



ADAPT AND COMPETE

Amid a myriad of challenges, re/insurers must stay ahead of their peers and embrace innovation and technology if they are to thrive in the game, Ingrid Carlou, the chief executive of Patria Re, tells *Intelligent Insurer*.

The use of technology and the ability to find and embrace other forms of innovation will become the key differentiator for reinsurers in 2017 as they compete for market share amid tough economic conditions and against a backdrop of limited growth.

That is the view of Ingrid Carlou, the chief executive of Mexico reinsurer Patria Re, who warns that companies that do not adapt and innovate will simply find themselves battling for the same business as their peers—and rates will continue to suffer as a consequence.

“The year 2017 will continue to be a tough market for insurers and reinsurers. There is not enough GDP growth in the world to spur much increased demand so the market will continue to battle over the same pie. Supply of insurance capital is outstripping demand,” Carlou says.

She says re/insurers must ask themselves how they can stand out from the crowd. “What else can the industry provide in addition to capital? How else can an insurer or reinsurer differentiate itself and stand out from the pack?” she says.

She suggests that even some simple things can make a big difference: improving listening skills, producing prompt and accurate documentation and offering easy claims process are just some of the ways companies can stand out from the crowd and steal a march on their rivals.

“It’s all about execution,” she says. “The technological arena can support efficiency in order to reduce expense ratios, but this needs to be matched with organisation and human capital.

“On the other hand, big data, data mining, and data diving will promote the development of new customer experiences, products and services and this, coupled with better telecommunications, will give access to new segments of the population who are eager for insurance products and yet don’t have an offer. This will become particularly clear in places such as Mexico in the coming years.”

Carlou says that she feels the great challenges will be on the top line and the expense ratio if companies are to remain relevant. “The top line will be driven by fintech and insurtech in order to access new markets and make the pie bigger—not by accessing previously untapped segments of the population and changing the offer and the consumer’s experience.

“The expense ratio will require good quality systems, human capital systems and technology, together with great efficiency and agility in the organisational culture and governance. New ideas are not only about coming up with things other people did not think about, it is also about implementation.”

These challenges combined with the innovation being driven by technology will lead to more mergers and acquisitions (M&A) activity, she says. She notes that while excess capacity is here to stay, insurtechs as well as managing general agents (MGAs) are developing rapidly.

“The future is full of challenges. We are hearing a lot about technologies such as blockchain, and to transform those challenges into opportunities, we will need to centre further on the customers and be able to respond to their needs,” she says.



“Being an expert in Latin America where the penetration is still very low and the population large gives us an ample market to deliver peace of mind in a tailored and efficient way.”

She notes that the number of local companies has reduced dramatically over the years. Consolidation in Latin America has been driven both by international and regional capital, but Patria Re has seen premium issued by international companies stabilising in the last four years with around 35 percent of the market.

Local companies have kept a market share stable at between 45 percent and 50 percent. Regional groups are gradually gaining penetration and have climbed to a market share of 15 percent-plus.

“We would expect this group of companies to reach a market share of 20 percent in the near future. These changes are mostly driven by M&A, but an intimate understanding of local and regional dynamics is also important.

“Regional companies tend to have both the local touch and the size to take advantage of economies of scale and synergies that allow them to leverage the technological advantages,” Carlou says.

“2017 might be a bit bumpy for M&A but one must not forget the old saying: ‘*A río revuelto ganancia de pescadores*’, which broadly means ‘there can be good fishing in troubled waters’.

“Large international groups may get discouraged in the murky waters ahead, local players have no choice, but more important they are confident. I think interesting times are approaching.”

SUCCESS AT LLOYD’S

Patria Re entered the Lloyd’s market in 2015 alongside Ironshore’s Pembroke Managing Agency via a newly formed special purpose syndicate (SPS).

Carlou says that the Lloyd’s venture is performing well, in line with budget, and the team and company are growing steadily and with good results. She says it achieved an average of 30 percent annual growth since it was formed with “very solid technical” results and profits.

She adds that it has also worked on a simplification of the process and the structure of the organisation in order to create more value for its clients.

“During the last three years, we have sailed through disruption and prepared ourselves to cope with the paradox of innovation,” she says. “We are adopting systematic innovation, opening many new lines of business, reacting with speed and agility in order to create future growth.

“The SPS is a fundamental piece in this strategy, building a bridge between Lloyd’s as a centre of innovation and Latin America. We have strived to reduce the incubation period of ideas and projects that are transforming our company and increasing productivity and performance.

“We are working relentlessly on new projects in order to make further change easier and raise the rate at which we can innovate in the future. We anticipate many other changes that will impact our industry thanks to innovation and technological advances as well as interconnectivity across risks.”

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Despite the many positives Patria Re can take from the venture, Carlou also stresses the troubles facing the wider world and the fact that re/insurers are not immune to such problems.

A TIME OF INSTABILITY

Carlou notes that 2017 has started with great political instability globally and many other uncertainties in the world.

“The slow growth environment of the past several years has put stress on the normal operating environment with implications on the social front of many countries. This involves income, wealth and education,” she says.

“The year has seen significant volatility coming from 2016: financial markets are unstable and fragile; political shocks including Brexit, the presidential elections in the US and the Italian referendum. Political risks are rising, with higher potential protectionism and probable trade conflicts; the arms race is warming up.”

She adds that the financial volatility is driving inflation and higher interest rates. For economies where indebtedness is climbing, it means fewer resources for innovation given that the burden of debt is higher.

“A direct consequence has been capital outflows from emerging markets, higher commodities prices and inflation. No good news for the insurance sector, since lower income means stringent demand of insurance products. Sovereign risk is on the rise, emerging markets will be hard pressed by it. The first example on this front is Mexico who has been put on negative outlook. Nevertheless, there are strategies to cope with the challenging environment,” she says.

She adds that in such an environment, the insurance industry should emphasise its support of growth and risk-taking and not just protectionism.

“We are an enabler of growth. Insurance helps address and support business development, cybersecurity, climate change, and terror threats, to name just a few,” she says.

“The insurance industry is a partner in understanding risk and promoting entrepreneurialism. Emerging risks such as cyber, climate change and terrorism present new challenges for our clients; they also present new opportunities in the shape of emerging demand.

“Insurance offers freedom for the pursuit of innovation and freedom from the financial and emotional burdens of loss.” □

Ingrid Carlou is the chief executive of Patria Re. She can be contacted at: icarlou@patriare.com.mx