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## London's emerging resource dilemma

*The London insurance market is entering a period of rapid change contributed to by increased external competition, unprecedented scrutiny from regulators and the market's newly charged drive to improve efficiencies. Will underwriting organisations be able to resource the right skills to support the market momentum and lead the ensuing changes?*

The history of the London insurance market has created powerful competitive differentiators in a rapidly growing global market. The diverse offering of products, coupled with the unique pool of underwriting expertise housed in both Lloyd's and Companies markets, make London a powerful magnet for brokers placing classes of business within a reinsurance and large commercial environment. Conversely, earlier developments have also bequeathed some key processes, which provided strength at their inception, but now look cumbersome and are increasingly regarded as highly inefficient, for example the inefficient claim payment processes. The risk is that this legacy could act like a 'bonsai gardener' – severely pruning future growth and curtailing diversification.

Increased global competition has recently accelerated the pace at which the market is moving to reform the inefficient processes, so that it can benefit fully from its strong trading position and increased capacity post-Katrina. More so customer service, and specifically timeliness will be a deciding factor into which market to place business. The stakes and rewards for completing the transition to the Document Repository Interface, Electronic Claims File, Peer to-Peer placement and Accounting and Settlement (A&S) in a timely way are now widely recognised. In addition to decreasing combined ratios through administration efficiency gains, these process changes will assist in sustaining London's leadership position in its traditional markets, and enable it to compete effectively with other insurance centres.



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With the on going G6 initiatives acting as effective proof of concepts, Chief Operating Officers in London seem increasingly determined to clear impediments to placement and A&S reforms during 2007. The momentum to implement IT platforms capable of supporting the new trading practices is already beginning, as can be determined by the interest in moving to multi-tier technology platforms capable of accessing web services. As more organisations' projects gain momentum, the availability of certain types of senior specialist IT resources will become the bottleneck that will slow the transition unless companies take action now to avoid this crunch.

Implementing new IT systems to support new trading processes will require people with a unique combination of skills. These people will need extensive knowledge of both new and current insurance business processes, coupled with IT expertise and project roll-out capabilities. Unfortunately, the pool of people with such skills available across the market is limited. An unwarranted number of them are heavily involved in maintaining a myriad of legacy systems, inherited from mergers and acquisitions within the Lloyd's and Companies market. A decreasing pool of expensive contractors could hold companies to ransom if the resource issue is not effectively tackled.

As the A&S initiative gains momentum in London, insurers will jostle to modify their IT systems to keep pace with their peers. A reasonable estimate is that the market will see between 150-200 deployments of various IT initiatives in similar timeframes, likely to be over the next 24 months. Each company will decide where in the spectrum of change (ranging from Change Initiator through to a Late-Follower) it wants to be positioned based on its business strategy and resources. Despite different approaches the market will witness a sharp peak in demand for suitable senior IT staff to implement the changes.

At present, people with the appropriate skills are mostly deployed across three broad areas: first, baseline operations supporting current platforms and processes or maintaining legacy



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systems; second, managing and developing competitive enhancements, and third, market change initiatives.

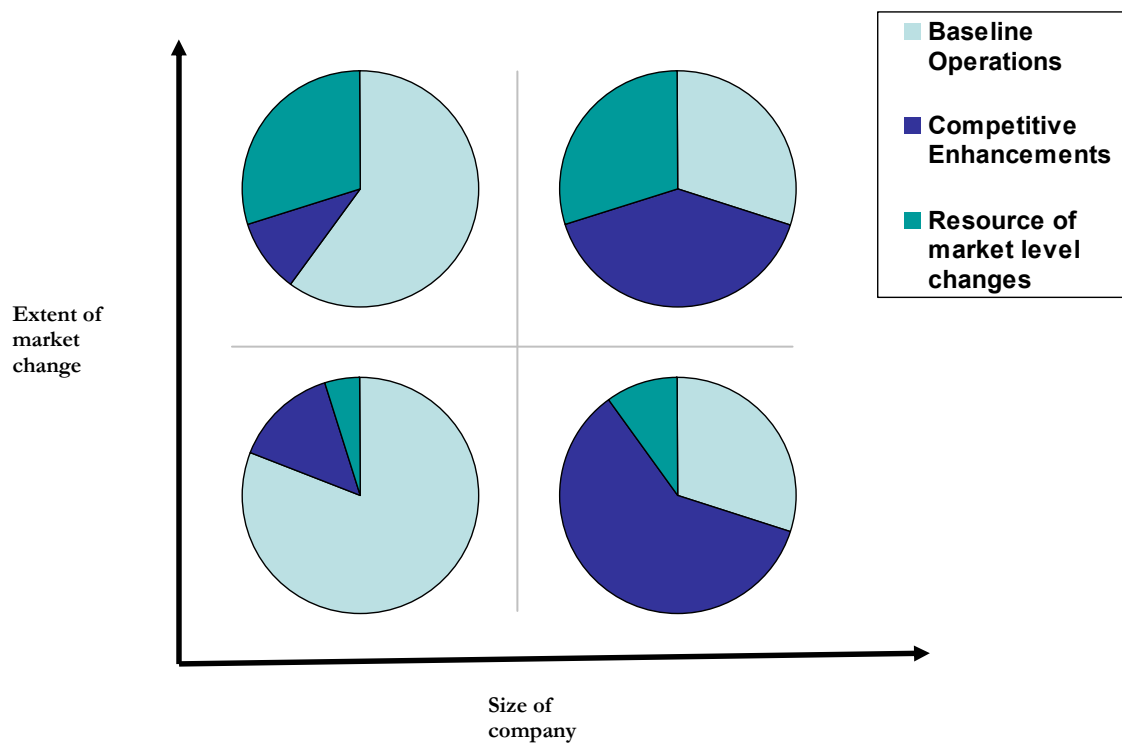


Figure 1: Likely Distribution of IT Resources amongst Underwriting Organisations

In recent times, the manner in which IT resources have been deployed in London has meant that most of the expertise needed to initiate, implement and support the transition to the new trading processes is currently supporting operational systems. A considerably smaller proportion of organisation's permanent staff resource is dedicated to competitive enhancements or supporting market changes. Much of the support work carried out,



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particularly on support of legacy systems or tactical solutions, does not fully utilise the comprehensive skill set of senior IT resources.

The time is ripe for companies in the London market to start preparing for the anticipated shortage of skilled resources. Insurers should look at freeing up their key IT people from baseline operations to lead deployments of market initiatives. This could be achieved in three ways: the recruitment of fast-track graduates could be increased; legacy systems and tactical IT solutions could be resourced to free up senior people, or implementing plans to retire or run-off systems.

New blood entering the industry will assist to strengthen its future, but fresh recruits can take 12-18 months to become effective. This may be an effective strategy for organisations taking a strategic decision to be a 'Late Follower'. Retiring legacy systems or outsourcing activities like the support of legacy systems can free up a significant amount of bandwidth of key IT people quickly. These options should be considered now by organisations that want to be one of the early adopters or in the mainstream of the transition. It is also important to plan for a very buoyant market in such skills and to have a back-up plan (if key staff are lured away) regardless of the strategic decision on the pace at which the company wants to implement the changes.

The horizon for a transition to new trading practices in London is more optimistic than it has been for a long time. Early and effective planning is required to ensure that the availability of suitably skilled IT resources does not become the new bonsai gardener.