a business comes together to make fast portfolio decisions.
  - How business plans are tested robustly.



### Implementation considerations

This report summarises current approaches for developing portfolio management capabilities, including how a business plan is tested, how to use more advanced techniques (such as scenario modelling), and other indications of both good and poor practices.

Progress is being made amongst insurers who are investing in their portfolio management capabilities through data and technology solutions to deliver a more integrated approach to pricing, underwriting and business planning, which in turn will deliver more insight and control. There is clear expectation that this will deliver improved performance, which is reflected in results of the benchmarking survey.

As companies continue to set new objectives for portfolio management, they will be forced to contemplate how underwriters interact with data and technology and the wider skills that will be needed to turn theory into practice.

Every organisation has a different starting point in their journey. This report will help to provide a reference point for an in-house review of capabilities, and to determine where to prioritise developments in the future.

“As the needs of clients evolve and company Boards look for partners to help them navigate and manage complex risk issues, strong and mutually-beneficial relationships become increasingly important. The long-term financial health of the market brought about by sustainable returns over time, achieved via careful portfolio management, will help insurers invest in and respond to the challenges of enterprise in today’s complex risk environment.”

**Clyde Bernstein**

Head of GB Broking, Willis Towers Watson

“Portfolio management supported by much more accurate data capture makes a huge difference to today’s market. Going back over the last 20 years, this most recent set of renewals would have seen blanket market pricing across various lines of business (e.g., Property Cat is +15% for all US accounts) versus what we have today which is pricing very specific to each client depending on loss record, portfolio composition, strength of management team, broader corporate relationships, etc.”

**James Kent**

Global CEO, Willis Re

**Ideas about how to approach portfolio management within individual organisations, or indeed whether to broach it at all, will depend on a range of circumstances.**



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### 3. Introduction

Although a common enough term around the London Market for many years, interpretations of the meaning of portfolio management vary. Ideas about how to approach it within individual organisations, or indeed in some cases whether to broach it at all, will depend on a range of circumstances such as the markets in which companies trade and the prevailing competitive pressures.

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Portfolio management can, however, have a significant impact on business performance. To better understand this, the Corporation of Lloyd's and Willis Towers Watson have conducted a benchmarking study comprising 44 UK organisations inside and outside Lloyd's, which covers 75% of the gross written premium in the Lloyd's market.<sup>2</sup>

In this benchmarking study, 72 attributes of portfolio management were created, which were used to create an overall performance index. For Lloyd's syndicates who participated in the survey, this performance was compared to their 2018 profitability (based on publicly available data).

The report goes into more detail on the results of the benchmarking study in subsequent pages. Before this, the report usefully defines portfolio management and explains why it should be an increasingly important activity for all insurers.

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Top quartile performers in our portfolio management benchmarking within Lloyd's have on average a loss ratio of

**56%**

and a combined operating ratio of 98%

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Bottom quartile performers, by contrast, have on average a loss ratio of

**65%**

and a combined operating ratio of 106%

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<sup>2</sup> Excluding SPAs, SPSs, Life syndicates, RITC syndicates and Monoline syndicates.

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## 4. Defining portfolio management

Portfolio management involves action, so a better, more accurate term is 'active portfolio management'. To really understand the concept of active portfolio management it is necessary to dissect the anatomy of those three words as they apply in this context.

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### 4.1 Portfolio

In insurance, portfolio refers to a collection of risks which give rise to an identifiable grouping of exposures and premium that have common characteristics. Typical examples of commonalities include: product; trade segment; customer segment (often size based on company turnover, but increasingly other dimensions); distribution channel; line of business and associated ceding and retention strategies; risk features, such as seasonality; geography; case underwriter, relative performance; and investment returns.

Furthermore, in the London Market, common risk characteristics also include: primary/excess (and within excess, different attachment points); whether the company is the lead on the risk; perils; binder/non-binder responsibilities; delegation versus non-delegation; line size; catastrophe exposure; whether writing directly or as a reinsurer; and the use of facultative and inwards reinsurance, including treaties.

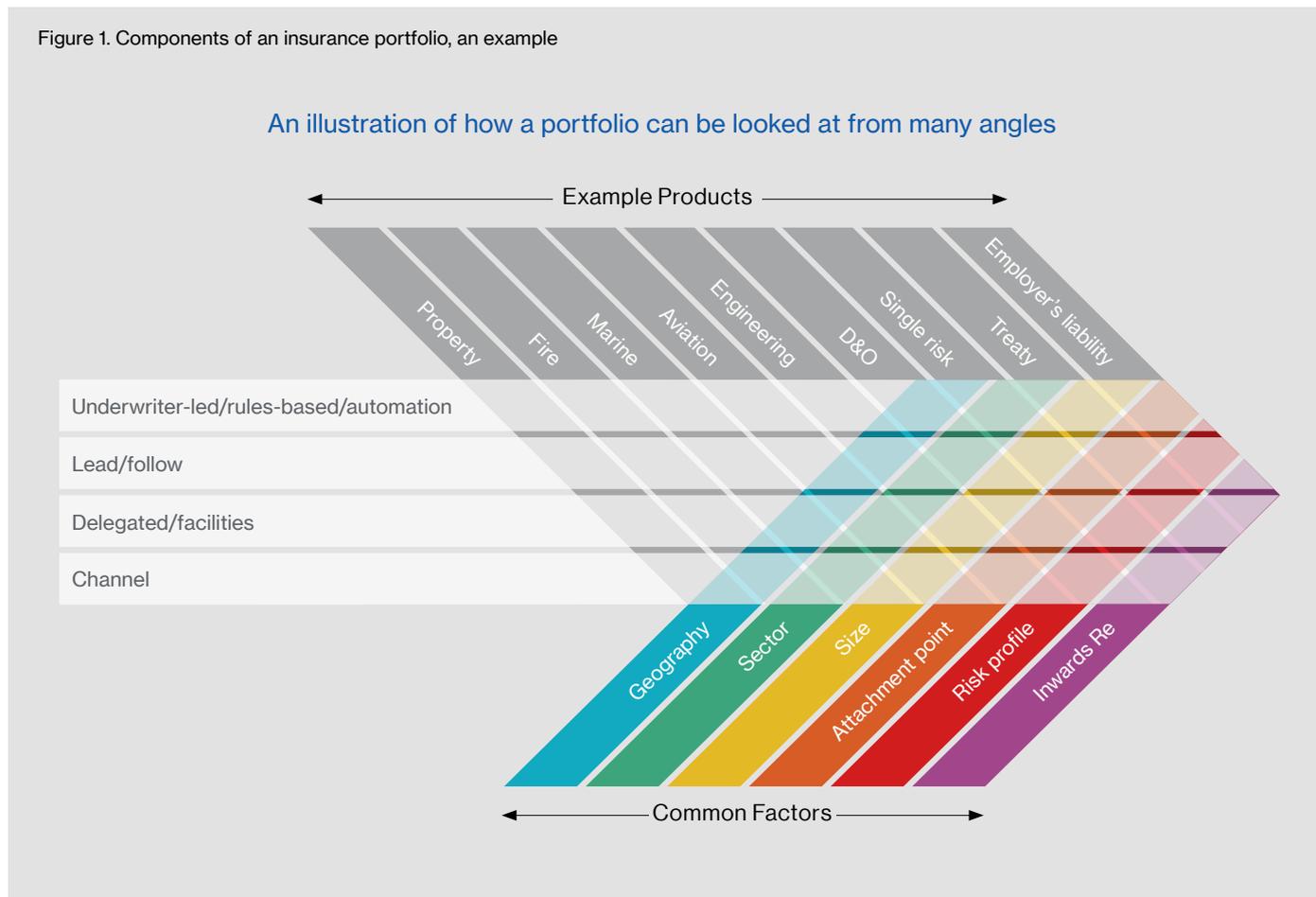
Collating relatively small groups of risks into a portfolio typically means that a grouping will share several of these characteristics. For example, one might define a portfolio as: 'UK property primary non-delegated via national brokers with premium of between £100,000 and £300,000, with a trade code of advanced manufacturing.'

Creating an appropriate portfolio of this sort entails gathering, recording and modelling data at consistent levels of granularity, which may be high, medium or low. This will allow sufficiently similar risks to be grouped and enable slicing of multiple characteristics in order to single out niche risks.

These risk groupings are dynamic in that they can be broken down into smaller portfolios as well as aggregated into bigger ones. They can also be defined in multiple ways concurrently so a given risk can form part of several portfolios as the overall book is separated into many dimensions.

How can this be applied in reality? Good practice, which is increasingly being adopted by insurers, is to divide books of business into bespoke portfolios to help drive the focus and trading activity they need to support their business plans. Furthermore, insurers also create portfolios that can be analysed, which can then be targeted with actions. Examples include profiling rate scenarios across a renewal book; reacting to adverse attritional loss ratio development; and managing acquisition costs in portfolios that have an expense profile which calls for a change of strategy.

Figure 1. Components of an insurance portfolio, an example



Therefore, it follows that no two insurers will define their portfolios in exactly the same way. But how an insurer defines their portfolios significantly impacts their ability to implement remediation plans and continuous performance improvement, as does their understanding of the performance drivers in a portfolio based on relative materiality and volatility.

This relies on some common principles and objectives. In particular, the granularity achieved by breaking down the book into the appropriate portfolios and performance drivers has a direct correlation with the ability to take specific trading actions. It is this granular level of focus and actions that delivers outperformance.

Without granularity, the dual outputs of portfolio planning – a clearly described target business mix that can be monitored closely across a range of performance metrics and/or a mix that can be modelled and analysed for future business potential – are more limited and less effective.

**Putting these two points together, the role of the underwriter in active portfolio management should be to:**

Identify a dynamic/fluid grouping of risks that can be analysed to a suitably detailed level of granularity, to drive specific actions that will improve the performance of one or more portfolios across a book of business, on both the top and bottom line.

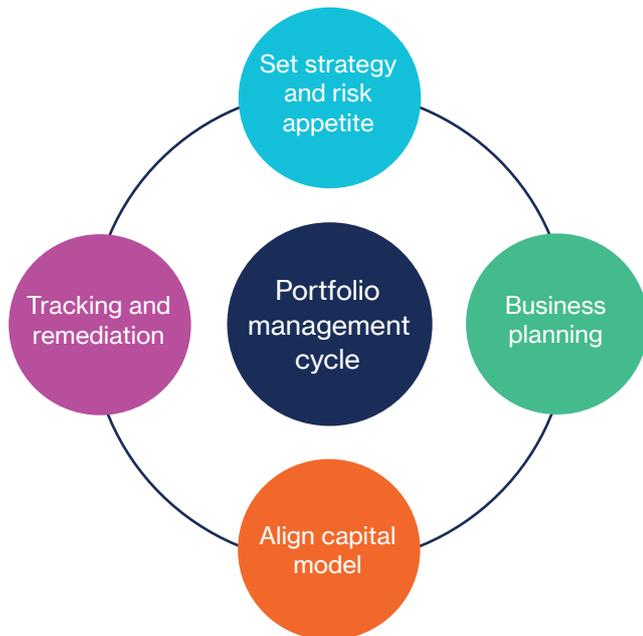
## 4.2 Management

In just about any usage, the word ‘management’ is not specific; it often means cherry-picking a range of actions and tools to achieve an objective.

In order to understand the management approach within an organisation, it is necessary to understand first the broad scope of management actions available to an insurer to impact a portfolio. These include, but are not limited to, strategy, business planning, risk appetite, capital management, exposure management, underwriting, claims, pricing, automation, renewal management, reserving, reinsurance, product and product development, sales and distribution, and risk management.

This list constitutes a broad spread of capabilities, demonstrating that portfolio management actions operate universally across the traditional functional areas of insurance companies. What these have in common is their increasingly high dependency on good quality (insightful, relevant, timely, well governed) data and analysis, and therefore on the people that can deliver these. Ultimately there should be a continuously operating cycle, within which the portfolio strategy is both defining as well as delivering the business planning process, as visualised below.

Figure 2. Portfolio management cycle



Even if the right resources are in place, portfolio management benefits from a clear operating rhythm within an organisation. This will typically have the following elements:

- A strategy that has been developed for how each portfolio will deliver outcomes that in turn deliver the business plan. This strategy should be in line with the risk appetite of the organisation and include the necessary business functions to achieve it.
- There is effective implementation through (amongst other things) communications and appropriate actual versus expected monitoring.
- Good performance management tools that provide both automatic and self-service management information. This facet emphasises the importance of a good data and analytics strategy.
- A minimum set of critical, actionable key performance indicators that all portfolios monitor on a regular basis in a consistent manner and which form the basis of monthly reporting.
- Regular oversight through portfolio steering where the results are reviewed and appropriate correction actions are agreed/deployed.
- A detailed portfolio plan based on dynamic portfolio segmentation that has been tested through scenario modelling. Scenario modelling itself can take several forms: based on several pre-defined trading scenarios with added sensitivity analysis; artificial intelligence-suggested scenarios that can be evaluated; established statistical or stochastic methods such as mean variance optimisation or Monte Carlo simulations.

A final component in effective portfolio management is speed and/or agility – how quickly an organisation can identify and respond to issues in their portfolio. Very often, this will be tied closely to a company’s forward-looking analytics capability. (In this context, speed also means an appropriately agile but considered pace. Often a lot can be accomplished with the correct timing.)

The speed and agility of an insurer to spot deviations from the portfolio plan, analyse the reasons for it and then implement corrective actions marks out insurers adhering to best practice portfolio management.



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### 4.3 Active

The explanation for the addition of active when referring to portfolio management is simple. Proactivity is key when looking to improve business performance. It is not enough to respond only with pace. Best-in-class insurers in this space adopt a forward-looking approach.

Forward-looking is a term that is worthy of some further clarification. In this context, it means to make assumptions on how the market and risks might develop, identify the emerging trends and predict where there might be changes in assumptions that have previously been constant. In addition, it is about using well-founded data from the past to inform what might happen in the future, using a range of techniques from simple parameterisation to more complex stochastic methods.

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To do so involves using intelligence (be that human, market or artificial) and modelling to identify market trends, opportunities and threats early, and then backing this up with the planning, management actions and monitoring to position the business accordingly.

**To summarise, the active component of portfolio management is:**

A framework for proactively looking for opportunities as well as issues, cascading a strategy into a detailed action plan and then executing against it quickly.

## 5. Benchmarking portfolio management

There is a marked difference in portfolio management performance across the organisations that participated in the study and, as mentioned previously, for Lloyd’s syndicates there is an observable link to profitability.<sup>3</sup>

Respondents were grouped based on their overall portfolio management score. The differences in performance can be summarised as follows:

Figure 3. Portfolio management performance groups

Emerging performers	Mid performers	High performers	Out performers
22% of respondents	33% of respondents	30% of respondents	15% of respondents
0% of emerging performers think portfolio management has an impact of 5% or more on COR	20% of mid performers think portfolio management has an impact of 5% or more on COR	39% of high performers think portfolio management has an impact of 5% or more on COR	44% of out performers think portfolio management has an impact of 5% or more on COR
<ul style="list-style-type: none"> <li>• <b>Emerging performers</b> consider it to be slightly important and have no plans to invest – although typically estimate COR impact at ~2%.</li> <li>• <b>Emerging performers</b> are feeling dissatisfied about the tools available today and have low levels of confidence this will be remedied in the future. They are negative about their ability to assess segmentation and business mix.</li> <li>• They find it difficult to deploy portfolio management strategy to the front line. Almost all poor performers in Lloyd’s reported being either extremely or very reliant on spreadsheets.</li> <li>• <b>Emerging performers</b> see that there is at least three months to identify and remediate an issue in their portfolio. They will either be neutral or disagree that there are strong controls in place. They will not be tracking the business mix in 2019 – some have plans to do so in 2020, but not yet all.</li> <li>• They feel dissatisfied in the people having the skills they need, and also do not believe this will be addressed over the next two years.</li> <li>• <b>Emerging performers</b> are either neutral or disagree that there is effective alignment between plans, risk appetite and portfolio strategy; and all report issues in cascading a target business mix, target price and target portfolio strategy. Where DA, Follow or Inwards Re business applies they report it is either difficult or very difficult to manage.</li> <li>• They also report there are ineffective plan testing processes, with insufficient use of scenario modelling and no confidence it will improve over the next two years.</li> </ul>		<ul style="list-style-type: none"> <li>• <b>Out performers</b> consider portfolio management to be extremely important, with almost half estimating an impact of 5% or more, and 67% indicating an impact of at least 3%.</li> <li>• <b>Out performers</b> have the tools in place to be able to assess the portfolio to high levels of granularity, with good segmentation and mix indices in use, with well described business mix.</li> <li>• They are confident that these tools are available to the front line and out performers report having far less reliance on spreadsheets to run their business. Out performers integrate their pricing tools into decision support for the underwriters.</li> <li>• Confidence in the future is markedly higher for the bigger businesses (&gt;£500m GWP) but crucially size is not a factor in the ability to run without spreadsheets.</li> <li>• <b>Out performers</b> have fast response times with identification and implementation of portfolio issues between one day and two weeks. They will strongly agree there are strong controls in place, including on price adequacy and rate. They will have effective tracking of the business mix in place.</li> <li>• They will have high regard for how well people are trained, and are confident this will be improved over the next two years.</li> <li>• <b>Out performers</b> strongly agree that there is strong alignment between plans, risk appetite and portfolio strategy; supported by strong internal cascade and governance processes. They experience no difficulty in extending this to DA, Follow and Inwards Re.</li> <li>• They say that there are robust processes to test plans, including against macroeconomic factors and market realities, with use of scenario modelling. There are very high levels of confidence that there is consistency on ULR’s and Cat/Large/Attritional Claims.</li> </ul>	

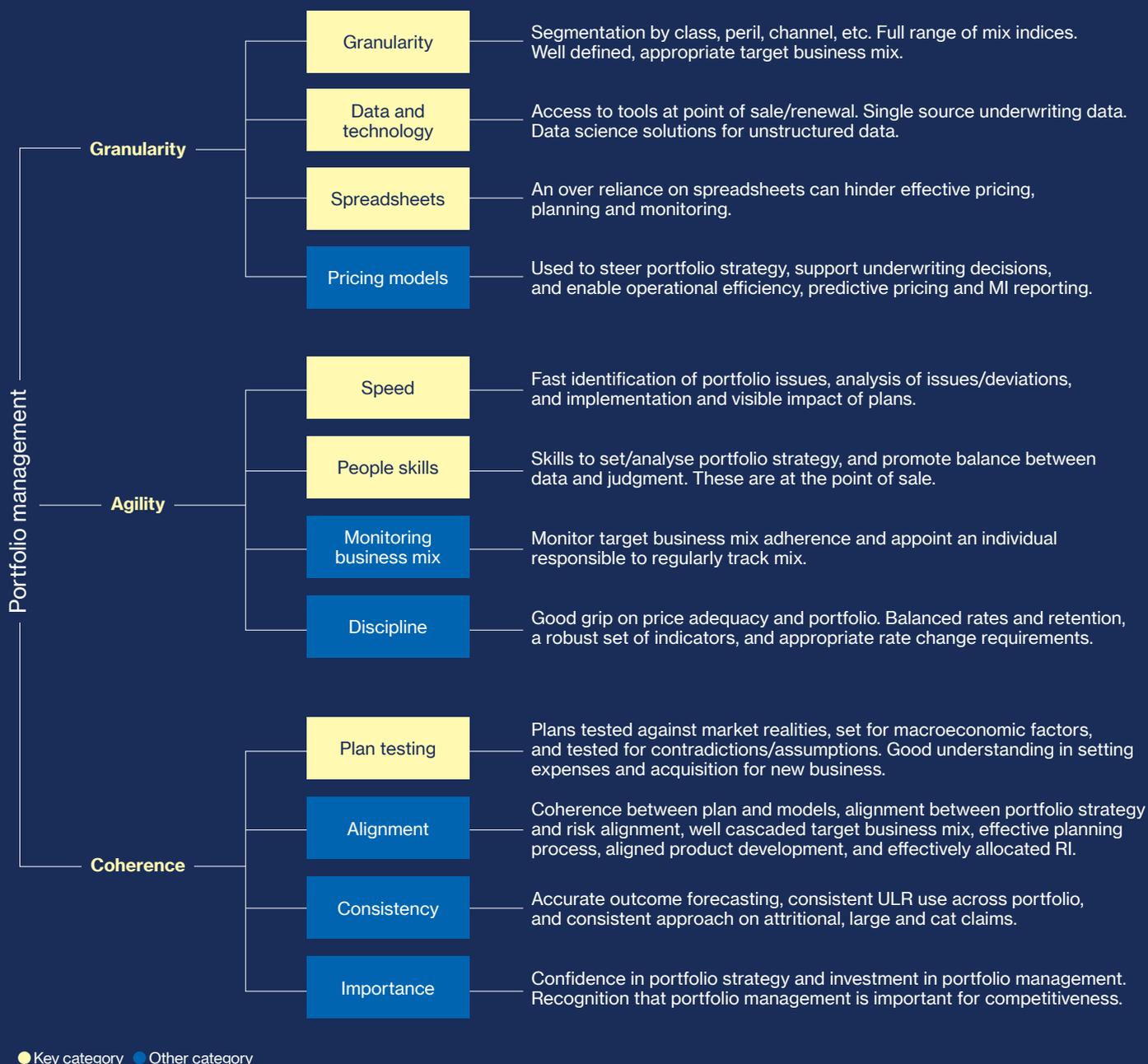
<sup>3</sup> No individual syndicate responses have been shared with the Corporation of Lloyd’s; the analysis was done using aggregated and anonymous data by our partners Willis Towers Watson

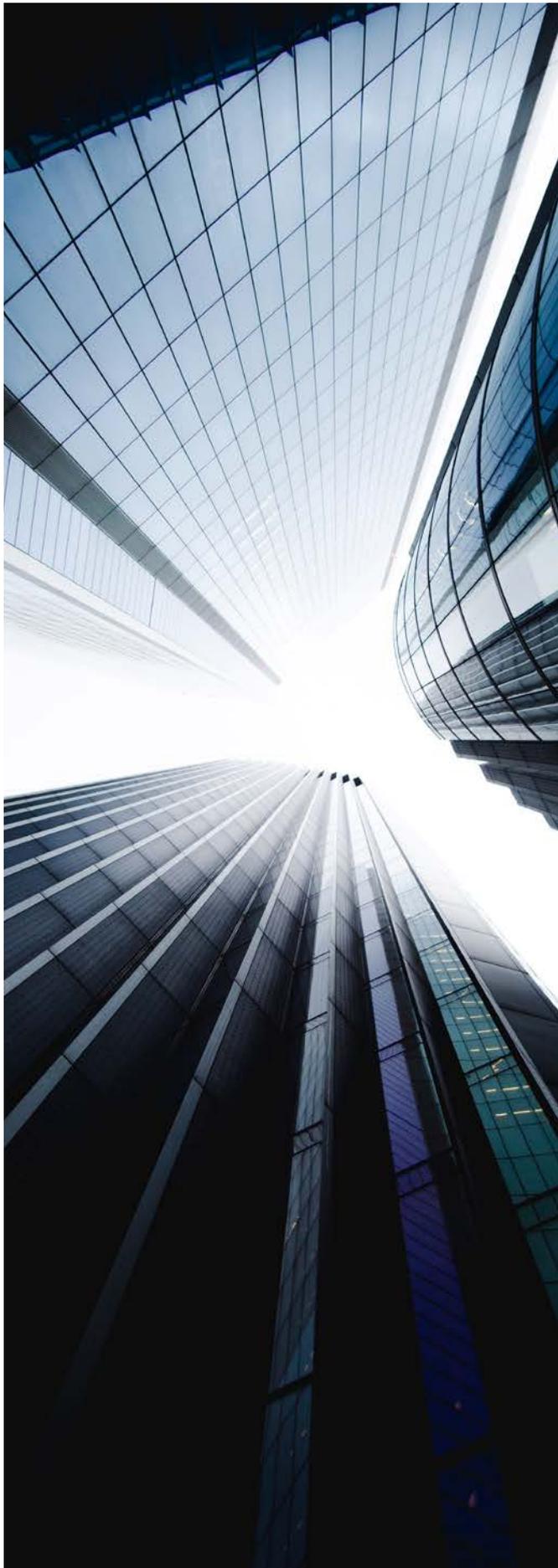
The benchmarking was based on 72 attributes that were classified into three main groupings:

1. **Granularity** – how an insurer can divide its book into meaningful portfolios.
2. **Agility** – creating fast, agile and effective responses.
3. **Coherence** – how the business comes together.

These three groups were divided into 12 categories and 72 attributes as described in Figure 4 below.

Figure 4. Grouping the attributes of portfolio management





Of the 12 dimensions, six in particular appeared to be more significant in determining whether an organisation has an effective portfolio management framework (highlighted in yellow on Figure 4). These are the areas insurers should be focusing on (see the maturity analysis below for more detail).

However, it is worth commenting on business mix monitoring, which appears to be a hygiene factor only – in other words, it is a necessary initial capability but after that appears to make little impact on differentiated performance. It’s more what the organisation does with the information that counts. Equally the emerging performers group is highly reliant on spreadsheets as a foundational capability.

Summarising the graphic in Figures 5a and 5b, the ability to dynamically slice the portfolio with the right technology, with the right people to interpret the results and to have suitable infrastructure in place to move quickly, are critical to successful active portfolio management. Additionally the robust testing of plans is also an essential factor.

Figure 5a. Key categories which drive differences in performance level

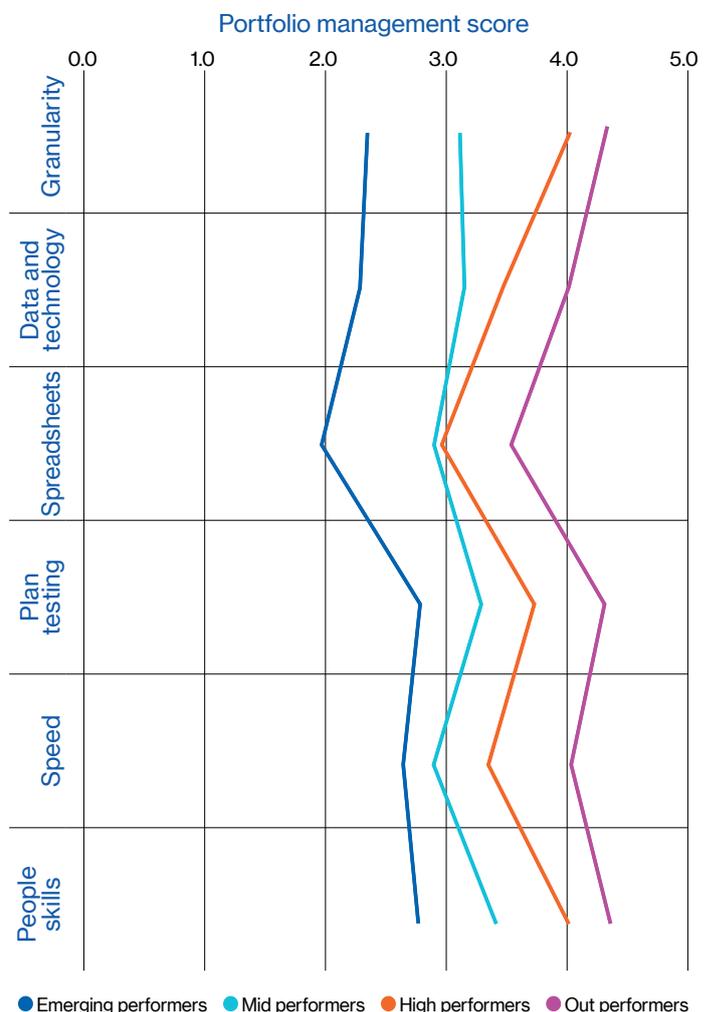


Figure 5b. Characteristics in key categories of each portfolio management performance group

	Emerging performers	Mid performers	High performers	Out performers
Granularity	Lloyd's respondents more negative about abilities to segment/use mix indices – non-Lloyd's responses more in line with Mid performers. Sentiment that they do not have appropriate level of granularity or defined/target business mix.	Segmentation and mix indices were executed somewhat well, although <£500m GWP syndicates in this segment were less confident. They were also likely to be neutral on the appropriate level of granularity or target business mix.	This was done well or very well. More likely to be an appropriate level of granularity or target business mix. Sentiment likely to be stronger if Lloyd's syndicate is more than five years old.	Respondents reported this was done well or very well. There is a higher level of confidence in Lloyd's >£500m GWP compared to the other out performers in this category.
Data and technology	Group uniquely dissatisfied in capabilities across all areas, and Lloyd's respondents are not confident in improvements in two years. Non-Lloyd's have much more confidence in improvement.	>£500m GWP have markedly lower satisfaction in current capabilities, and overall low confidence in future improvement. >£500m GWP have less confidence in managing unstructured data, and <£500m GWP in current tools used.	>£500m GWP are satisfied or neutral on current capabilities, but not very satisfied. They have confidence in improvement in two years, with some very confident. Confidence again lower for syndicates <£500m GWP.	>£500m GWP very satisfied in current tools, aside from use of data science for unstructured data, but confident in improvement. <£500m GWP have lower current satisfaction but confidence in improvement.
Spreadsheets	Lloyd's respondents extremely/very reliant on spreadsheets to run their businesses. Marginally better in non-Lloyd's, but most still very reliant.	Most >£500m GWP respondents very reliant on spreadsheets. Smaller syndicates marginally less reliant, and non-Lloyd's less reliant again.	Variation in levels of reliance – all are reliant to some extent (from somewhat to very reliant). No material difference by size, suggesting that size is agnostic to success.	Organisations had limited reliance on spreadsheets (not at all to somewhat reliant). >£500m GWP syndicates slightly less reliant than smaller syndicates. Size overall unimportant.
Plan testing	Disagreement that plans are robustly tested, and dissatisfaction that there is scenario modelling. No confidence of implementation within two years.	Almost identical self-assessment to high performers. Little confidence that scenario modelling is being done, but confidence in improvement in two years.	Attributes are in place, although not strongly. More likely to not be satisfied in scenario modelling, but confident in improvement in two years. This holds across all segments.	Confidence in robust plan testing based on these attributes, and satisfaction in scenario modelling. Strongest for Lloyd's >£500m GWP, slightly less strong for Lloyd's <£500m GWP.
Speed	Response times take at least a quarter, sometimes longer. No real difference between segments.	Generally delivering a response within a quarter, but wider variation. Issues often identified within a month but plans take longer to implement. Slightly slower response in Lloyd's <£500m GWP and non Lloyd's.	Similar response times reported across all segments. Overall responses are within two weeks to one month.	>£500m GWP syndicates can identify and respond to issues within a day to a fortnight, with impacts seen shortly after. Smaller syndicates respond within a fortnight. Younger syndicates are also faster, dependent on size again.
People skills	Overall businesses do somewhat/not at all well. General dissatisfaction in skills people have, and low confidence in improvement in two years. Slightly less negative for non-Lloyd's.	Responses are positive regarding training and neutral regarding current satisfaction. Slightly confident in improvement within two years.	Sentiment is overall confident. Responses are positive regarding current training and skills people have. Confident in improvement in two years.	Organisations do well/ extremely well in developing portfolio management skills, and are satisfied in the level of skills in their business. Confident in improvement in two years. Lloyd's >£500m GWP generally more confident.

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## 6. The role of the portfolio manager

So far, the report has focused on an organisation's ability to analyse its portfolio; however, individual skills are also essential to first-class portfolio management, so now the attention is turned to portfolio managers.

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As described previously, multiple business functions may be involved in portfolio management and there is no single best way to approach it. Nor is there one best way to assign accountability for managing a portfolio. Organisations do this in different ways, either by appointing a dedicated portfolio manager or by making it part of an existing role.

If it is part of an existing role (and it could form part of any number of roles), it often falls upon the head office/senior underwriter. Naturally, it is essential that the responsibility comes with a 'convening' accountability and authority for bringing the necessary resources together, and has the appropriate operating structure to support it. The role is, therefore, often built around an individual who has the right skills and motivation rather than created as a specific role.

This convening accountability is necessary given the breadth of input required for successful portfolio management. Bringing together the right expertise – business and market knowledge, strategy and planning, technical pricing, risk selection, exposure control and accumulation management, underwriting, reinsurance, claims, and reserving, for example – is critical for driving effective actions across a set of portfolios.

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Because of the range of skills needed, as well as the requirement to convene a disparate number of teams, our research shows the best portfolio management is often delivered by a purpose-built team, built around one individual who is the ultimate decision-maker.

Just as important though is having an analytical framework and repeatable process in place. This process shouldn't be dependent on a single person; rather, it should be an iterative process into which any individual with the right mindset and skills can fit.

This research shows that a good portfolio manager demonstrates capability through the following characteristics or elements:

- Annual strategy and business planning.
- Weekly/monthly portfolio monitoring.
- Periodic, thematic deep dives.
- Regular development and implementation of rate plans and pricing, ensuring there is regular and appropriate liaison between business functions that can influence the result, and that the data is detailed enough (at exposure level, not just policy or financial).
- The skills and energy to drive the pace and agility needed to deliver outperformance.

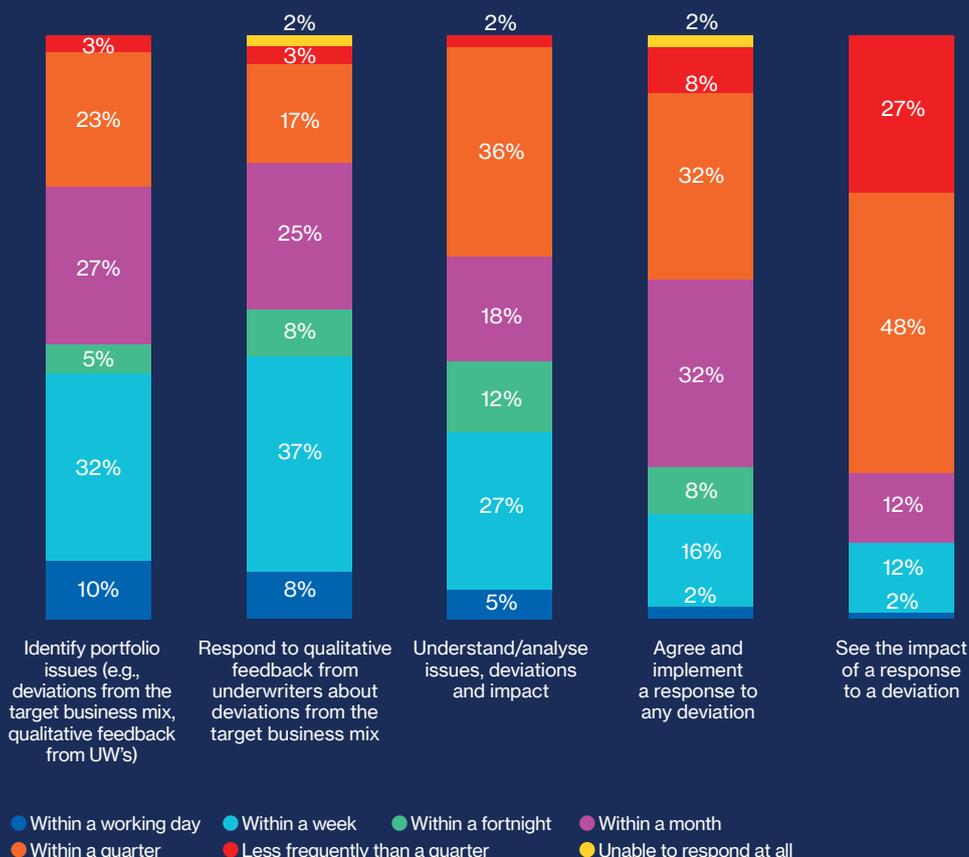
A portfolio manager does not need to know everything but needs to know enough to be able to challenge ideas and proposals, and convene the right expertise. Therefore, the principal competencies needed to be successful in this role are:

- The capacity and insight to bring together a wide brief.
- The ability to understand the technical elements and performance drivers of the portfolio in question.
- Cross-functional engagement and influencing capabilities.
- A highly collaborative approach.
- The skills to be able to get the best out of the analytical support functions.
- The ability to execute against an operational plan (and show track record of profitable underwriting).

- An understanding of how technology can deliver first-class portfolio management (the more complex the organisation, the more technology needs to operate at scale).
- Experience of the appropriate governance required for these processes, especially to avoid the risk of selective use of data to support a position, which can be a systemic issue if not appropriately managed.

Portfolio managers and portfolio management functions are responsible for the speed of response in identifying issues through to a successful remediation. Our survey shows there is a wide range of capability in the London Market in this respect. Only a quarter of respondents said they could deploy a solution to a business issue that has been identified by portfolio management within two weeks, and then see a result within a month (see Figure 6 below).

Figure 6. **Question:** How quickly can your organisation complete the following?



**46.7%** of respondents' organisations can identify portfolio issues within a fortnight

**26.7%** of respondents' organisations can agree and implement responses to deviations within a fortnight

**13.3%** of respondents' organisations can see the impact of responses within a fortnight

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## 7. What does 'good' portfolio management look like?

### How to tell if an organisation carries out good portfolio management?

Portfolio management covers a wide brief within insurance organisations, and so there are a number of factors which should form part of a detailed assessment of this capability. Three key elements which are critical to portfolio management are a clearly defined strategy, making good use of available data to derive and monitor the strategy, and appropriate deployment of tools and techniques to execute the strategy and to derive insight.

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#### Strategy

It is essential to articulate the portfolio strategy and to make sure it is understood throughout the organisation. There are three good indicators that an actionable portfolio management strategy is in place:

- An agreed and widely cascaded risk appetite statement (the easier to follow, the better).
- A portfolio plan that describes the target business mix, and how the underwriting, pricing, reinsurance and risk control/exposure management strategies align to deliver the target business mix. Critically, the portfolio plan should directly align with the business plan, making it easy to see how it flows into the financials.
- A monitoring process that quickly identifies changes to the portfolio plan and ensures appropriate management actions are taken to address any adverse variances.

#### Data

Operating without much data, as can be the case in certain commercial lines, is no reason not to pursue an active portfolio management strategy. Even with minimal data, insurance companies are accustomed to forming a shared view of the future leveraging in-house expertise, embedded in the plan.

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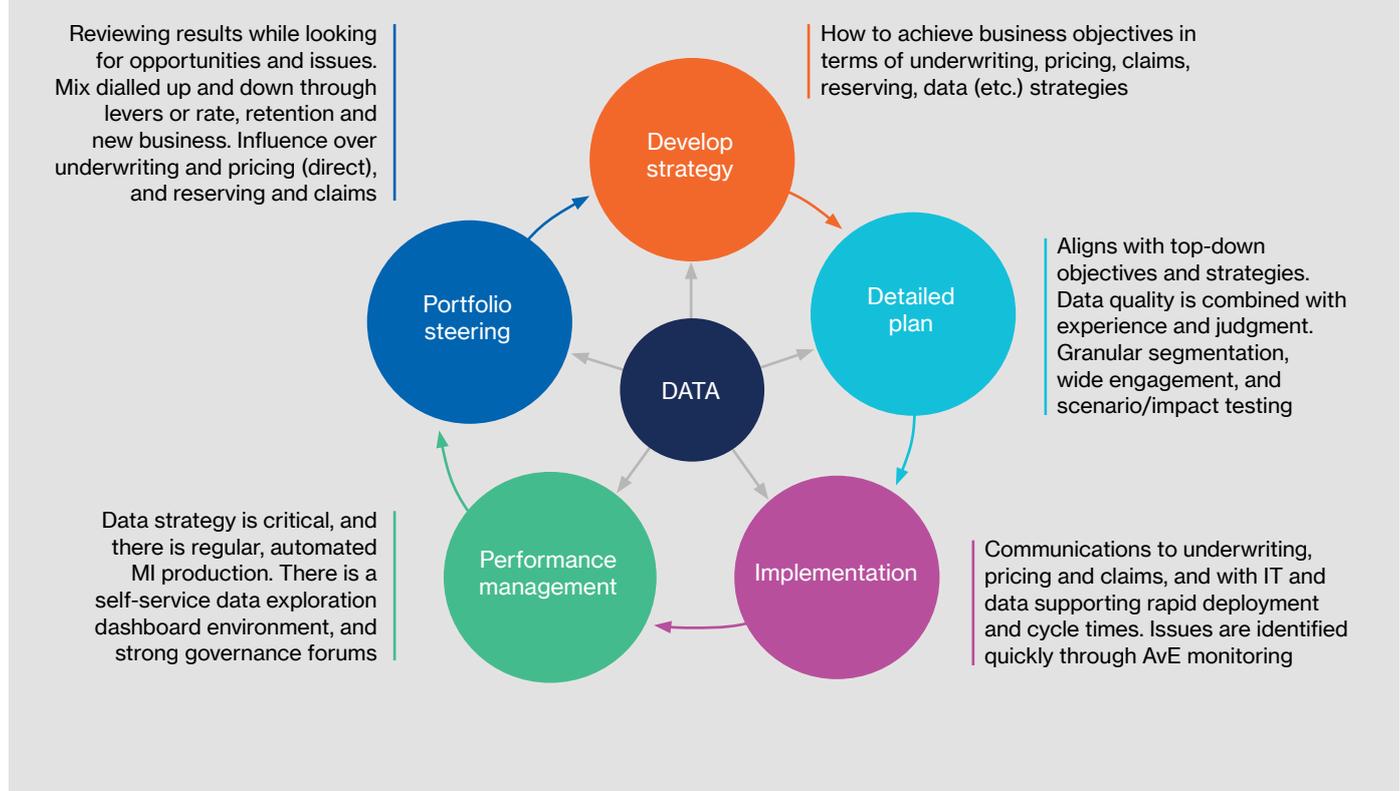
Close actual versus expected analysis of performance against plan forms a key part of the portfolio management cycle. With a clear data strategy, portfolio management can become more 'active' over time as the cycle is informed by an evolving data asset.

Interrogating the most detailed data available, and assessing how well the various data sources are integrated (such as exposure, pricing, claims data, financial and operational data), will also help determine what level of portfolio management an organisation can achieve without major investment in new tools.

#### Tools and techniques

The toolset available to portfolio managers is an important enabler of successful execution of strategy. Selecting the most appropriate tools and techniques which align with current capability without constraining future ambitions requires a clear strategy and understanding of direction of travel (a follow-up short report will be covering this). The kinds of tools and techniques available include: actual versus expected; market intelligence scorecards; dashboards; optimisation tools; tools giving a view of development over different years; pricing tools/curves; modelling the impact of commissions and brokerage; and more sophisticated tools using third-party data augmentation. This list is by no means exhaustive.

Figure 7. Data management supports the portfolio management cycle



So, in summary, active portfolio management is exercised when:

- There are meaningful groupings of risks that can be analysed in depth that allow organisations to identify the drivers of performance.
- There is a plan for each of these groupings that has been subject to scenario testing and more sophisticated analytical and stochastic modelling techniques, and which aligns to the business plan, backed up by appropriate monitoring.
- All business functions are brought together to ensure they are integrated with wider business strategies and to ensure that any deviations from the plan are identified and understood quickly so that fast remedial action can be taken.
- Responsibility for managing the portfolio sits with the right individual in the organisation who has the skills and authority to bring everyone together. This includes the ability to recognise and communicate the potential implications for capital management.

Figure 7 above shows the typical insurance portfolio management cycle.

Good active portfolio management has benefits for insurers. It allows them to systematically improve the different parts of their book; it means they can fix issues, prevent new issues and build work towards outperformance. Our research shows these typically translate into upper quartile combined operating ratios, with the competitive advantages these confer.

Good active portfolio management is more than being able to react quickly to emerging issues within a book of business. The best practitioners are forward-looking, but use the past to inform and influence decisions and are proactive in looking for new opportunities and threats.

## 8. Approaches and tools

Establishing and improving portfolio management in an organisation can be challenging – there may be cultural barriers to overcome, capacity and capability constraints, and technology limitations, to name just a few examples.

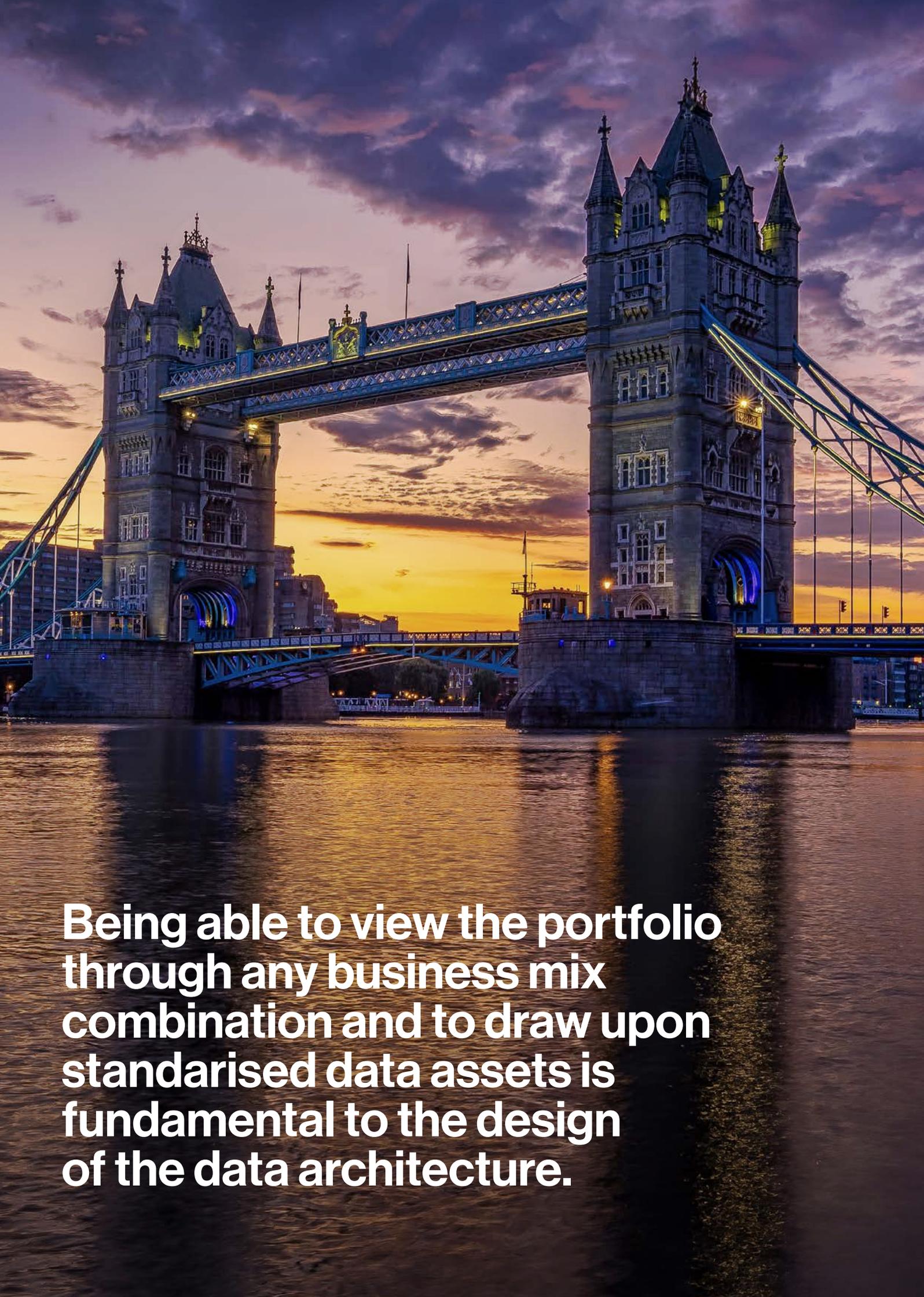
Having the best data and data analytics capability is important to overcoming these challenges – but it is how the data is organised, and therefore analysed, that delivers true competitive opportunity. Being able to view the portfolio through any business mix combination and to draw upon standardised data assets is fundamental to the design of the data architecture.

The typical business mix combinations were summarised earlier (see first two paragraphs of section 4.1) and books should be analysed to identify the meaningful groupings for each organisation. Increasingly, the deployment of machine learning can identify segments and opportunities more quickly and reliably than human expert interrogation of the data, although expert involvement is always necessary.

The aim of the analysis is to generate an accurate trading forecast of a chosen portfolio in terms of new business, rate and retention, and by channel and segmentation. This should translate into a target business mix which is commensurate with the capital strength of the business, and that aligns to an organisation's business plan and risk appetite. The congruence of the portfolio strategy, business plan and risk appetite should also be extended to the technical capability of the organisation, so that cutting-edge skills in data and digitalisation are married with specialist insurance modelling and analytics expertise.

In terms of the performance drivers in each portfolio segment, good practitioners are using their portfolio management capabilities to:

- Forecast ultimate loss ratios as accurately as possible across different combinations of business mix indices.
- Separate out attritional, large and catastrophe claims, following a consistent approach agreed across the organisation.
- Consider where absence of data or high-levels of uncertainty lead to a plan element becoming a balancing item to support a wider assumption. For example, where plan loss ratios for cat claims support a top-down portfolio loss ratio plan, rather than a ground-up estimate.
- Demonstrate a good understanding of the reserving position on performance, rate strength and releases.
- Balance rate and retention across the renewal book, where performance of the book is broken out into performance categories (e.g. deciles).
- Review expenses against the expected loss ratio development in new business, with appropriate allocation of expenses between operating and acquisition costs (especially for delegated authority facilities). Insurers with leading capability in this area are able to make granular allocations of expenses/acquisition costs both to and within each line of business, segment, etc.
- Put in place and monitor the right reinsurance requirements to reflect the target risk retention in the portfolio, thereby achieving the right balance between gross and net.
- Track deviations against business plan and put in place timely remedial actions.



**Being able to view the portfolio through any business mix combination and to draw upon standardised data assets is fundamental to the design of the data architecture.**



## 8.1 Building the framework

Applying these more broadly, there are two approaches that tend to drive good portfolio management.

The first comprises regular and systematic testing for contradictions in the plan assumptions, such as rate versus retention, acquisition versus administration/operating expenses, loss development versus price adequacy and capital modelling versus reserving. An approach that detects and addresses these is an indicator of good portfolio management. A more comprehensive approach will also track price adequacy and rate strength to a granular level (e.g. property fire peril by hazard level).

The second, which is connected but separate to the above, is to use scenario modelling. Plans that have been created by running a series of “what ifs” that test which combination of assumptions is most likely are more likely to deliver the target result.

What separates the best companies in this area is how extensively the relevant parts of the business contribute to and work through the assumptions in the plan. This reinforces the need for a portfolio manager who has the collaborative skills previously outlined.

Both approaches should call out assumptions in the portfolio plan. When a change to one assumption flows coherently to other parts of the plan, with all relevant parties aware of and agreeing to the change, an organisation has most likely mastered both the detail of the assumptions and the involvement of the business in the portfolio plan.

These should also result in managing the cross-subsidies well, i.e. when a product comprises several classes but should be understood from a product rather than business class level. This is particularly relevant in Lloyd’s where syndicates will maintain their own risk class hierarchy, distinct from the Lloyd’s classes.

The best practitioners also set their portfolio strategies in the context of economic and market realities. For example, how do the rate assumptions in the plan compare with rates being carried in the market? How do the plan assumptions reflect the macro-economic indicators on, for instance, payroll, the impact of different levels of economic activity on trade and stock levels, and long-term capital returns versus in-year returns?



## 8.2 Warning signs

Signs of poor portfolio management include:

- Inadvertent changes to the business mix
- Rapid growth without reinsurance protection
- Simplistic rate planning resulting in lapses of quality business
- Growing into new areas without expertise, including claims and lacking the capability to handle new risk types
- Rapid growth in delegated authority business with poor controls
- Relaxing policy wording to chase market share
- Reserve releases to Generally Accepted Accounting Principle (GAAP) and Year of Account (YOA)
- Variance in actual versus expected in incurred loss ratios
- Administration/operating costs not flexing in line with the top line
- Flat expense allocations across classes or functions
- High acquisition costs for delegated authority business
- Inability to split loss ratio or acquisition/commission ratio by distribution channel
- Long-term escalating commission deals



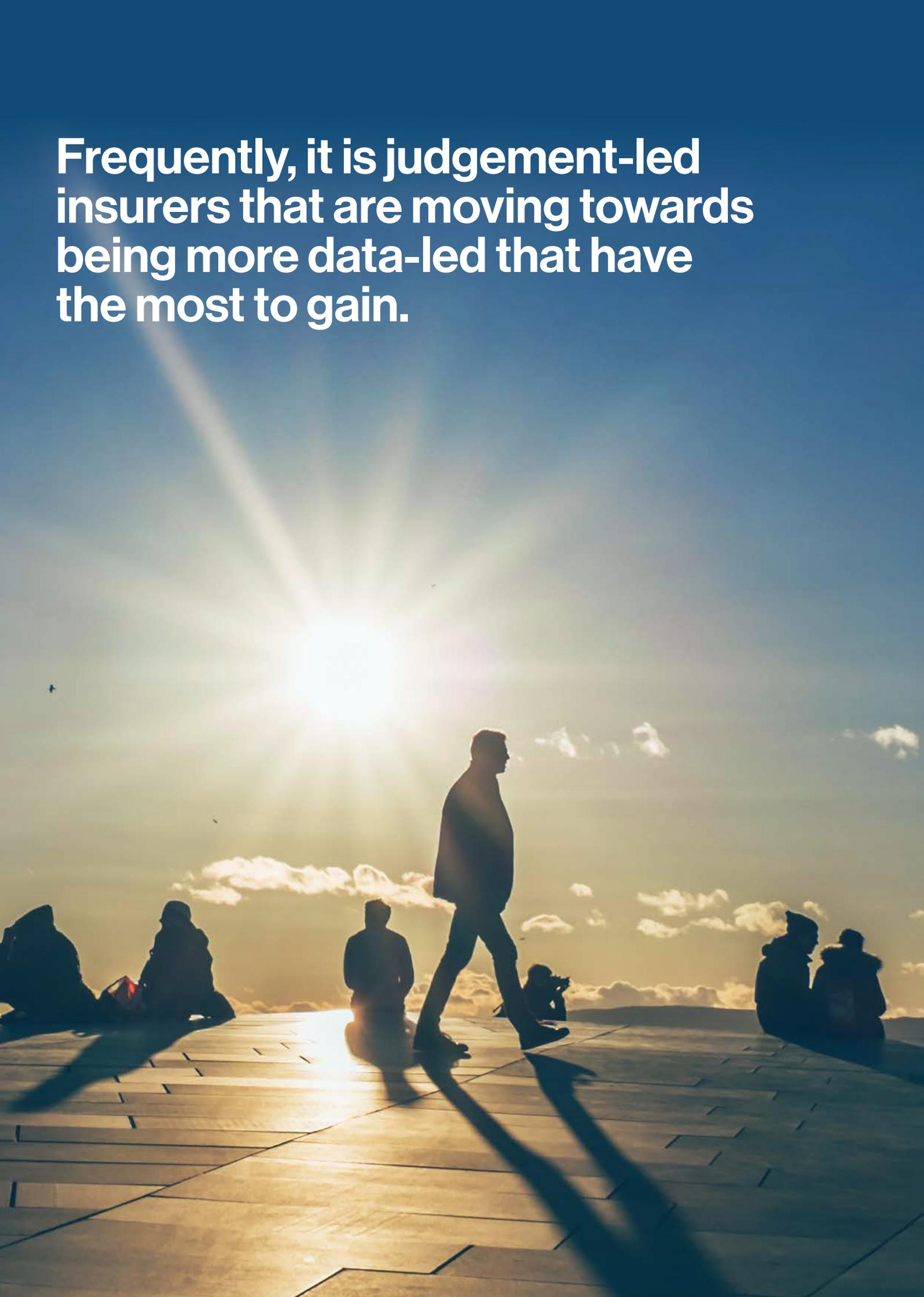
## 8.3 Positive signs

Signs of good practice include:

- Premium mix monitoring
- Distribution analytics, extending to pipeline
- Renewal propensity scoring
- Robust pricing models, which explicitly allocate acquisition costs
- A scenario-modelled rate plan
- Monitoring of underwriting and claims capability to changes in the plan
- Tight feedback loops between claims and underwriting, extending into reserving and capital modelling
- Transparent risk-cost pricing, underpinned by a well-articulated pricing architecture and data strategy (as mentioned previously)
- Modelling profitability at various commission levels before entering a deal
- Trended versus plan versus rolling analysis
- Visualisation of mix indices
- Modelling attritional, large, property catastrophe and casualty catastrophe claims appropriately



**Frequently, it is judgement-led insurers that are moving towards being more data-led that have the most to gain.**



## 9. Implications for skills requirements

Delivering high quality active portfolio management in the short and longer term does have skills implications for organisations.

In deploying portfolio management, organisations have to strike their own balance between being data-led or expert judgment-led. Neither approach is wrong, although the nature of the interaction between the two has moved towards the former in recent years. Where an organisation places itself on that spectrum, though, will depend on the needs of the business and the data assets it can harness.

A data-led organisation, while in no way dispensing with expert judgement, will tend to have an integrated data architecture that provides granular, good quality data, typically with an analytics function and the ability to deploy analytical tools such as predictive models and intelligent automation.

An expert judgement-led organisation will typically be underwriter-led, with more heterogeneous, complex risks that require experience and judgement because of a lack or absence of data.

The bigger the business, the greater the opportunity for the “bucketing” needed in portfolio management. Frequently, it is judgement-led insurers that are moving towards being more data-led that have the most to gain.

A good starting point for more expert-led insurers is to conduct a volatility versus expected loss analysis (see Figure 8) of their portfolios to determine the level of underwriting intervention which may be required, which supports case allocation. This relatively simple approach is an effective first move in introducing analytics into the underwriting function, potentially saving underwriting time, which creates the buy-in for the concept of supplementing judgement with analytics to support decision-making (decision support).

Figure 8. Determining the level of underwriting involvement

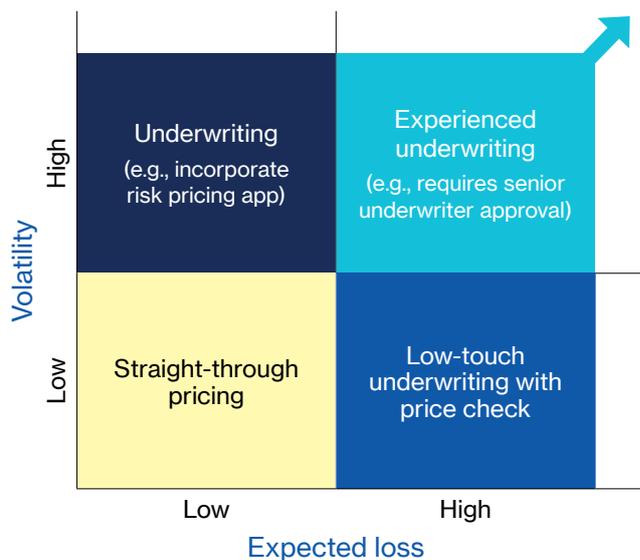


Figure 9. Evolution of underwriting



## 9.1 Role evolution

Looking ahead, parts of portfolio decision-making will increasingly be automated or more commonly, will augment underwriting decisions, providing analysis and recommendations to help improve decision-making. The parts of the decision-making process that can be augmented will reflect the key assumptions in the portfolio management strategy (e.g. low-touch underwriting supporting expense assumptions). The availability of data and technology to support analytics and automation, combined with ever growing risk complexity and the need for scarce expert resource to underwrite these risks, leads to an evolution in underwriting functions. Routine tasks are made efficient through automation, and complex decisions are better supported by contextual analytical information (see Figure 9).

This suggests underwriting and claims handling will gradually include more data analysis as part of their function. A consequence of this shift will be the need to provide innovative solutions to help the less data literate, but highly expert or experienced colleagues, make the transition. The organisations that anticipate this evolution and provide for it will, therefore, fare better.

The survey shows that good practitioners are re-thinking how they organise their businesses, with the following themes emerging:

- An increased focus on data, with chief data officers becoming increasingly common. The best combine data expertise with a business-savvy approach.

- The emergence of a dedicated analytics function that works closely with finance and actuarial teams, with these functions often using hub-and-spoke models to embed analytics into different business areas whilst retaining some central coordination. Consideration should also be given to embedding dedicated analytics functions within portfolio management functions to ensure focus is maintained (as these teams can get dragged into other problems in the business).
- Specialist portfolio management teams that have insurance expertise as well as the accountability to bring together various functions within the business.
- The establishment of product teams, if they don't already exist, to ensure that wordings and pricing align to the portfolio strategy.
- Appropriate forums with the right terms of reference and with the right combination of mandatory and optional attendees.

## 9.2 Collaborative culture

Executives who understand that regular meetings of senior personnel are critical to understanding and steering the portfolio strategy, and ensuring quick responses to issues, will put their organisations on the front foot. They should, therefore, invest time and energy into making sure that collaborative decision-making around portfolio management happens across the business. To do this effectively, they could benefit from putting in place an operational blueprint that sets the strategy, monitors issues and ensures agile responses. This should be built on and embedded within a business culture that fosters and facilitates the type of collaboration necessary.



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## 10. The insurance industry's direction of travel

The survey shows there is a clear direction of travel in relation to portfolio management as insurers respond to new trends. Expectations are shifting, and in a competitive environment insurance companies are looking for an edge.

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At present, some insurers are successfully harnessing their data assets to identify at an increasingly granular level where there are performance opportunities and issues. Some are modelling their renewal book on the basis of five or more factors to optimise rate and retention. Best-in-class insurers are deploying intelligent automation to help them respond faster, with more precision, and at lower cost.

To add a further focus to the intensifying competition around portfolio management, the Prudential Regulation Authority (PRA) and other regulators around the world are becoming more active in challenging insurers about the extent of the control they have over their portfolios through underwriting and pricing. Recent evidence includes the PRA's "Dear CEO" letters probing the coherence of plan versus results, and its increasing focus on going beyond the financials to analyse underlying capabilities.

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### 10.1 A window to the future

Insurance companies in the future will become increasingly dependent on harnessing technology for faster, smarter decision making. The winners will be those who manage to collect and analyse the largest amount of information, who can quickly develop new products, segments or trading initiatives to find the gaps in the market, and those who execute the strategies effectively supported by rapid deployment and portfolio management cycles to react to and solve issues quickly.

These organisations will work closely with technologists and academics. They look for opportunities to use new technologies and gear up to do so quickly. They will develop data flows and flexible platforms to push insight and analytics to support decision makers. Underwriting and claims 'workbenches' configured for specialist underwriting which easily incorporate or orchestrate third party analytical "widgets" into their underwriting or claims handling decision making will become standard practice across insurance underwriters.



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This defines the way forward for adopting intelligent automation, which allows them to make various technologies work together to automate rules-based tasks, and to apply machine learning to work with models to augment and provide recommendations for more expert elements of decision-making. This will lead to faster and more sophisticated decision-making.

How fast is fast? Today, 27% of insurers can agree and implement a response to portfolio deviations within a fortnight, rising to 58% within a month, so there is substantial room for improvement. This has been explored in more detail in section 6 of this report.

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Whilst this will lead to fewer people overall working directly in insurance, a bigger and more profitable marketplace will create more jobs for the economy. And a much higher proportion of those people who remain working in insurance will be highly skilled and expert, perhaps creating more hybrid versions of current roles. In parallel, digital technologies will shift much of the routine work away from insurers and on to web/smartphone platforms. Another consequence is that much of the work currently offshored will be increasingly repatriated, moving into automated environments.

Finally, it is expected that regulators and legislators will react to this trend. They will want to make sure that the deployment of portfolio management and analytics has been well thought through, and that the decisions an insurer makes do not undermine their solvency or disadvantage policyholders. This is likely to lead to a continuation of the trend for insurers to have to share their models to demonstrate the efficacy/robustness of their processes and how they will improve the marketplace as a whole.

## 10.2 Competitive pressures

In a crowded market place, where competition is intense against a backdrop of low growth, insurers are looking for an advantage. Until recently, it has been difficult to control every part of the insurance portfolio but advances in data management and analytics have transformed the potential of what can be achieved. These advances are making it possible to harness analytics to overcome the ageing (or otherwise constraining) legacy IT infrastructure that plagues many market participants. They allow an enhanced level of insight into the drivers of performance, and it is increasingly common to see insurers combine various internal data sources in pursuit of competitive advantage. It is now reasonably easy to integrate policy, exposure, claims and reserving databases to create new insights that insurers can use to improve decisions at the point of sale (or renewal). There are also external data sources including an increasingly large number of open-source datasets, that can augment and refine decision-making for active portfolio management.

The insurer of the (near) future will have a highly integrated platform where:

- The pricing engine is fully integrated with the portfolio management tool to allow instant impact analysis on, for example, the effect of writing a given risk or the likely impact of a scenario model.
- The pricing engine has been extensively parameterised to enable decision engines that dynamically set risk appetite or determine the routing/level of expert intervention for a given risk.
- There are artificial intelligence and machine learning components that continuously suggest improvements and refinements to models and decision engines.
- The information is presented to underwriters intuitively to augment the decision-making process, and to make calculations on the risk under consideration and its impact on the portfolio (see Figure 10).
- Behind the scenes, this integrated platform is also feeding into capital models. A feedback loop that shares the information helps portfolio managers make refinements.
- The platform informs the claims process, and feeds reserve movements and claims trend data into the portfolio decision-making process.
- The platform has an API (application programming interface) that facilitates digital trading directly with brokers and other carriers, as well as with entities such as the Lloyd's Risk Exchange that is currently being designed as part of the Future at Lloyd's.

- This level of data integration means the platform could eventually fully automate companies' reporting responsibilities.

Achieving this level of integration is already possible – all the various components exist; now it is a case of bringing them together. The Future at Lloyd's, Lloyd's strategy to build the world's most advanced marketplace, should act as a catalyst for insurers to deploy this technology. For example, some insurers are considering creating AI-powered syndicates. There will be different versions depending on the focus of the business, ranging from open market/facultative versions to others designed for binders, lineslips, facilities and treaties.

Another factor is that competition is, of course, not static. One of the forces driving insurers to adopt data analytics and apply it to portfolio management is not only to compete with other insurers but also to compete with traditional distribution channels which are using the same techniques to select and place risks with their carriers. Insurers who do not embrace portfolio management will face increasing deselection, squeezed between the increasing sophistication of both distributors and their direct competitors.

This trend is being exacerbated by three further forces:

- Capital providers, be they reinsurers or other alternative sources of capital, are increasingly using the same techniques to profile their own risk acceptance. Moreover, many capital providers have a slightly different expectation of their allocation to insurance risk than an insurer. Insurers who can demonstrate a good grip on their portfolios will find more robust investment partners and pay less for their capital.
- These same capital providers are increasingly linking up with the distributors who are also investing in portfolio management and working out that they don't need insurers as much as they used to.
- The point of sale is becoming ever more diffused, moving away from the traditional purchase points. Non-insurers are seeing opportunities to enter the market and take control of the value chain to keep the profits for themselves, where they perceive there is a strong commercial case for doing so.

Carrying out active portfolio management does not just yield competitive advantage but also represents a crucial defensive move.

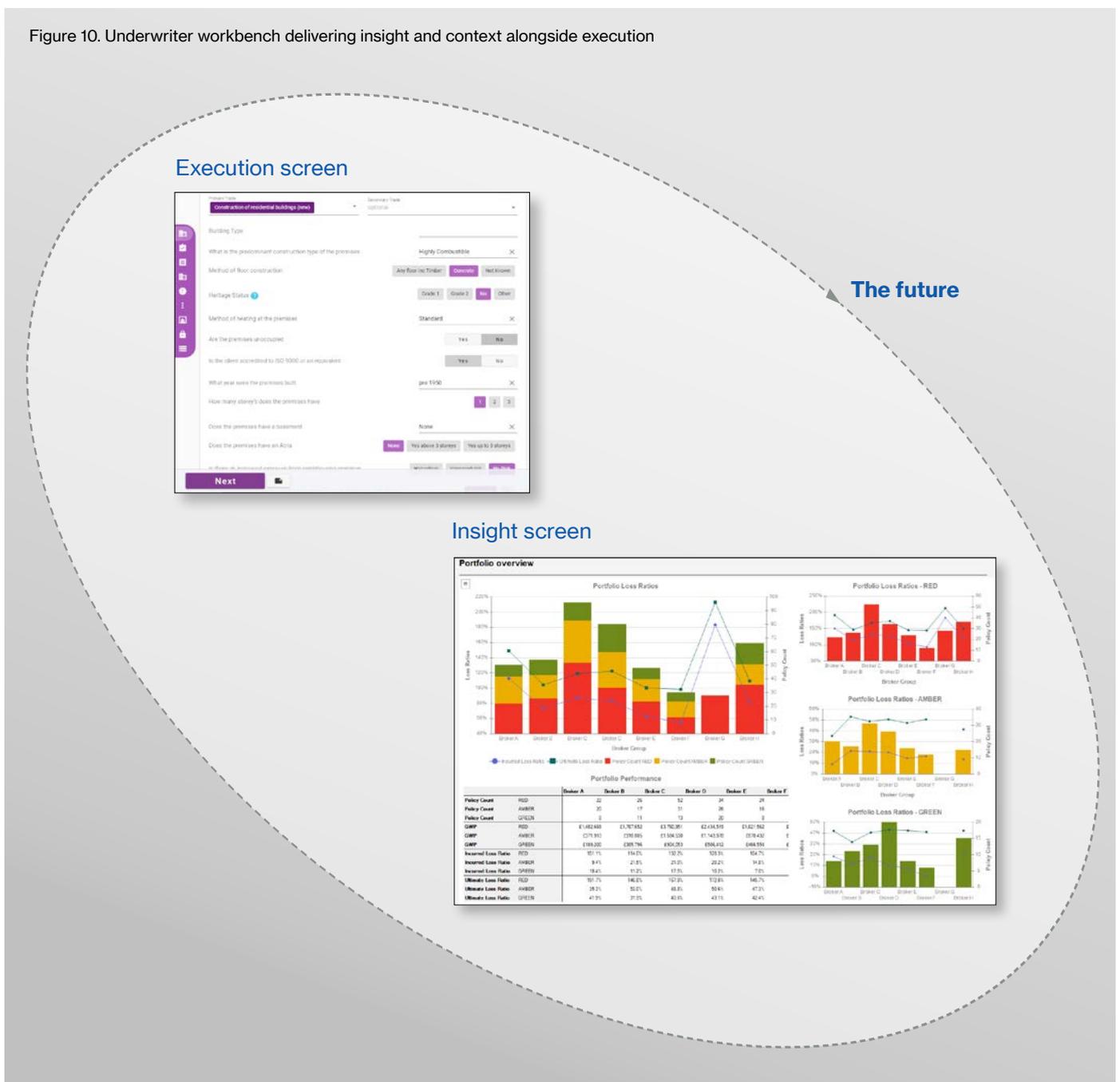
Increasingly then, it is not the case that active portfolio management is an optional strategy for improving an insurance company's results; rather it is a necessary investment for those insurers who want to survive and grow profitably. Syndicates are competing with the insurers and distributors around the world, be that on the open market for large and complex risks, or with facilities that are an increasingly large part of the commercial insurance market. These participants are using portfolio management techniques to improve their pricing and underwriting strategies, and will potentially sideline insurers who do not. Those who do not invest in the necessary technology and skills will

find themselves outflanked and if that realisation comes too late, they could be left too far behind to catch up.

Within Lloyd's, the likelihood is that those syndicates with a company owner that can provide the experience, means and motivation to deploy active portfolio management within their syndicates will be among the fastest adopters.

The recent publication of The Future at Lloyd's, Lloyd's strategy to build the world's most advanced insurance market, is a direct response to these competitive pressures.

Figure 10. Underwriter workbench delivering insight and context alongside execution





### 10.3 How insurers are responding

Across the commercial insurance market there are a number of examples of how insurers are using active portfolio management to drive improvements to their results. These companies are:

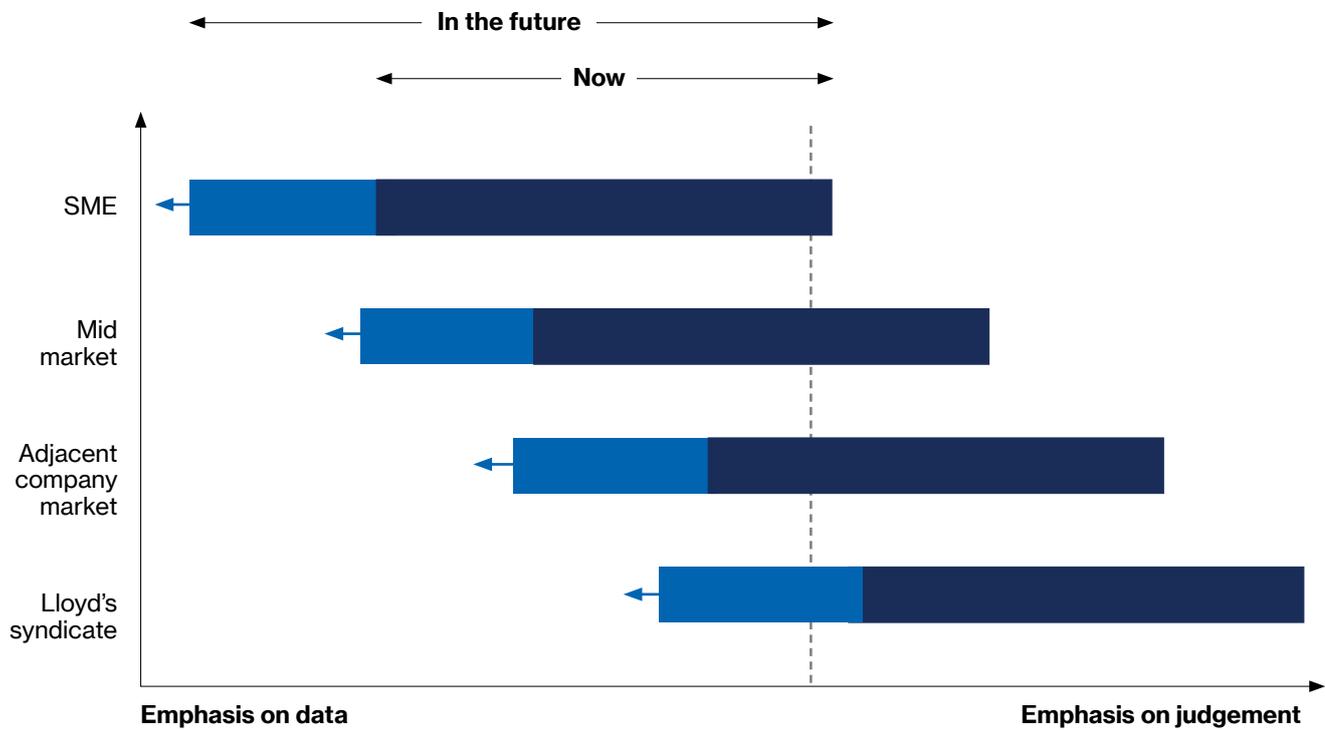
- Integrating their internal data sources within analytical software solutions to identify where they need to optimise their portfolios, with simple but effective operational deployment of plans and monitoring. In these cases, a data strategy that underpins pricing, analytics and portfolio management requirements is supporting implementation.
- Profiling their renewal books into deciles (or increasingly sophisticated segments). Depending upon historical performance and complexity, these are helping them determine different renewal strategies – from automatic renewals of some to expert review of others. They are effectively triaging their books, as well as delivering better rate and retention outcomes.
- Harnessing analytical tools to create easy/quick scenario models, and to select the optimum approach to deliver their business plans and risk appetites.
- Instigating after-action reviews where portfolio strategy decisions are followed up and tracked in order to investigate and understand deviations from plans. These insights are being used to refine plans further.

- Deploying predictive modelling, rules engines, machine learning and artificial intelligence to augment underwriting decision-making, be that quote selection, when to survey or other examples, so they tie frontline decision-making more closely into strategic portfolio decision-making.
- Reducing decision cycle times, so they can identify, analyse and act upon any deviation from plan (be that adverse or favourable) more quickly. This means that responsiveness (and therefore competitiveness) is enhanced.

This kind of activity is happening in the London Market, with those insurers who have personal lines or SME books transferring learning into the rest of the commercial market where they are competing with Lloyd's, either in the UK or in the other territories in which Lloyd's operates. Equally, a number of large insurance groups are running transformation programmes which will raise expectations for capabilities required across their organisation and, if they own a syndicate, are actively assessing how to include them. It will take time to work through but it is on the way. This raises the question of how the Corporation of Lloyd's could offer support to the wider Lloyd's ecosystem as part of The Future at Lloyd's strategy mentioned earlier.



Figure 12. Transfer of emphasis from judgement-led to data-led approaches



There will be different approaches depending on where in the market an insurer is placed

### 10.4 What next?

Over the near term, the following areas will become a reality and increase the competitive pressure on insurers:

- The unification of pricing, claims, underwriting (exposure) and reserving datasets, and analytics. This has already started and will become commonplace, and increasingly augmented with external data.
- Machine learning and scoring tools/services, which can find opportunities faster, will supplement generalised linear models and gradient booster machine modelling. Again, this has already started, and those insurers reliant on comparatively slower and less powerful spreadsheet raters will find themselves increasingly at a disadvantage.

- The use of machine learning to augment the granularity of data e.g. transforming claims data at policy level via machine learning to vehicle or object level.
- Electronic trading, which includes connected broking, will become an increasing feature of how the market trades. A central part of Blueprint One, which are the plans for delivering The Future at Lloyd's, is a move towards digital trading. Blueprint One details plans for a Lloyd's Risk Exchange, as well as a Complex Risk Platform. Those insurers who have a deep understanding of their data will go into this new world with an inherent advantage.

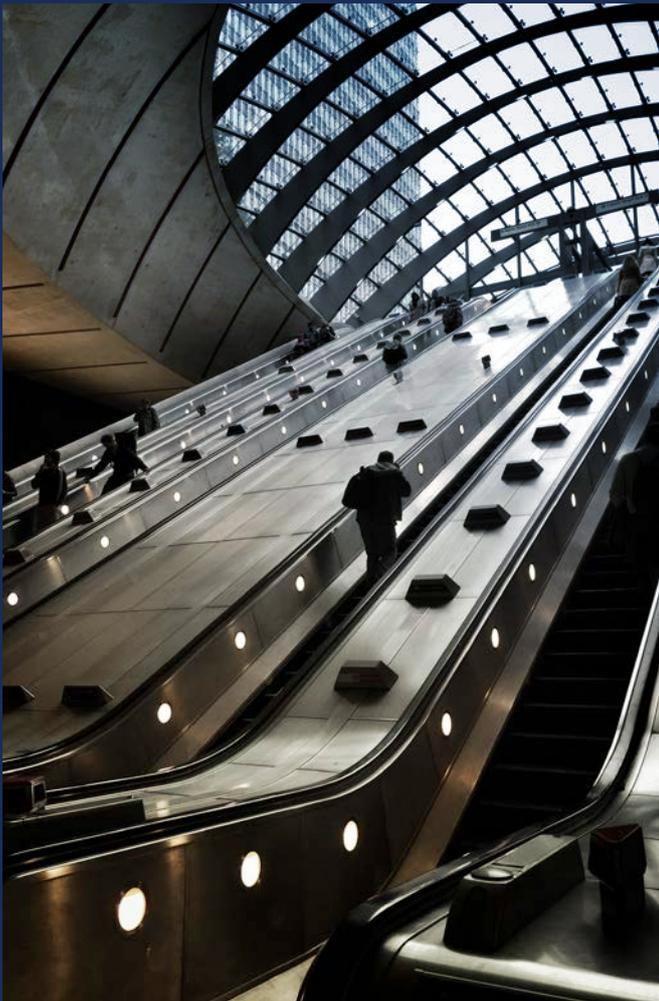


**In the near term, those insurers who have a deep understanding of their data will go into this new world with an inherent advantage.**

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## 11. Where to focus first?

Depending on an organisation's capability, there are a number of potential next steps.

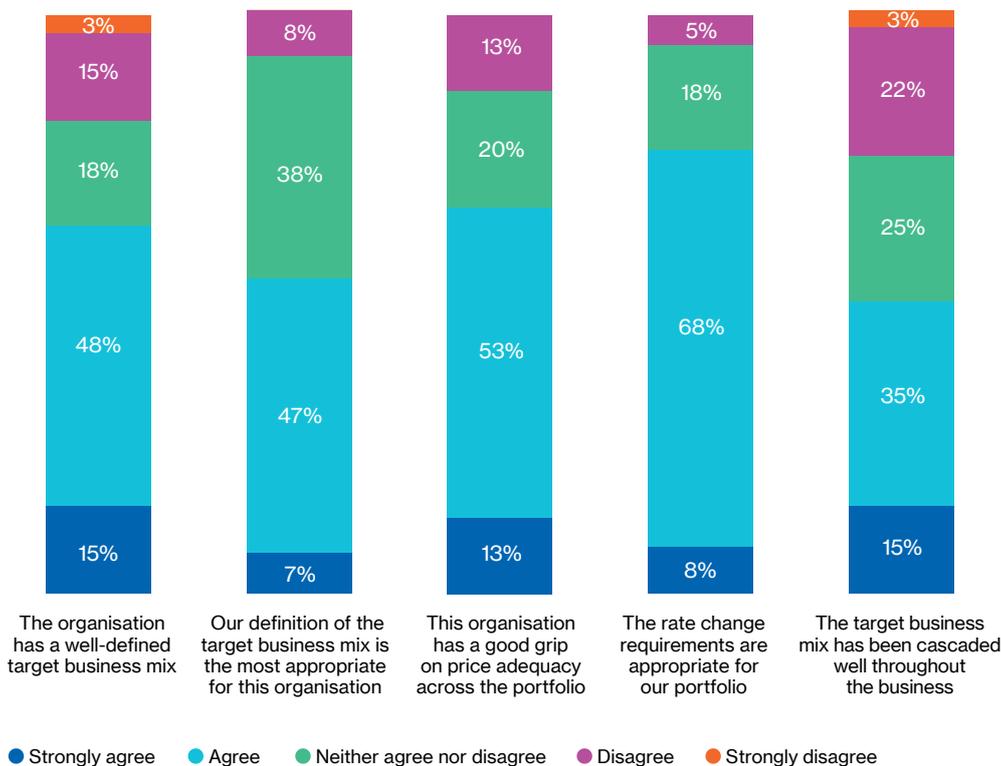


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### A foundational first step: cascade the target business mix

The first place to start is ensuring the target business mix is thoroughly cascaded. This is a foundational first step and yet the benchmarking study shows some correlation between issues in this area and underperformance. The emerging performers did not thoroughly cascade the target business mix whereas the mid performers, high performers and out performers all appeared to regard it as more of a hygiene factor.

Figure 13. **Question:** How strongly do you disagree or agree with the following statements?



**33.3%** of respondents do not believe that their organisation has a good grip on price adequacy

**36.6%** of respondents do not agree that their organisation has a well-defined business mix, and half don't believe that it has been well cascaded throughout the organisation

**46.6%** of respondents do not feel that their target business mix is the most appropriate for their organisation

### Prioritising the next action

As always, the challenge for insurers is where to focus, which will vary according to the unique circumstances of any one company. Figure 14 sets out the some of the main focus areas.

If insurers do not have much data, then basic analysis and tracking against plan at a target business mix level is likely to have a significant impact. Otherwise, it is worthwhile thinking about carrying out major projects that can transform the business result.

Figure 14. Impact versus ease of implementation of example next steps



Figure 15. **Question:** How strongly do you agree or disagree with the following statements about people in your organisation?



To provide more context, the main areas of focus from the benchmarking study are set out below. This shows that companies are planning to invest in harnessing data assets and providing tools to help people in the business make better portfolio decisions. This extends to using unstructured data and although this remains the key concern, the study shows that more than a quarter of respondents are confident this will be improved within the next two years.

In conclusion, the study shows that many organisations consider that effective active portfolio management has a material impact on profitability. Those who report the largest impact are also those who have invested in:

1. The ability to analyse a portfolio to a substantial level of granularity.
2. The people skills they need in the business.
3. The ability to robustly test their plans for effectiveness.

On average, **51.7%** are not satisfied that they have the skills needed

On average, **58.6%** of respondents are very or extremely confident there will be improvement over the next two years

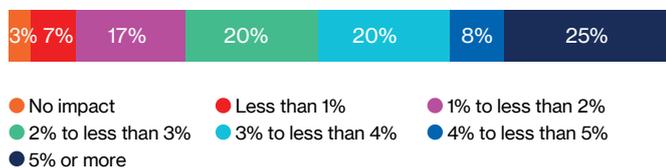
On average, **94.4%** of respondents are at least slightly confident of improvement in these areas over the next two years

Data Science is an acute concern, with only **8.3%** satisfied (or very satisfied) with complex data solutions now, and only 28.8% very (or extremely) confident of improvement in two years

### Active portfolio management makes a difference

Many respondents felt that portfolio management had an appreciable impact on their profitability, with more than half surveyed saying it had at least a 3% impact on their combined operating ratio. When Lloyd's survey partners Willis Towers Watson looked at individual syndicate performance, this uplift was reflected in the profitability of these businesses.<sup>4</sup>

Figure 16. **Question:** What would you estimate the impact portfolio management to have on your future COR?



**96.7%** of respondents estimate that portfolio management has some impact on their COR

**53.3%** of respondents estimate that portfolio management has an impact of 3% or higher on their COR

**25.0%** of respondents consider portfolio management to have an impact on COR of 5% or more

<sup>4</sup> No individual syndicate responses have been shared with the Corporation of Lloyd's

**Organisations are  
at different points  
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## 12. In conclusion

As we have seen throughout this report there is a visible correlation between portfolio management and the profitability of the organisation, regardless of size.

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Organisations are at different points in their relative maturity and the next steps will vary accordingly. However, regardless of your relative maturity, having the right skills in your business and the right quality of data are necessary underpins for active portfolio management.

Another consideration in planning for any improvement is the speed at which your organisation should move – which can range from steady building of capability over time to a high impact transformational change. Whatever is appropriate for a given organisation, the Future at Lloyd's represents a set of market changes that, if anything, could accelerate the speed at which improvements are deployed.

We will be exploring both of these themes in reports that will be co-published by Lloyd's and Willis Towers Watson over 2020, with the next report focusing in on data strategy, and the particular aspects that are relevant to portfolio management.



