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## [The cascading benefits of good strategy](#)

September 14, 2022



*That institutional customers would look for long-term relationships with 'good partners' is both intuitive and uncontroversial: broadly, and across industries. Less well appreciated perhaps is that core to successful long-term partnerships is a well-formulated, effectively communicated strategy.*

## Clarity about strategy

*Strategic clarity* comprises two primary elements, the core strategic intent and then how well it is communicated.

A coherent corporate strategic intent must necessarily:

- Be well-defined and relevant
- ‘Make sense’ for the targeted segments, gatekeepers, and customers
- Be well understood by internal stakeholders

Communication to external stakeholders needs to be appropriately articulated and disseminated.

And yet for all that, talk is cheap, as the views of customers (and gatekeepers) will ultimately be formed by how the strategic intent manifests in behaviour, meaning that:

- Companies genuinely need to ‘walk the talk’ in accordance with their strategy
- Tendencies to overpromise or excessively accommodate ultimately become self-defeating
- Similarly, systematic understatement of the intent can also diminish clarity and impact

The Property & Casualty reinsurance segments serves as a good case study.

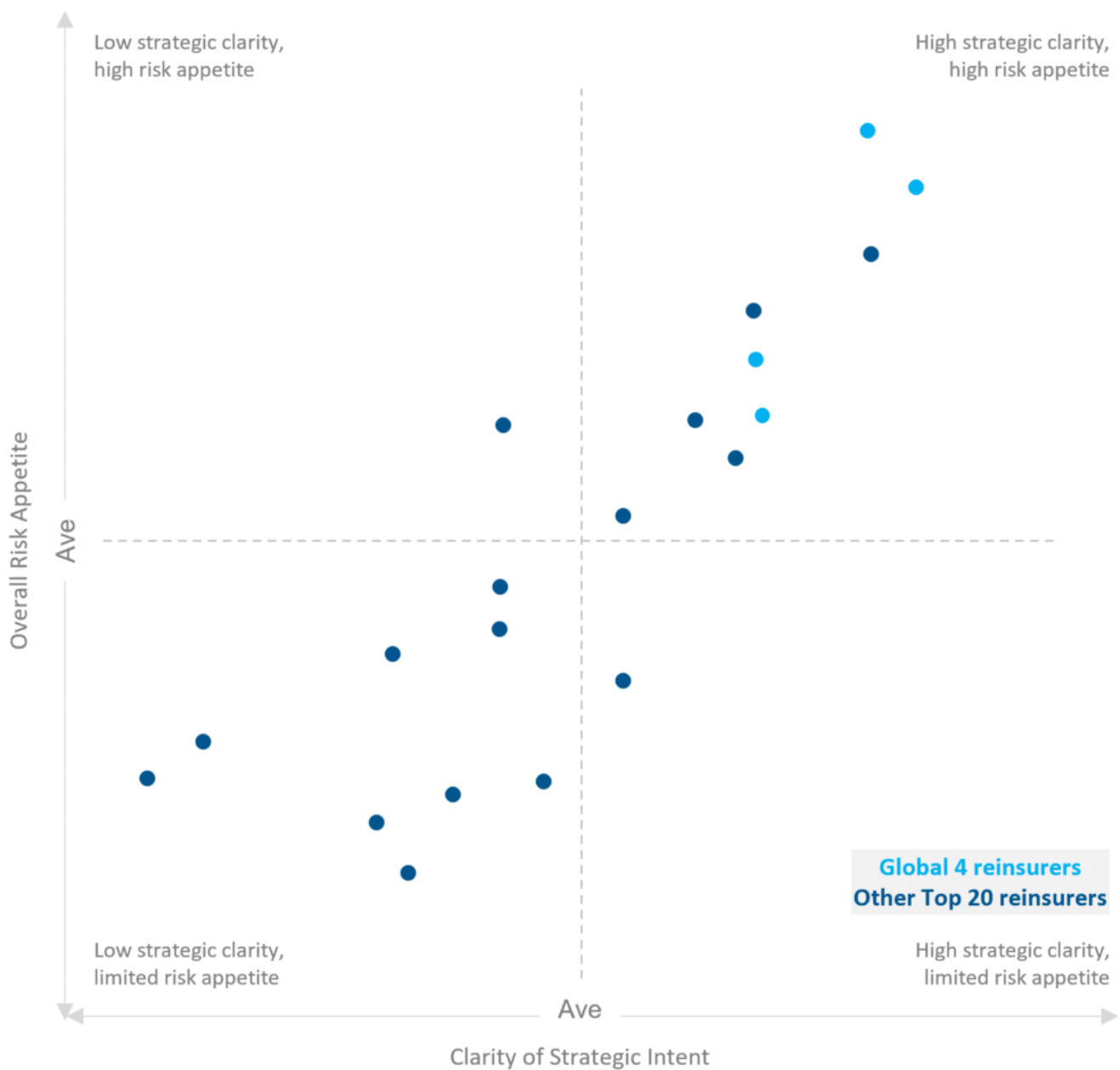
## **Strategy drives appetite**

The industry adage that “reinsurers are in the business of taking risk” underlines the obvious importance of demonstrated high levels of healthy risk appetite.

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### **Exhibit 1: Clear strategy and healthy risk appetite are stablemates**

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Source: NMG Consulting – Global P&C Re Study – 2022

Exhibit 1 illustrates that, for the P&C segments, perceptions of the clarity and coherence of reinsurer strategies correlate positively with perceptions of their risk appetites:

- The argument for a causative positive link of strategy into appetite is that reinsurers with clear strategic intent can demonstrate appetite with high conviction within a well-defined scope

- The counter argument, that higher risk appetite makes for greater strategic clarity is seemingly more difficult to make, although not implausible
- We note however that it is quite possible that clients and brokers are unable to differentiate between the two, particularly for companies rated highly on both dimensions

Given the importance of risk appetite, regardless of the causative processes or indirect linkages, reinsurers need to perform well on both dimensions to be competitive.

It goes further than that, however.

## Opportunities abound for good partners

‘Good partners’ adopt a collaborative approach to problem solving, as well as being consistently transparent and trustworthy. They also have a strategic, long-term view of the client relationship.

### Exhibit 2: Partnership approach is a leading factor reinsurer in selection

*Insurer rating of selection factor importance by region*

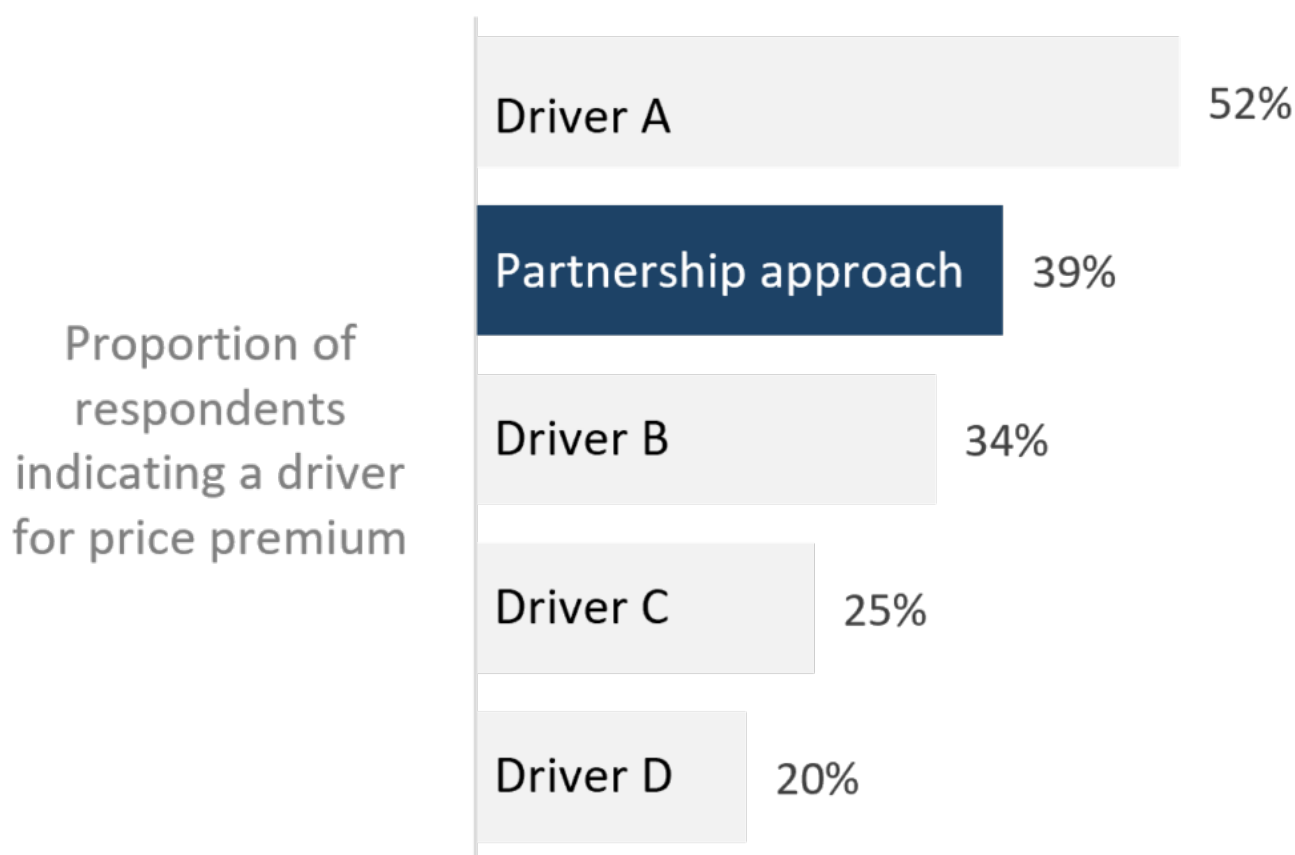
|                    |                         | USA, Canada              | Latin America | Continental Europe | UK & Ireland | Middle East & Africa | Asia | A&NZ |
|--------------------|-------------------------|--------------------------|---------------|--------------------|--------------|----------------------|------|------|
| Selection criteria | Pricing competitiveness | 4 <sup>th</sup> or lower |               |                    |              |                      |      |      |
|                    | Partnership approach    | 1 <sup>st</sup>          |               |                    |              |                      |      |      |
|                    | Factor A                | 2 <sup>nd</sup>          |               |                    |              |                      |      |      |
|                    | Factor B                | 3 <sup>rd</sup>          |               |                    |              |                      |      |      |
|                    | Factor C                | 4 <sup>th</sup> or lower |               |                    |              |                      |      |      |

Source: NMG Consulting – Global P&C Re Study – 2022

Price and value factors both count materially to reinsurance partner selection as well as the effectiveness and sustainability of operational engagements. Exhibit 2 highlights how partnership effectiveness ranks above price competitiveness for insurers in many key regions including the US & Canada (the largest), the UK (which includes the Lloyd's market), and Australia & New Zealand.

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### Exhibit 3: Good partners have more pricing power



*Source: NMG Consulting – Global P&C Re Study – 2022*

Beyond reinsurer selection, in a market known for its price competitiveness, insurers consistently indicate a willingness to pay a higher price for reinsurers that are good partners.

This is especially the case when reinsurers have demonstrated their partnership approach by 'walking the talk' over an extended period. Insurer's long memories recognise that partnering credentials are best examined under pressure and at the margin.

Incumbent reinsurers of long-standing are thus ultimately rewarded with some pricing power, for those able to play the long game. Absent a track record with a potential new client, reinsurers need to be persuasive that good partnership lies at the heart of their strategic intent and preferably be able to reference other cases in support – another insight into the link between the two.

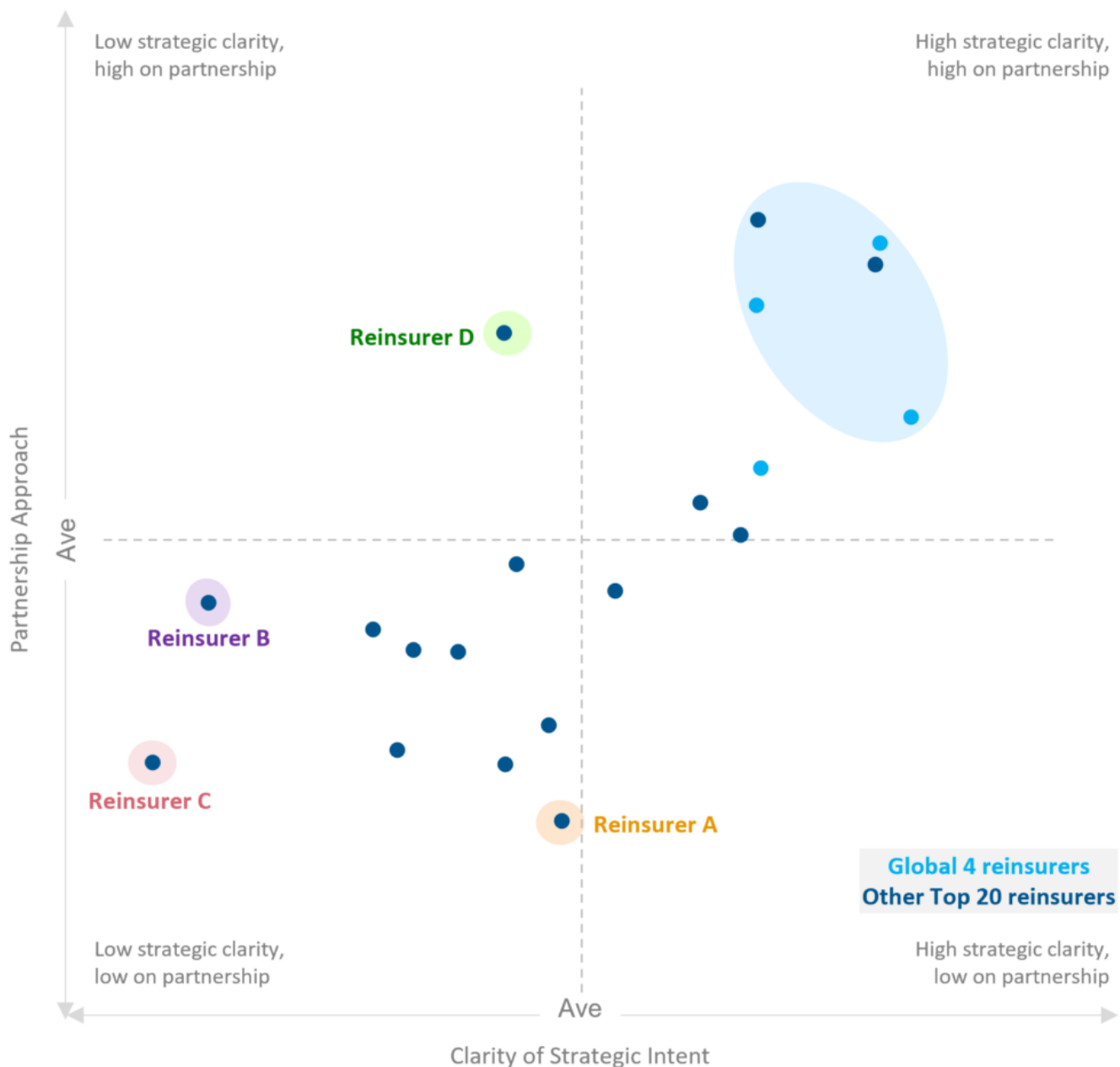
## **Lucid strategies underpin good partnerships**

Feedback from insurers and reinsurance brokers point to a clear link between partnership and clarity of strategy. The causative linkages are intuitive:

- Good partners know and communicate what they want from their relationships, meaning they can be consistent and transparent; unclear strategies and communication clearly constrain
- Having a multi-year perspective of corporate strategy can be extended to views of client relationships

### **Exhibit 4: Clear about strategy, good in partnership**

*Leading 20 P&C reinsurers (globally); ratings from insurers for strategic clarity versus partnership approach*



Source: NMG Consulting – Global P&C Re Study – 2022

Five reinsurers rate well above average on both dimensions, including three of the four largest global players. A closer look at the outliers that score less well reveals more about the underlying context and drivers:

- *Reinsurer A* rates on average for strategic clarity although poorly for partnership, and on deeper examination also client team engagement and customer experience

- *Reinsurer B's* partnership effectiveness is significantly constrained under its current strategy
- *Reinsurer C's* partnering capabilities are also limited by its strategy (and corresponding low risk appetite), although somewhat buffered overall by the effectiveness of its client teams
- *Reinsurer D*, possibly the most significant outlier overall, received near-leading ratings from insurers for partnership, although is underweight in feedback that its strategy is 'crystal clear'

## Adaptive strategy needs stakeholder signalling

Companies regularly review their strategies, mostly by way of internal processes. The systemic incorporation of client and gatekeeper perspectives into strategy reduces the risk of blind spots and echo chambers. Signals should be drawn from broad-based inputs, and not limited those from core clients only.

Failure to do so, forgoes the opportunity to incorporate signals from external stakeholders about the 'real world' quality and fit of the current strategy, limiting the extent to which the process can be 'self-correcting' and adaptive.

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