

Institution: Aston University
Unit of Assessment: 19 Business and Management Studies
Title of case study: Changing practice and understandings in the global reinsurance sector: strategy tools for risk-trading
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>Aston Business School has changed business activities of major reinsurance firms and awareness and understandings in the global reinsurance industry. It has done so by producing an integrated suite of strategy tools to support strategic positioning, relationship management and risk analysis and trading. Reinsurance firms have adopted these tools in their internal practices, for example, to increase premium income from target clients. The implementation of these tools was facilitated through 58 tailored reports to firms worldwide, 22 commissioned company-specific strategy workshops, targeted distribution of our industry reports, invited presentations at prestigious events, and training activities for reinsurance professionals.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>An ethnographic study, undertaken 05/2009-05/2012, used video and audio observation of live trading, and interviews with major reinsurers, insurers and brokers globally. Professor Jarzabkowski (Aston, 11/2000-05/2013) led a research team, including Dr. Smets (Lecturer, Aston 09/2009-09/2013), and Research Fellows: Drs. Spee (Aston, 09/2009-02/2011); Burke (Aston, 01/2010-present); and Bednarek (Aston, 08/2011-05/2013). The research developed deep insights on the implications for reinsurance risk trading of the radical changes arising from convergence, consolidation and regulation. Its impact is underpinned by new theoretical insights, addressing the socio-materiality of risk taking and the social construction of financial markets, topical issues following the financial crisis. Socio-materiality focuses on the social relationships between risk traders, the physical environments, tools and technologies with which they work, and how these jointly affect the micro-processes of risk evaluation. This is a unique counterpoint to insights from financial and behavioural economics. Our ability to use ethnography to generate novel and actionable answers to salient questions motivated the Insurance Intellectual Capital Initiative (IICI), an industry consortia of eight leading insurance companies and professional bodies, to commission the project, and to re-fund it based on initial results (3.3; 3.9). Producing impactful materials for practitioners (3.3; 3.4) took initial priority. Nonetheless, despite recent project completion, we have one journal publication (3.1); one book chapter (3.2); four papers under review at top journals (including 3.2; 3.5; 3.6); and four awards from leading conferences (3.1; 3.5; 3.6).</p> <p>A socio-materiality perspective on financial risk-taking (3.1; 3.2) focuses on the minute interactions between individuals and the technologies by which they render complex and uncertain risks 'real' and amenable to statistical analysis and/or judgement. This perspective generated new insights into the roles of analysis, judgement and technology in financial risk-taking and contributed to the nascent understanding of socio-materiality in the strategy-as-practice literature (3.1; convened 'Connecting the Material to the Social', EGOS Colloquium, 2013). Practically, it underpinned customised tools to protect against excessive faith in risk analysis technologies and helped risk-traders blend qualitative and quantitative inputs in more reflective and comprehensive risk appraisals (3.3).</p> <p>By extending analyses of socio-material dynamics from the individual level to the market, we have developed deeper understanding of financial markets. Looking beyond economic assumptions of risk traders as rational individuals inhabiting markets, we explored how micro-level interactions, social cues and collective interpretations construct markets. Hence, we have generated new insights into the way people, their activities and tools, interact in the construction and collective interpretation of markets (3.4; 3.5; 3.6). Research outcomes included: First, a more socialized understanding of how financial markets operate through the collective communication and interpretation of market cues, and how these mechanisms drive convergence or variation in risk-trading practices as well</p>

as market outcomes such as cycles (3.4; 3.5; 3.6); Second, client-relationship management frameworks that are both theoretically novel and practically actionable for developing micro-social relationships and interactions that enhance judgement of uncertain financial risks (3.2; 3.3); Third, understanding the social foundations of market construction and highlighting critical threats to contextual judgement arising from consolidation and risk-bundling, dynamics that are eroding industry norms that underpin market functioning (3.3; 3.4; 3.5).

3. References to the research (indicative maximum of six references)

- 3.1 Jarzabkowski, P., P. Spee & M. Smets. 2013. Material artifacts: Practices for doing strategy with 'stuff'. *European Management Journal*, 31[1]: 41-54. Winner of Best Paper Prize, Academy of Management Conference, Boston 2012. This conference is the main global academic conference in our field and the *European Management Journal* is a 2* journal (ABS, 2010)]. Access: <http://www.sciencedirect.com/science/article/pii/S0263237312000953>
- 3.2 Jarzabkowski, P., M. Smets & P. Spee. 2012. Leveraging relationships to get ready for change. In Heimer Rathbone, C-L. (Ed.) *Ready For Change? Transition Through Turbulence to Reformation and Transformation*. London, UK: Palgrave MacMillan; Also: currently under review at a 3 star Journal. Can be supplied by the HEI on request.
- 3.3 Jarzabkowski, P., M. Smets & P. Spee. 2010. 'Trading risks: The value of relationships, models and face-to-face interaction in the global reinsurance market. *Insurance Intellectual Capital Initiative Executive Briefing*. See website: <http://www1.aston.ac.uk/reinsurance/> [key industry report #1]
- 3.4 Jarzabkowski, P., R. Bednarek, G. Burke, L. Cabantous & M. Smets. 2012. 'Beyond Borders: Charting the Changing Global Reinsurance Landscape'. *Insurance Intellectual Capital Initiative Executive Briefing*. ISBN 978-1-85449-770-3. See website: <http://www1.aston.ac.uk/reinsurance/> [key industry report #2]
- 3.5 Smets, M., P. Jarzabkowski, G. Burke and P. Spee. 2012. Reinsurance Trading in Lloyd's of London: Balancing conflicting-yet-complementary logics in practice. Conference paper. Best Paper Proceedings, Academy of Management, 2012. Currently revise and resubmit at *Academy of Management Journal* [our field's top journal; 4 star rating], can be supplied by the HEI on request.
- 3.6 Jarzabkowski, P., Bednarek, R., Cabantous, L. 2013. Markets as Meta-Interpretive Systems. Academy of Management Conference, Florida. Best Paper Proceedings, Academy of Management, 2012. Target Journal: *Organization Science*, 4 star rating. Can be supplied by the HEI on request.

Grants (assessed for academic merit):

- 3.7 Awarded to Professor Jarzabkowski; ESRC/ Insurance Intellectual Capital Initiative Fellowship. Topic: 'London compared with Bermuda: An ethnographic comparison of the basis of trading and implications for future evolution'. Amount: £170,999. Dates: May 2009-31st October 2010.
- 3.8 Awarded to Professor Jarzabkowski; British Academy. Topic: 'An ethnographic comparison of electronic and face-to-face reinsurance trading practices and their implications for industry evolution' (PI). Grant no. SG091192. Amount: £7,500; Date awarded: February 2010.
- 3.9 Awarded to Professor Jarzabkowski. Insurance Intellectual Capital Initiative (IICI). Topic: 'Trading risks. Phase 2: The role of European direct reinsurers in the global market'. Amount: £125,000 (November 2010-March 2012).
- 3.10 Awarded to Professor Jarzabkowski. Economic and Social Research Council (ESRC): Topic: 'Business Placement Fellowship to support Trading Risks Phase 2'. Amount: £50,000; December 2010-12 April 2012.
- 3.11 Awarded to Professor Jarzabkowski. European Union 7th Framework Programme. Marie Curie International Outgoing Fellowships. Topic: 'Interdisciplinary advances on behavioural theories of financial risk-taking: Innovative insights from a video-ethnography of live trading'. Amount: £262,377; date awarded: April 2011; tenure of award: March 2012-March 2015.
- 3.12 Awarded to Professor Jarzabkowski, Dr. Smets and Dr. Burke, Economic and Social Research Council. Knowledge Exchange Grant: ES/K000926/1. Charting New Territory: Positioning the UK (Lloyd's) in a changing global reinsurance landscape. Amount: £113,374; dates: September 2012-December 2013.

4. Details of the impact (indicative maximum 750 words)

Our research changed understandings and raised awareness within the global reinsurance industry, as well as the business activities of major firms within the industry. It did this through providing an integrated suite of strategy tools for insurers, reinsurers and brokers. These included: 1) blending contextual and analytic judgement for enhanced risk evaluation; 2) managing relationships for both economic and knowledge gains; 3) strategic positioning for improved competitiveness amidst global change; 4) mapping and organizing work processes for more rigorous regulatory compliance (3.3; 3.4). Developing these tools in conjunction with industry leaders (monthly meetings) (5.1) was important in establishing this impact, as was targeted global distribution of our findings. The scope and importance of the research impact was recognized through the award of the inaugural ESRC's Outstanding Impact on Business Prize (5.10).

Engagement with industry: Impact has been supported through high-profile engagement at multiple levels globally. At the organizational level, we produced 58 customized reports for participating organizations, which applied our diagnostics. 22 firms also commissioned strategy or training workshops (2010-12), enabling them to independently implement those models and monitor their benefits against industry benchmarks or identified strategic gaps. Industry-level engagement centred on two reports (3.3; 3.4), the latter being emailed to 759 industry players globally. Responses to these outputs are discussed below. Headline findings were covered in over 30 media reports and presented at 11 high-profile industry events. Several industry bodies endorsed the report, its findings and recommendations, including posting it on their websites between 2010-2012 and using it in their internal and external communications. These included Lloyd's, the Intermediaries and Reinsurance Underwriters Association, and the Chartered Insurance Institute (CII), a professional association body for over 100,000 reinsurance professionals worldwide (5.2).

Influencing thinking and awareness. Our research has transformed understanding in the global reinsurance industry with evident increased awareness of critical trends and dangers. There has been endorsement and dissemination by high-profile industry players of our findings as an impetus for industry change. For example, industry leaders commented on how the industry needs to take account of our report's critical finding around excess bundling of risk and over-dependence on models to avoid crisis (5.1). Such commentary included ten articles and press releases highlighting this key finding in the reinsurance media (e.g., 5.4). For example, one of the world's largest insurers explained that they had previously not realized the extent or the dangers associated with the trend towards risk bundling (5.5), while the media noted that *'Paula Jarzabkowski does not like to mince her words'* about necessary change (5.7). More recently, our findings on potential systemic risk have been the topic of invited industry presentations to help "snowball" change London: 01/ 2013 - WCI lecture; 03/2013 - Lloyd's lecture; Bermuda: 04/2013, IRU lecture).

Influencing industry thinking is also evidenced as our critical findings for change have been adopted as part of industry capacity development (5.2). The CII endorsed our reports, frameworks and calls for change to the degree of awarding accreditation credits for reinsurance professionals attending Professor Jarzabkowski's lectures and making the associated material available to their global membership (11/2010, 11/2011, 03/2013) (5.2). They thus incentivized the use of our materials in industry training and development. Further, a group of leading insurers, reinsurers and brokers from Bermuda, London, Munich, New York and Zurich are currently supporting a series of 'Masterclasses' based on our strategy tools, specifically targeted at developing the strategic thinking of senior professionals, and attended by an initial selected group of 22 future industry leaders.

Transforming understanding in the reinsurance sector is also evidenced in companies using our frameworks in their own presentations and communications. This demonstrates the degree to which industry participants endorsed and used the project findings to frame their own arguments, explanations and thinking (5.1; 5.3; 5.9; 5.10). One company used our frameworks in a conference presentation in Asia on improving data quality to support better risk evaluation (05/2012; 5.8).

Impacting organizational practices. The impact of implementing our models has already been felt within specific companies, as demonstrated in feedback we received from many companies, as exemplified in Section 5 (5.1; 5.6; 5.8-5.10). Several companies implemented tailored client segmentation strategies for the reinsurance sector and, thus, more efficiently deployed relationship management resources. As one participant explained in a follow-up interview, they could link progress with key clients directly to the implementation of our frameworks; while another quantified the impact as “5 million quid extra!” (5.9). Another company used our report to explain their relationship management approach and objectives (newsletter, 5.3).

5. Sources to corroborate the impact (indicative maximum of 10 references)

The following are sources to corroborate the impact statement in section 4. All URLs have also been provided as static documents to the research office for corroboration upon request. All documents of personal correspondence are similarly available.

- 5.1 Factual Written Statement from Industry Leader [Chairman of the Insurance Intellectual Capital Initiative; Chairman of the Lloyd’s Tercentenary Foundation, Junior Warden of the Worshipful Company of Insurers; Past Deputy Chairman of Lloyd’s and President of the Insurance Institute of London]. Individual also contactable by panel.
- 5.2 Factual Written Statement from Finance & Administration Manager, Insurance Institute of London branch of the Chartered Insurance Institute.
- 5.3 Company newsletter by North American reinsurer who uses our research:
http://www.axiomre.net/Newsletter/newsletter_April_2011.pdf
- 5.4 Media Article Increased Trend for Bundling Risk Exposes Reinsurers to Surprise Financial Shocks. Insurance News, 22/09/2012:
<http://insurancenewsnet.com/article.aspx?id=358415#.UGB1Qxjajyl>
- 5.5 Email correspondence from chief reinsurance buyer at leading global insurance company (named in email) regarding our research findings.
- 5.6 Email from strategy director at leading global reinsurance company (named in email) about using our models in their work
- 5.7. Media article The Challenges Ahead for Reinsurance Broking. Reactions, 05/12/2012: <http://www.reactionsnet.com/Article/3126718/Search/Results/The-challenges-ahead-for-reinsurance-broking.html?Keywords=jarzabkowski>.
- 5.8 Email correspondence from operations director at Asian reinsurance company (named in email), requesting to use research findings at Industry conference.
- 5.9. Excerpt from (confidential) follow-up interviews at company.
- 5.10 Winner of ESRC Outstanding Impact in Business Prize: <http://www.esrc.ac.uk/news-and-events/events/celebrating-impact-prize/prize-winners-2013.aspx>