LLOYD'S

Learning from the best: Behaviours that drive top underwriting performance

Part of Lloyd's Portfolio Management Series

GRACECHURCH

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 1, which was published in September 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.

The key to sustainable, profitable underwriting is consistent and disciplined underwriting behaviour but until now no comprehensive study has been carried out in the Lloyd's market to identify what these are. Considering the importance of good underwriting performance to Lloyd's future, Lloyd's Performance Management Division (PMD) has 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 sustained profit over time.

The result of this work is a much greater understanding of successful behavioural underwriting traits within the Lloyd's market. It differs from previous studies in that not only does it identify the key behaviours that are valued and respected by senior members of the industry, but it also validates them against actual financial performance. This has isolated the key skills and behaviours of the most profitable underwriters in the Lloyd's market, that less successful underwriters do not have.

The report's findings could also help market participants develop tools and practices for recruiting, training and retaining top underwriting talent. Such tools could be provided to firms as part of the Lloyd's ecosystem, which is one of six Future at Lloyd's solutions set out in Blueprint 1.

I am also pleased to announce that, throughout 2020, 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. This report is part of this series and a key foundation towards setting the standard for first class portfolio management.

Yours sincerely,
Caroline Dunn, Head of Underwriting

1. Overview

About this report

Lloyd's Performance Management Division (PMD) has a strong interest in identifying the key attributes of the top-performing underwriters in the Lloyd's market as one of its roles is to promote first-class underwriting performance management.

While the top 20 performing syndicates delivered an average combined ratio of 93% in 2018, the bottom 20 delivered one of 133%. This telling statistic illustrates the purpose of this report. It indicates there is a range of underwriting practices across the market, the worst of which are making the market, as a whole, unprofitable. It also suggests there is the potential to share best practice to raise the standard of underwriting across the market with the aim of delivering first-class underwriting performance.

PMD applied data science to underwriting practice to identify underwriting practices that deliver sustainable, profitable growth. By doing so, and sharing the lessons learnt, the Lloyd's market could make changes to significantly outperform its global competitors.

The first step was to obtain robust behavioural and attitudinal trend data on some of the top-performing underwriters in the Lloyd's market, and apply a proven scientific methodology that would identify the behaviours that drive high performance.

To that end, Lloyd's and its project partner Gracechurch Consulting discussed combining Kalibrate data (Gracechurch's three-year trend dataset based on its annual ranking of underwriters - London's Leading Underwriters)[1] with Lloyd's performance data, as a way to identify behavioural characteristics that set apart Lloyd's top-performing underwriters.

During 2018, our 'Behavioural Underwriting' research pulled on both organisations' respective datasets, deep market knowledge and strong analytical expertise. Both teams worked closely to design a unique, ground-breaking methodology based on the following science-based parameters:

- Lloyd's and Gracechurch operated as a 'data-connectivity' partnership, where Lloyd's unique underwriter profitability data and Gracechurch's Kalibrate datasets were subjected to advanced analysis techniques to identify the key attributes that define profitable underwriters.
- PMD applied advanced analysis to these two sources to identify potential meaningful, statistically robust correlations between ranking and profitability, based on a profit-derived segmentation.
- Gracechurch conducted desk and qualitative research among the Lloyd's market's leading CEOs to determine current and best practice, context and appetite for a range of potential 'solutions', and evidence-based interventions.
- Gracechurch conducted in-depth qualitative research with a range of underwriters, using a blind-sample approach to remove any potential bias. This enabled a definitive view of how the characteristics of profitable and unprofitable underwriters differ.
- To ensure that the confidentiality of individual performance data was maintained, Gracechurch was only provided with aggregated and anonymised data. All analysis of performance data was undertaken by PMD.
- Likewise, Gracechurch did not provide comments or information attributable to specific individuals.

[1] Please Note: The Kalibrate survey takes the view of London market underwriters, whereas the Lloyds dataset is only concerned with Lloyds market data.

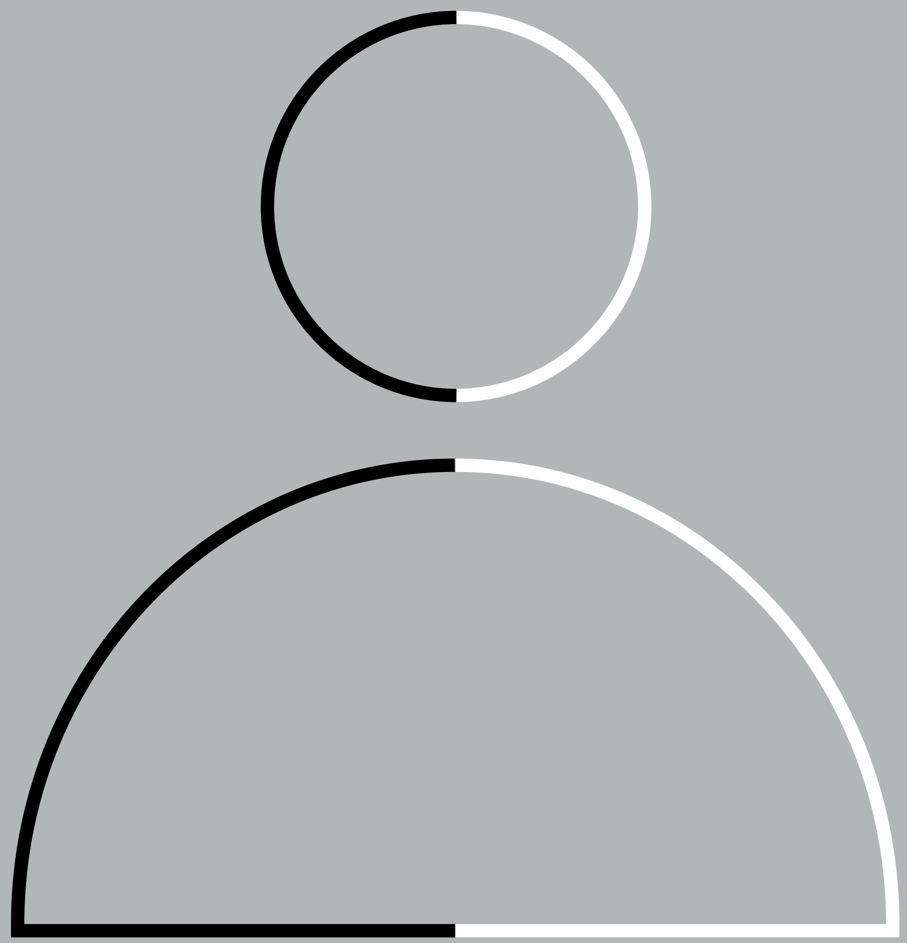
Figure 1. Growth and fixed mindset

Growth mindset - value builder

- Develops new wordings
- Travels to meetings
- Hunts for profitable, niche risks
- Thinks about insured needs
- Reads up on industry trends
- Grows knowledge of client exposures
- Believes technology is liberating

Fixed mindset - value destroyer

- Suspicious and disdainful of brokers
- Blames market conditions
- Spends time rejecting risks
- Waits to be presented with risks
- Focuses on price and wordings
- Driven to have a good time
- Thinks technology is dissempowering



1. Overview

The project successfully delivered the following:

- Identified the market's perception with regards to the behaviours and skills needed to be a successful underwriter.
- Determined the ability of the market to identify and differentiate leading underwriters from average or poor performing ones.
- Identified and isolated a range of behaviours that correlate with profitable versus unprofitable underwriters.
- Created a frame of reference based on 'mind-sets' that can be used as the foundation for differentiating underwriters. The research found that the mindsets of underwriters who are 'profitable over time' and of their less successful peers who are 'unprofitable over time' clearly differ, and these characteristics can be gleaned from empirical research.
- Gathered information regarding the current environment and perceptions around the evolving role of the underwriter and the readiness of the market to foster and promote best in class underwriting at Lloyd's.
- Determined how these attributes are likely to evolve in the future.
- Recommended how better understanding of underwriter best practice can be applied to help Lloyd's businesses improve through better underwriter talent management and recruitment.

Key findings

The report makes a series of key findings:

- Peer and broker recognition are not an infallible method for identifying leading underwriters.
- There are several portfolio management behaviours that leading underwriters consistently exhibit. These attitudinal and behavioural characteristics, while nuanced, are identifiable and measurable.
- Having a growth mindset is the main characteristic that distinguishes the most profitable underwriters from their unprofitable counterparts.
- Other distinguishing characteristics include: being customer-focused, being forward-thinking, showing perseverance and taking an innovative approach to underwriting.
- Technical expertise, commonly cited by CEOs as the most important attribute of successful underwriters, is in reality a hygiene factor. It is essential but is found in all Lloyd's underwriters.
- Most London market underwriters (as most people) display both fixed and growth mindset characteristics. This finding allowed PMD to devise a basic underwriting profiling approach (see Figure 1).
- The role of the underwriter is evolving fast into a data and technology driven function and underwriters should be prepared to act as portfolio managers and rounder commercial operators.

Sections 2-5 of the report cover the key methods, processes, findings and good practice recommendations, as well as the and follow-up activities PMD plans to carry out in response to the conclusions.

2. Using third-party datasets

2.1 Leading underwriter's rankings and Kalibrate

Gracechurch first published its ranking of London's Leading Underwriters in 2011; the first independent ranking of underwriters in the London market.

The ranking was initially based on brokers' nominations of leading underwriters in their main class of business. In 2015, this was broadened to include underwriters' votes for their most respected peers in their main line of business (for further detail on Kalibrate's methodology, please see Methodology box 1).

Methodology 1:
How the Gracechurch survey works

Each respondent is asked to nominate their top three underwriters in rank order, and to explain why they have nominated them. Once the longlist is compiled, Gracechurch asks CEOs or CUOs to validate this list: this validation exercise ensures accuracy and currency, and typically in each year 75% of the underwriters on the list are validated. The rest are validated through publicly available data (e.g. company websites and LinkedIn). The results are then published in a short report, detailing the leading underwriters in each business line.

In 2015, with an expanded dataset, Gracechurch developed Kalibrate as a multi-faceted talent management tool. Kalibrate is an interactive Excel tool which includes circa 850 leading underwriters, segmented by company, class of business and individual. The class of business segmentation provided by Kalibrate is the following: Accident and Health, Aviation and Space, Casualty/Non-Marine, Energy, Marine, Professional Liability, Property, Reinsurance, War and Geopolitical Risks. The data can be analysed on a total market, class of business or company (managing agency) level, and by combined ranking score, or based on underwriter or broker-only ranking.

In 2017, the data was based on 400 in-person interviews with placing/producing brokers and 260 London market underwriters. Gracechurch conducted intensive qualitative analysis of more than 5,000 pieces of verbatim feedback on 'what makes a leading underwriter' and segmented the underwriters by analysing discrete behaviours. Gracechurch also tests the impact of each of these segments against London market service performance benchmarks using advanced statistical methods to ascertain their significance in driving market performance.

Clients use the information in a variety of ways, but all are linked to talent management.

The analysis identified five overarching underwriting behaviours:

– Expertise
– Deal-making
– Reputation
– Broker relations
– Client service

Each Kalibrate Pillar encapsulates more than a dozen synonyms for correlated behaviours.

2. Using third-party datasets

2.2 Understanding the market's view on underwriting behaviours

For the purpose of identifying the current meaning of five overarching behaviours, a focus group was created with nine leading underwriters, in accordance with the Gracechurch London's Leading Underwriters Report 2018. This group meeting was moderated by a Gracechurch director.

Methodology 2:
Scoping

An initial scoping study collated and analysed existing published knowledge on underwriting. Using this research the team designed the best methodologies to collect and test findings as the project progressed. This also allowed the teams to assess the level of engagement and interest in the topic, as well as the potential evidential gaps it needed to fill.

Step 1: Gracechurch Kalibrate:
Gracechurch's Kalibrate data was used to pinpoint the types of behaviours, skills and attitudes that gain both peer and broker recognition. Going forward, it was important to evaluate whether these attributes correlated with tangible value in terms of Lloyd's financial performance.

Step 2: Desk research: after fully evaluating internal knowledge on leading underwriters in the London market, it was necessary to collate all relevant existing external resources on the topic. This enabled the team to identify the gaps in knowledge and avoid repeat investigations.

Step 3: Underwriter focus group: the purpose of this group was to define the depth and breadth of the role of the modern underwriter from the point of view of underwriters themselves.

In order to understand the key attributes that constitute a 'leading' underwriter, it was necessary first to define the current role of the underwriter and then determine the factors which are likely to shape this role in the future. This enabled the team to map out the underwriter 'skills journey'. It also served as the theoretical input to the wider research programme.

To assess the current context of underwriting in the London market and to gain a view into the future of underwriting, the research took a combined approach that incorporated:

- Non-proprietary primary research conducted by Gracechurch Consulting across 2017/18
- Current external secondary research on underwriting now and in the future

2. Using third-party datasets

2.2.1 Findings and outcomes

Expertise

The focus group felt that 'experience' in underwriting terms is synonymous with length of time spent as an underwriter, and that it is vital in order to deploy 'expertise' effectively. They felt that underwriting and broker apprenticeships are still an important part of developing a leading underwriter.

A lead underwriter's perceived 'expertise' is two-fold: the trust of the following market in both their capability to, and their due diligence in, setting lead terms. Both are based on a great deal of demonstrable experience and knowledge regarding terms, the client's business and what happens in the event of a claim.

There is concern, however, that the traditional Lloyd's underwriting process is hindering the younger generation of underwriters from gaining proper experience. The perception is that underwriting standards will decline if this expertise is lost.

Dealmaking

Central to the focus group's view of leading underwriters' 'dealmaking' is the concept of market pricing, or put simply, selling the right product for the right price.

Key to being able to price correctly is having an in-depth knowledge of clients, as well as experience gleaned from watching and learning from others negotiating and navigating the sales process. Underwriters agree that it is very difficult to be a competent dealmaker without the underlying expertise and experience, and that even then, it is a rare skillset.

The focus group felt that underwriting is becoming increasingly commoditised, driven by price-sensitive risk buyers and competition between brokers. One of the threats of a commoditised market is that a leading underwriter can no longer win the lead by demonstrating their expertise because it is no longer valued. This in turn leads to writing less or unprofitable business, and could compromise underwriting quality.

Customer service

Customer service has traditionally been about broadening knowledge of customers' business and needs to design better terms and bespoke pricing, as well as about building long-term, mutually beneficial commercial relationships.

However, the focus group cited changes in customers' buying practices, including increased price sensitivity and a broader appetite for insurance programmes as opposed to specific products. Underwriters see these factors as making it harder to demonstrate value to the end-customer because (as they perceive it) price becomes paramount. Additionally, the current structure of product specialisation makes it hard for individual underwriters to address the opportunities that lie in selling broader insurance programmes or corporate solutions.

Broker service

All focus group members agreed that a key tenet to dealing with brokers positively is to say no nicely in order to maintain a good trading relationship. Additionally, the key to good broker service is to support them in their dealings with policyholders. Communication between underwriters and brokers should be open and consistent, with a view to building a long-term, mutually beneficial trading relationship.

However, underwriters bemoaned what they feel is a declining broking quality and standards across the board, driven by internal and customer cost pressures. Underwriters feel brokers, particularly those placing business, are increasingly younger and inexperienced, or at the very least not adequately trained. Underwriters felt that one consequence of these factors is that brokers are placing business based purely on price, without a proper understanding of the risk in terms of coverage and potential claims.

Reputation

The focus group often harkened back to the 'halcyon days of 'the trader' although they were divided on whether the culture of the autonomous underwriter was a positive one. All agreed, however, that at present, creating one's reputation as a leading underwriter while still remaining relevant to brokers and clients is challenging. This down to a number of factors:

- The current market conditions, where an abundance of capital means that 'anyone can lead' thereby devaluing the term 'leader'.
- The changing role of the underwriter, which is now a team-based job and includes various complementary skills and roles - actuaries, cat modellers, exposure management professionals etc - and is not nowadays reliant solely on the individual underwriter's experience and expertise.
- The corporatisation of underwriting, driven in part by increased regulation, which is seen as taking away risk empowerment from individual underwriters.

What makes a good underwriter: the market's view

- Overall, expertise and dealmaking make up more than half of the perceived necessary characteristics of a leading underwriter
- Focus group members are as likely to cite their most respected peers for their reputation as they are for their dealmaking, whereas, brokers are more concerned with the service they receive from underwriters rather than that underwriter's market reputation
- Expertise comprises a number of evenly distributed skills, the top three of which are knowledge, experience and technical skills
- Commercial awareness is the characteristic most valued in a dealmaking underwriter
- 'Market leader' and 'respect' are the two most reported characteristics that underpin reputation
- Underwriters who excel at customer service are mainly viewed as being good with customers and have an ability to understand client needs
- When it comes to broker service, the key underwriter skill is an ability to build relationships, rather than speed of service

3. What do leading underwriters do better than the rest?

3.1 Description

One of the main goals of this project was to map Lloyd's underwriters' profitability performance data against Gracechurch's Kalibrate dataset. The aim was to test the hypothesis of a correlation between profitability over time, and peer and broker recognition of underwriting talent.

The most delicate challenge in this phase was the sensitive and confidential nature of the Lloyd's underwriter performance data. This exercise was about looking at behaviours across the whole market rather than at an individual level. PMD devised a new dataset, built by adding financial measures to the underwriter nominations. Individuals were then anonymised and assigned to groups, which were used for this analysis: This took the form of four quartiles, ordered on profitability, with Quartile 1 being the most profitable underwriters and Quartile 4, the least profitable. A first step was to quantify the differences between the four quartiles.

PMD's Research and Portfolio Management team constructed a 'profit index' covering the past seven years, starting from 2011. This looks at cumulative profit-making over time (for further detail on the mapping process by quartiles, please see Methodology box 3).

Methodology 3:
Lloyd's data

Quartiles are based on gross combined ratio in 2018 (as at 30 September 2018 data) year of account, rebased at 100. This has been tested with multiple base years. Underwriters with financial performance in the top quartile in a single year of account also tend to outperform their peers over time.

Lloyd's gross combined ratio by quartile for underwriters on the Gracechurch list split by type of voter (i.e underwriter or broker).

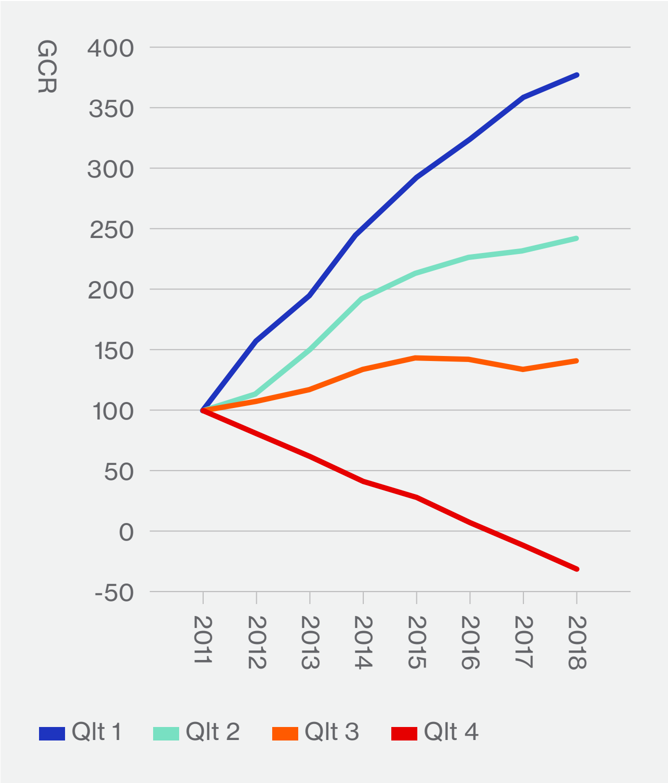
The mapping of rate change behaviours in accordance with market conditions by quartiles was based on the rate adjustment rate change rebased at 100, for the same years of account taken into consideration for the quartiles.

3. What do leading underwriters do better than the rest?

3.2 Value builders are more likely to deliver cumulative profit over time

One finding of this work was that 'value destroyers' were less likely to be nominated as leading underwriters by either their peers or by brokers. Figure 2 shows that the top two quartiles consistently deliver profit over time, while meanwhile, the downwards trend in the fourth quartile indicates that value destroyers consistently lose money over time.

Figure 2. Cumulative profit over time



3.3 The best underwriters are quick to react to pricing changes

Figure 3 demonstrates Quartile 1 underwriters can afford to adjust rates quickly, to react to changing market conditions. They also potentially indicate that underwriters have differing levels of understanding of their portfolios. Note that the top-performing quartile appears to more actively manage rates over time. In line with the findings of sections 4 and 5 of this report, they also appear to be able to leverage innovative underwriting and exceptional relationships to command higher rates, whilst still operating profitability. This gives them leeway to drop their prices to gain market share when needed.

Figure 3. Rate change index over time

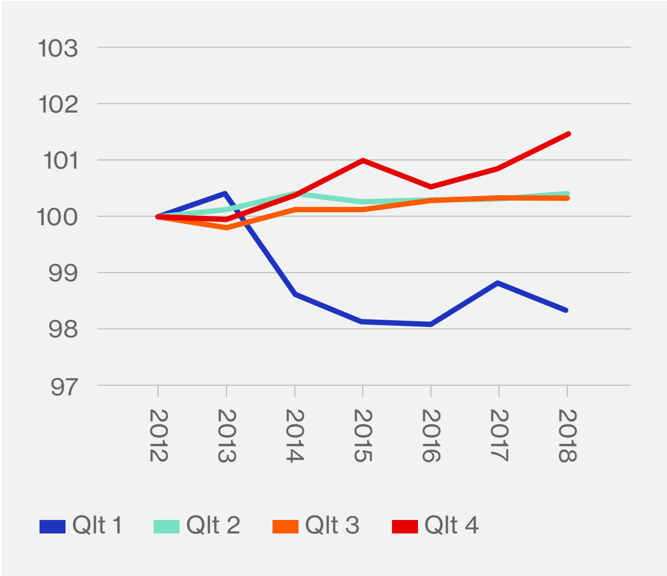
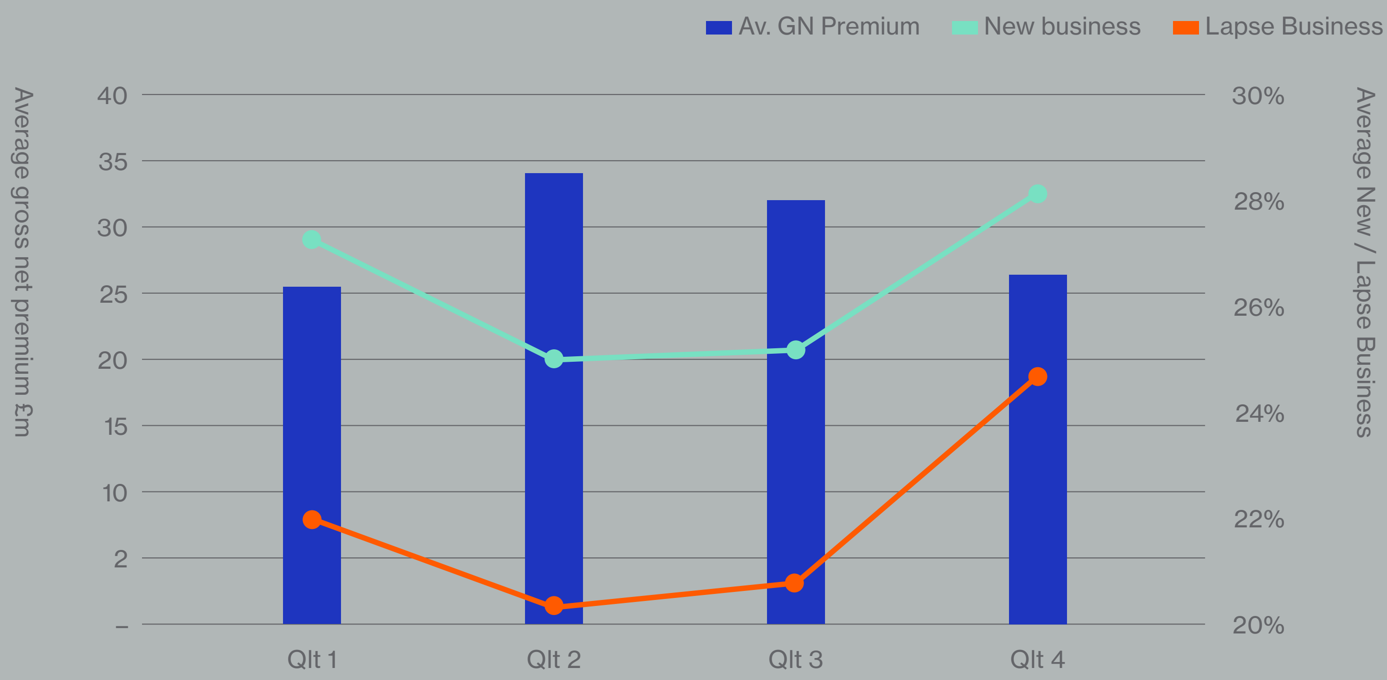


Figure 4. Lapse business vs rate change by quartile per annum

Figure 5. Average gross premium vs new and lapsed business by quartile



3. What do leading underwriters do better than the rest?

3.4 Leading underwriters take a more consistent approach to pricing

In general, leading underwriters exhibit a more consistent approach to pricing, reacting smoothly to lapses rather than in a knee-jerk fashion based on changes in their book performance. This makes sense in the context of underwriters actively managing their book to protect and grow profitable lines of business. Figure 4 shows that:

– Quartile 1 underwriters appear to have the best understanding of their portfolio and engage in forward-looking cycle management.

– Quartile 2 underwriters appear to retain profitable business with minimal disruption but seems to be less proactive in its cycle management than the top group.

– Quartile 3 underwriters appear to be more reactive rather than forward-looking, with lapse rates generally increasing after large losses or later in the cycle.

– Quartile 4 underwriters appear to be losing money and seem to raise prices without engaging in active cycle management, perhaps in an attempt to remediate loss-making business.

3.5 Top performers have a better understanding of their portfolios

As seen in Figure 5, average premium does not vary much between quartiles. This indicates that strong performance is not contingent on writing a small specialist book of business.

The top and bottom quartile performers both have higher lapse and higher new business rates. Whilst this behaviour may look similar on the surface, their financial results shows the different approaches each group uses:

– The top performers appear to be leveraging better understanding of their portfolio to remove, change or re-underwrite unprofitable business when the technical rate is not there.

– The poor performers seem to be trying to offset historical losses by charging higher prices. Possibly due to poor portfolio understanding, they seem to be replacing this with new business, which is also unprofitable.

3. What do leading underwriters do better than the rest?

3.6 Word clouds: top performers vs worst performers

Figure 6. Quartile 1 performers (Left). Quartile 4 performers (Right)

In the Kalibrate dataset, a reason (verbatim) is collected for why each underwriter has been nominated by either brokers or peers. Figure 6 shows what words are 'overrepresented' when used to describe the most and least profitable groups.

A key difference is that stronger performers have more active words associated with their expertise: 'understanding' and 'experience' as opposed to 'knowledge'. These stronger performers are also more often described as 'respected', 'consistent' and 'in touch with the market'. Subsequently, they are more often characterised by their engagement and less by their personal characteristics.

4. Behaviours that distinguish profitable underwriters from the rest

Using the Kalibrate quantitative data, as well as applying Lloyd's minimum standards as a framework, PMD designed a structured in-depth interview with Lloyd's underwriters to explore how the most profitable Lloyd's underwriters behave. (for further detail on the double-blind trial, please see Methodology box 4).

Methodology 4:
The double blind trial

One challenge in most studies is trying to judge the relative impact of certain skills, characteristics or behaviours in delivering desirable outcomes (such as profitable underwriting). It is hard to separate the true drivers of desirable outcomes from regular characteristics regarded as hygiene factors.

Typically, in other studies of skills exhibited by leading underwriters, where a large number of individuals are surveyed and trends are collated to create a perception survey of the most important skills, little work is undertaken to validate whether these skills have a meaningful impact on the desired outcomes or are just readily available in the community being studied. To overcome this challenge, PMD leveraged Lloyd's extensive pool of profitability data to create an anonymous double-blind trial.

A small sample of underwriters were divided into two groups:

– **Group A: profitable underwriters** (comprising underwriters exclusively from Quartile 1, the most profitable quartile)

– **Group B: control group** (comprising underwriters from all four quartiles of profitability, skewed slightly towards Quartile 4, the least profitable quartile)

This was set up as a blind test in which Lloyd's scientifically pre-selected underwriters based on the quartile they were in. Gracechurch did not know the performance of a given underwriter prior to interviewing them and this ensured there was no confirmatory bias in the data-gathering process. This allowed PMD to be sure that the highly nuanced and unstructured qualitative data that could have become skewed was collected and analysed impartially.

The information was anonymised to identify a set of characteristics and associate them with performance, while removing any personal data from the dataset (e.g. each interviewee was assigned a group code number so the data from the interview could be assigned to its respective quartile by a researcher, who captured only the skills, characteristics, behaviours and performance data. This allowed another researcher to separate the true drivers of profitable underwriters from hygiene factors).

4.1 Validating and evaluating the core findings

The output from the core exercise was tested in in-depth interviews with Lloyd's underwriters using the double-blind research methodology outlined above. The objective was to gain more detailed knowledge of how underwriter behaviours, skills and attitudes are used to assess individual performance and to develop new talent. Gracechurch was also able to gather nuanced, specific and detailed data on the behaviours and attitudes of some of London's most profitable underwriters, and isolate this from characteristics displayed by all senior underwriters and seen as hygiene factors.

Figure 7. Overview of the differing characteristics in underwriters

Group A: Growth mindset

- Innovative
- Hard-worker
- Self-starter
- Entrepeneurial
- Professional
- Modest
- Agile
- Negotiator
- Sales-focused

Group B: Fixed mindset

- Conservative
- Reactive
- Wary
- Rejecting
- Disdainful
- Complacent
- Unresponsive
- Excuses
- Price-focused

4. Behaviours that distinguish profitable underwriters from the rest 22

4. Behaviours that distinguish profitable underwriters from the rest

4.2 Findings and outcomes

The research team found that the differences between value destroyers and value builders mapped precisely against the concept of a fixed mindset versus a growth mindset, respectively. For example, value destroyers were more likely to make excuses for their losses, commonly blaming market conditions. Conversely, value builders were more likely to describe how they find ways to write a risk profitably. For example, they would look to develop new wordings to transform a 'bad' risk into a 'good' one.

Interestingly, the double-blind test also allowed to evidence how two underwriters from the same organisation featured the attitudes linked to each of the above mindsets, evidencing how personal traits might often prevail over corporate culture features.

Value destroyer (fixed mindset)

These individuals tend to display a number of damaging behaviours and attitudes which are not always easily identifiable, couched as they often are in technical knowhow and commonly hidden behind many years of insurance expertise. Value destroyers:

- Are suspicious of and disdainful towards brokers: broking partners are often viewed as manipulative and/or working for the underwriter, as opposed to offering a service to the insured.

  "...you have to understand why we're being shown a piece of business. Is it an aggressive attack? Are the brokers doing something weird and wonderful?" Group B.

- Blame market conditions: poor performance is often explained by reference to market conditions, which is seen as a viable rationale for consistent underwriter unprofitability over time.

  "When the account is running a bit hot, then it may well just be one risk that you've written. Nothing wrong with the risk, written okay, it's just claims happen" Group B.

- Spend time rejecting risks: the underwriter is passive in searching for new risks and, as a result, spends their time predominately declining 'bad' risks presented by brokers.
- Believe they are already experts: unwavering confidence in capabilities is fairly common, seldom attended by a desire for self-improvement or a need to review underwriting practices.
- Wait to be presented with risks: underwriting practice centres on a belief that brokers should bring risks to underwriters, rather than underwriters having to find profitable ways to write risks.

  "The most important thing is that the broker brings the risk to me." Group B.

- Focus on price and wording: technicalities tend to be seen as the cornerstone of successful underwriting, without equivalent focus on customers' needs.
- Are driven to have a good time: descriptions of company culture include reference to undemanding office hours, social activities, and remuneration and bonuses.

  "There's a big culture of 'We're here to enjoy ourselves.' We don't want people working here until ten o'clock at night." Group B.

- Think technology is disempowering: technology is often viewed as a roadblock to successful and efficient underwriting, and considered out of line with London market practice.

4. Behaviours that distinguish profitable underwriters from the rest

Value builder (growth mindset)

Underwriters who are profitable over time think beyond the daily requirements of their role and individual KPIs. These individuals seek out new risks, relationships, opportunities and clients. They work profitability as part of diverse teams or as singular entities responsible for the whole book of business. Value-builders:

- Develop new wordings: where a solution does not exist, or a risk is unprofitable, new wordings or products are developed to cater for the need and circumvent the pitfalls of 'bad' risks.

  "It's entrepreneurial. You're encouraged to try and look at stuff differently, as long as you can try and write it profitably." Group A.

- Hunt for profitable niche risks: when the market is flooded with unviable risks that need to be turned down, value-builders seek out new opportunities.

  "So, what we could do is say, we'll just not write any business, which is quite a common reaction from certain markets. We haven't done that. We've said we're going to selectively write it." Group A.

- Think about the insured's needs: product development, new opportunities and sales negotiations, first and foremost, involve a consideration of client needs.

  "A good underwriter is capable of selling the benefits of insurance, the need for it, the quality of the product, the quality of their company... and position themselves in a tough environment to be the right strategic insurance partner for their client and their broker." Group A.

- Collaborate with peers and brokers: the London market is viewed as a broader entity with interests that need to be protected against growth in newer insurance geographies.

  [With] my underwriting colleagues, the trading element is really, really important. It definitely stands out when you look at the numbers from one underwriter to another. So, I could have on paper two similar underwriters underwriting two similar renewal books: one will have a higher retention and get more rate than the other, because they just find ways of making the case that it's deserved and keeping the relationship intact." Group A.

- Travel to meet clients: proactivity in building new client relationships is always prioritised, especially when these relationships are disregarded or forgotten by competitors.

- Read up on industry trends: keeping up to date on broad insurance trends as well as developments in a particular class of business and its industries is considered everyday practice.

  "I'm not a brilliant individual. Where I've got to, it's been in large part through application." Group A.

- Expand their knowledge of client exposures: becoming a knowledgeable expert in client industries is viewed as essential and some gain qualifications in these fields.

- Believe technology will be liberating: although 'growing pains' are recognised, they consider technological innovations as paramount and overdue.

5. What the underwriter of the future looks like

To augment findings and increase our understanding of the underwriting skillsets that are likely to change in the future, we spoke to CEOs' in the market, to know their views on leading underwriters, how they are rewarded and how their skillsets are likely to change in the future, Gracechurch carried out a number of interviews. (for further detail on the methodology for these interviews, please see Methodology box 5).

Methodology 5:
CEO research

The CEO research was conducted via:

– Five in-depth interviews between Gracechurch and selected CEOs of Lloyd's carriers, each lasting c.45 minutes.

– 27 online interviews with CEO's, each lasting c.10 minutes.

The aim was to understand current practices and views on what defines leading underwriters and to identify and establish any demarcation that needed to exist between the market's and individual players' competitive strategies.

5.1 Measuring and managing underwriter performance today

All the CEOs interviewed set clear frameworks for underwriter performance. Whilst financial metrics were used, the consensus was that there is still a challenge in getting (many) underwriters to relate to the concept of profit at an organisational level.

Most (87%) also used non-profit metrics to measure underwriter performance, but these were still largely financial and inconsistent. Only 20% of metrics related to behavioural targets, such as, training other staff or promoting corporate culture.

Figure 8. Financial metrics used to measure underwriter performance

Loss ratio	38%	Non-profit based
Combined ratio	22%	Profit-based
Return on capital	18%	Profit-based
Acquisition costs	7%	Non-profit based
Underwriting profit	4%	Profit-based
Commission ratio	4%	Non-profit based
Operating expense ratio	4%	Non-profit based
Rate movement	2%	Non-profit based

5. What does the underwriter of the future looks like?

5.2 Views on the future

Changing underwriter skillset

Overall, CEOs said the role of the underwriter was evolving fast, which led to a discussion on the nature of the role, whether it needs to be redefined beyond a single job title and what the right mix of skills and experience is. The trends in underwriting cited by CEOs were:

– Firms are developing underwriters as rounded commercial operators, using data skills (the numbers), commercial and proactive business development to achieve profitable performance.

"The thing about our underwriters which I think is good is that they understand what profit is. Most underwriters have no clue what profit is."

– Underwriters increasingly operating as portfolio managers, rather than single-class specialists for life.

"As an underwriter, I still think you can run a portfolio at a reasonably granular level, but you've got to understand reserving, you've got to understand data, you've got to understand trends and everything. So, you can break it up a little bit in a team, but you need rounded business leaders. And we haven't created those rounded business leaders in the industry because people have been stuck in their silos for too long."

– Significant changes to the role are being driven by technological and commercial evolution: the days of the standard passive underwriter are numbered.

"So, it's someone who actually actively engages with their actuary rather than feeling that it's someone interfering in their business, someone who's asking for analysis to be done on their book of business rather than waiting for it to be imposed upon them; someone that does understand their P&L…"

– Training is currently viewed as too generic, and future job roles need to be revisited and redefined.

"We run underwriting academies with mixed success, I would say."

– Technology will mean significant change but the impact on future underwriter roles is unclear.

"I can see (face-to-face trading) disappearing within four or five years. And then it becomes, what corporate relationships have we got and what service are you providing at the end of a computer?"

– Attracting the right sort of talent will need a significant change in mindset; diversity in its widest sense is critically important.

"We have our own committee looking at the role of the underwriter going forward. So, we're taking it that seriously: we think it is absolutely fundamentally going to change."

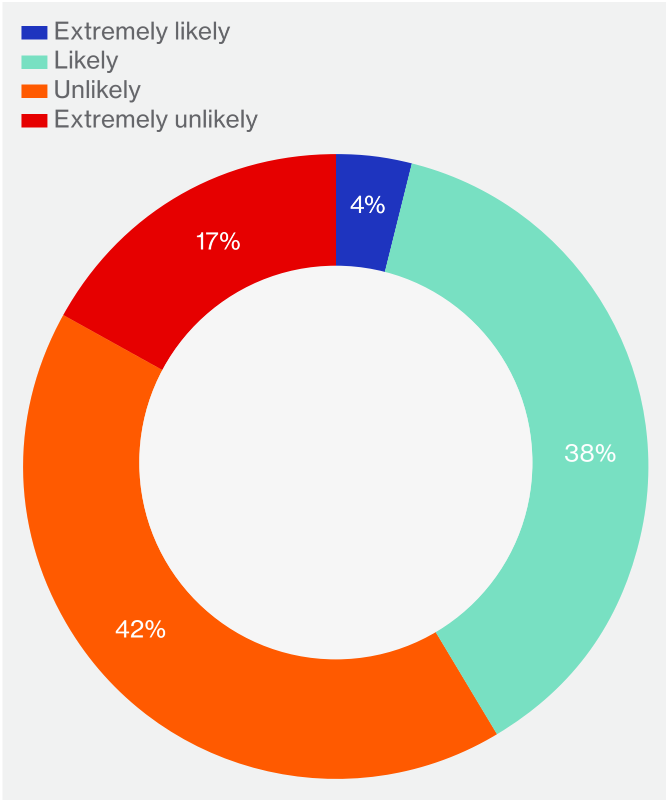
5. What does the underwriter of the future looks like?

5.2 Views on the future

Despite the general consensus that underwriter skills and training need to change in the future, the majority of CEOs felt it was unlikely that they would make a move away from measuring underwriter performance on a predominately profit-based system (see figure 9).

For those who felt they were likely to change the way they measure underwriter performance, the majority cited moving to a different mix of financial metrics, often with greater granularity, to analyse performance at individual underwriter or class of business levels.

Figure 9. CEO's opinion on likelihood of underwriting performance metrics changing in the future



6. Conclusions and next steps

One of the premises that led Lloyd's to undertake this research was the market's belief in a correlation between profitability over time, and peer and broker recognition of underwriting talent.

Throughout the previous sections, we have aimed to test this hypothesis.

In order to perform this testing, two research questions needed to be addressed:

a) Can the market identify and differentiate leading underwriters from average or poor performing ones?

b) Are the skills and behaviours identified by the market as the most important for successful underwriting actual differentiators between top and bottom performing underwriters?

Regarding the first of these questions, the quartile mapping carried out in section 3 on Lloyd's underwriters' profitability performance data against Gracechurch's Kalibrate, allowed us to determine that, whilst 'value destroyers' were less likely to be nominated as leading underwriters by either their peers or by brokers, peer and broker recognition is not infallible, as there was a significant presence of value destroyers underwriters in the individuals nominated in the Gracechurch survey.

To answer the second question, the first step was to translate what peer and broker recognition means in terms of skills and behaviours. In this regard, the analysis performed in section 2 successfully grouped the market's perception of underwriting skills into five key themes:

- Expertise
- Dealmaking
- Reputation
- Broker relations
- Client service

Moreover, section 2 outlined how expertise and deal making make up more than half of the perceived necessary characteristics of a leading underwriter, and a factor that, in the market's overall perception, can ultimately differentiate a leading and profitable underwriter.

Once the above was established, it was necessary to see whether these behaviours were in fact differentiating factors of leading underwriters.

In light of the results of the double-blind test trial documented in section 4, Lloyd's evidenced that highly regarded behaviours such as expertise, are in reality hygiene factors, essential, but readily found in all Lloyd's underwriters.

Most importantly, through this double-blind test, we have identified two clear underwriting mindsets in the Lloyd's market: a growth mindset, predominant in leading underwriters and a fixed mindset, more present in its poor performing peers.

As a last step, the market CEO interviews carried out for section 5, showed what they thought of the current underwriting role and how it might change in the future. It also indicated the readiness of the market to develop and promote the skills and talent needed to develop best-in-class underwriting at Lloyds.

The mindsets identified in this research are comprised of a series of discrete and soft skills, which could act as the foundation for revised recruitment and training programmes across the market to attract and retain talent, and create a more diverse and inclusive culture. They could also be used as the basis for new syndication of risks that clearly distinguishes between the functions and merits of leading and following markets, and rewards best-in-class underwriting.

6. Conclusions and next steps

6.1 Next steps

Lloyd's will engage with the market, and the Lloyd's Market Association, to explore how these findings can be shared with market participants and be used by training bodies, to potentially develop training materials and educational tools for underwriting emerging talent.

In parallel, Lloyds PMD believes that an underwriter segmentation by mindsets could help Lloyds market participants refine their recruitment processes by highlighting the behaviours likely to distinguish a profitable underwriter. Lloyds will not disclose the individual financial performance of market participants, but identifying positive attributes and skillsets could help firms build talent strategies to attract the best underwriters and create an open, diverse and flexible working environment as part of the Future at Lloyds strategy, PMD, therefore, will work closely with the Future at Lloyds Culture and People and lead/follow working groups, to help develop an underwriting talent strategy based on the characteristics of leading underwriters.

The reports findings could also be used by market participants, in conjunction with behavioural science and talent development expertise, to design assessment and personality tests that would help identify candidates with the skills, behaviours and characteristics that drive profitable underwriting. Such tools could be used by the Lloyds market to build innovative underwriting capability.

Finally, as mentioned in the foreword, this report is the first part of a series of Lloyds reports on portfolio management, as we believe that culture and talent are key requirements for delivering first-class portfolio management.

Building on the findings of this report, Lloyds, in partnership with Willis Towers Watson Consulting, is publishing additional reports on the latest trends in insurance portfolio management, including good practice in underwriting, pricing, risk aggregation and portfolio data management. The second report in this series, entitled Portfolio Management in the London market: what separates the best from the rest?, presents the results of our survey to Lloyds market participants, which could allow Lloyds managing agents to benchmark their portfolio management capabilities against others taking part in the survey on an anonymised basis.

To access other Lloyd's market insights reports from Lloyds Underwriting team, please click here

Please contact us directly at UnderwritingOversight@lloyds.com should you wish to know more about our portfolio management series and how can we engage with you.

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Appendix 2: Review of secondary research

Review of primary research

Risk manager workshop: future-proofing risk management (AIRMIC Conference 2017)

Gracechurch worked with XL Catlin in a two-stage process which culminated in a White Paper; this was a quantitative research study amongst risk professionals from FTSE250 companies, the results of which fed into a facilitated workshop at the AIRMIC Conference 2017. The focal point of the workshop was a forcefield exercise which weighted the barriers and facilitators of successfully future-proofing risk management as an industry. Central to this discussion was how both the brokers and insurers – and therefore the underwriters themselves – should be working, with the insureds both now and in the future.

Cultural assessment: London market underwriters (2017)

In 2017, Gracechurch conducted a scientific assessment of the current and desired cultural values of over 250 London Market underwriters. This furthers our understanding of the culture within the London Market as experienced by the underwriters, and also how they would like to see it change.

The Gracechurch 'Looking to the future' event: the role of the underwriter (2018)

Gracechurch held a workshop attended by underwriters who featured in the London's Leading Underwriters rankings along with a handful of brokers and other insurance professionals. Initially an event intended to discuss the impact of technology on the future of insurance, much of the discussion hinged upon the role of the underwriter now and in the future. Ultimately, there was no doubt that technology is likely to have a significant impact upon underwriting, especially the types of skills which underwriters will be expected to develop.

Key findings from secondary research

The secondary research comprised a review of White Papers, news articles, and opinion posts published from 2010 onwards.

As a framework for the desk research, Gracechurch used the 5 Kalibrate pillars that underpin the skillsets of leading underwriters in the London Market.

Expertise

Present: specialist insurance, by its very nature, is focused on expertise. Furthermore, a review of the branding and websites of London Market and Lloyd's insurers shows that the words 'specialist', 'expertise', 'experience' and some variation on 'smart', 'clever', 'intelligent' are the forefront of the messaging, particularly in relation to the quality of underwriters and underwriting. In addition, expertise and experience are the most cited reasons for nominating an underwriter as a leader in the Gracechurch London's Leading Underwriters Report.

Future: expertise will continue to be the cornerstone of a leading underwriter, but it is likely that data and technology will change the way an underwriter utilises individual judgement in risk assessment. This is already manifesting as predictive modelling and other AI products become more sophisticated in assessing whether to decline or accept a risk. However, as insurers continue to position themselves as risk assessors and advisors, there's equal scope for data and technology to help the role of the underwriter develop – rather than becoming constrained – by these advances.

Appendix 2: Review of secondary research

Deal-making and broker service

Present: core to the role of the underwriter is disciplined underwriting whilst maintaining – or indeed growing – a profitable book of business. Put simply, an integral part of the job is being a competent negotiator. As the market becomes more competitive, and data becomes more available, the underwriter role is evolving to include more proactive business development skills. Already, in some lines of business and some insurers across the industry the underwriting function is being split into technical underwriters vs. negotiating/business development underwriters. A technical underwriter is a hybrid underwriter and data analyst, whereas the business development underwriter is a specialist sales person that is far more client-focused.

Future: it is likely that, given current trends, in addition to a possible growth in the consultative dimension of the underwriter's role, the effects of data and technology are also likely to put greater emphasis on business development. While this has been much the domain of the broker, this may become a more developed aspect of the underwriter's role. As facilitisation and technology bundle/automate standardised risks, underwriters will be freed up to add more value to customers and to innovate. This, combined with the effects of greater automation, may see the role of the underwriter become less siloed. Rather than losing the relationship-driven dimension of an underwriter's role, relationships are being fused with data in a way that reshapes the structure and demands. A data-driven sales role is being formed, to a large degree, by the demands of the insured who is now looking for trusted data evidence rather than solely the word of their broker or underwriter.

Reputation

Present: previous research has highlighted the extent to which the underwriter has been central to the essential function of insurance, or at the very least, perceived as such. Indeed, a review of recent public relations activities from London Market and Lloyd's insurers shows that the majority of messages are regarding Underwriter moves, appointments, and thought leadership opinion pieces: all further suggesting that the underwriters and their Market reputations are central to the parent company brand.

As part of Gracechurch's research for London's Leading Underwriters it conducted a scientific assessment of the cultural values of a cross-section of London Market underwriters. As a cohort, London's Underwriters describe their culture in terms of 'Accountability, Empowerment, and Innovation', seeing themselves as the cornerstones of the London Market. It is a strongly individualistic view which still coalesces around the figure of the 'Leading Underwriter': someone who not only leads business with Professionalism, Excellence and delivering Financial Results, but who also upholds the integrity of the market.

Future: There is a trend which will continue, to trading as a corporate entity with less emphasis on the 'individual star'. As well as adapting to corporate strategies which move relationships from the personal to corporate, it remains to be seen what impact the widespread availability of data will have on the individually-based personal relationships which have traditionally been commonplace in the London market. These relationships may become based as much on the objectivity of data as the subjectivity of the underwriter-broker-client relationships themselves.

Appendix 2: Review of secondary research

Client service

Present: the FCA has put much of its focus in insurance on 'treating customers fairly', as has Lloyd's and the LMA with their published Minimum Standards for Conduct Risk. In conjunction these have intensified the focus on compliance. Much of this focus has been put on the underwriters, who, according to Gracechurch's Cultural Assessment, find the heavy load of compliance to be the most frustrating aspect of the current culture. This is easily the most significant perceived cause of 'wasted' time and energy.

Future: Key to underwriting success will be a deep understanding of the end-clients' needs. In the cultural evaluation of UK-based risk managers, two key areas were highlighted in which the insureds found the insurance providers to be misaligned as an industry with their risk needs:

– Insurers need to listen more closely to their customers: risk managers felt insurers focus on products rather than on the needs of customers. They believe the industry needs to try harder to understand and listen to customers, particularly in the case of multi-line insurance solutions. Risk managers were highly critical of and frustrated with the product-led, siloed approach of both brokers and insurers.

– Insurers need to create new ways to protect new and changing forms of risk: risk managers feel there is a tendency to address emerging risks with traditional solutions rather than proactively developing anything new. The industry needs to find ways to embrace the changes technology brings.

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Lloyd's is the world's specialist insurance and reinsurance market. Under our globally trusted name, we act as the market's custodian. Backed by diverse global capital and excellent financial ratings, Lloyd's works with a global network to grow the insured world – building resilience of local communities and strengthening global economic growth.

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.

About Gracechurch Consulting

Gracechurch's mission is to help organisations in the global commercial (re)insurance ecosystem make better, evidence-based decisions, to build their reputations, client service and organisational culture in a time of unprecedented technological and societal change.

We are firm believers that objective, robust, up-to-date data is the right start point for the development of growth strategies and the management of risk.

Gracechurch is passionate about the global (re) insurance industry and has been an active part of it since 2000. This focus has given us deep industry knowledge and trusted relationships with the leading market players.

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