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NO MARKET FOR BLUNDERBUSSES

"Not now, I'm busy!"

Anyone with school-age children will have made this exclamation more often than usual in the past twelve months, as the competing demands of home education and career begin to chafe and spark.

As with parents and their offspring, so with the insurance sector.

The basics of supply and demand are drilled into all of us early in our insurance careers and one of the first things we learn about is the rollercoaster of the pricing cycle.

But what we might not be taught is that the market's rhythms also affect everything else.

Historically alternating seasons of feast and famine have occurred in every sub-sector attached to our industry.

For instance we have also had a tech cycle.

Excess profits bring surplus capital, more competition and softer pricing. This means carriers must make more effort to drive growth via a renewed focus on customers, product innovation and service differentiation to stand out in a crowded marketplace. Tech investments have historically found it easier to be funded in this phase because they promise better and smarter service and some of that hard-to-find growth.

As the soft market grinds on and profits rapidly dwindle tech carries on being funded, but now it is because it is sold as a way to cut costs and boost increasingly thin margins.

In the hard markets of the past underwriters would quickly lose interest in tech in favour of going back to doing what they do best – write lots of profitable business.

The collective cry would be: "Not now, I'm busy making (lots of) money" in the style of a working parent admonishing its offspring for barging in on the daily divisional Teams stand-up meeting.

After all, if you are busy shooting fish in a barrel, any old blunderbuss will do.

The firm selling sophisticated laser-sighted sniper rifles isn't going to make a sale until the fish get much harder to hunt down.

At this stage of cycles of yore we would definitely be remarking on a much less favourable climate for tech investment overall. Underwriting and tech fortunes would correlate inversely.

So here's the big question.

Now we have the Class of 2020 are we going to see the technologists' star, so ascendant in the latter stages of the soft market of the last 4-5 years, begin to wane?

Will everyone be too busy making money fast to bother re-thinking and re-tooling their businesses?

This time the news for the techies is encouraging.

Experience already tells us that the best underwriters are going to carry on re-platforming insurance to make it fit for the digital age, whatever the market weather, but even for the rest the climate itself has changed significantly when compared with previous hard markets.

The speed of flow of capital into and out of the insurance sector has increased exponentially in the past 15 years and with it has a tentative confidence that whilst we may never wholly banish pricing cycles, they are likely to become much less extreme.

Dare we also whisper it ever so quietly that we are getting better at pricing risk? Less pricing mistakes mean less unexpected losses and less unexpected losses mean less unexpected capital shortages and less sudden pricing fluctuations.

While quicker and smarter capital means less shortages for a shorter period it also means less surplus because that same capital is given back quicker when it is deemed unlikely to make targeted returns.

Insurers used to be scared of giving back capital in soft markets because they weren't sure it would be available again when they really needed it. This often spurred foolish pro-cyclical behaviour at inopportune moments.

But now so many liquid sources of funding exist that everyone has much more confidence that, as long as the returns are available, capital will be flow back when needed.

The result is less feast, less famine and more consistency and overall satisfaction for all.

The 2021 renewals have shown that a market can behave rationally and harden without a capital drought.

Prices are rising but this is by no means a shooting-fish-in-a-barrel-type market.

The Class of 2020 has shown that today's new entrants have to bring more than just new capital to the party if they are to succeed.

The biggest takeaway from the 2021 renewal is that this crop of new (re)insurers is bringing expertise, new product and solutions like never before. They know they need something different and need to provide solutions for which there is ready and rising client demand.

If these last renewals have proven that the pricing cycle has to some extent been tamed, then it must follow that the old technology investment cycle will have been tamed with it.

One thing's for sure, if the class of 2020 comes to market armed with laser-sighted rifles we will know the cycle has changed for good and that a new progressive age will be upon us.

M.G.