

2023 Global Insurance Outlook: Insurers at a crossroads

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Key message: Insurers at a crossroads

Macroeconomic and geopolitical challenges and lingering COVID-19 concerns may impede growth and profitability



Transitions to a remote workforce and virtual customer engagement are poised to build on a more agile infrastructure to enable differentiating innovation



Insurers should balance short-term concerns over expense and risk control with longer-term priorities to improve data management, upgrade talent, and become increasingly customer-centric



While tech is likely to remain the primary driver of improved underwriting and claims performance, insurers should position to adhere to stakeholder expectations on more qualitative factors, including words and deeds on climate risk, diversity and inclusion, social equity, and transparency



Source: Deloitte Center for Financial Services analysis

Central themes: Insurers should be pivoting to longer-term reinvention

1

Move from rebuilding to reinvention

Pivot from having laid the foundation for operational transformation to fully realizing the value and benefits of infrastructure upgrades

2

Shift from reactive to proactive

Move from responding to requirements of regulators and other overseers to more proactively anticipating and fulfilling distributor and policyholder expectations

3

Prioritize innovation and sustainable growth

Broaden focus from risk and cost reduction to prioritize experimentation and risk-taking that drives ongoing innovation, competitive differentiation, and profitable growth

Inflation making non-life insurer profitability problematic even while boosting prices, top-line growth

While prices/premium volume soar across commercial lines, loss costs and reinsurance costs are also rising

2022 prices/premiums on the rise

- Q2 global prices up 9% (19th consecutive quarterly rise)¹
- Q2 financial/professional lines up 16%¹
- Q2 cyber insurance rates up 79% in US, 68% in UK¹
- Q1 reinsurance premiums up 27% in US² and 11% globally, on average³

2021 specialty market sales⁴

- US excess-surplus lines premium increased 22% in the 15 stamping office states
- Records set in volume (\$51 billion) and transactions (5.3 million) as more risks were placed in non-standard markets

Lloyd's 2021 production⁵

- Gross written premiums up over 10%
- 17-point combined ratio turnaround to 93.5%
- £1.7 billion underwriting profit, versus £2.7 billion loss in 2020

1. Marsh, [Global insurance markets: Moderation in pricing increases continues](#), August 1, 2022.

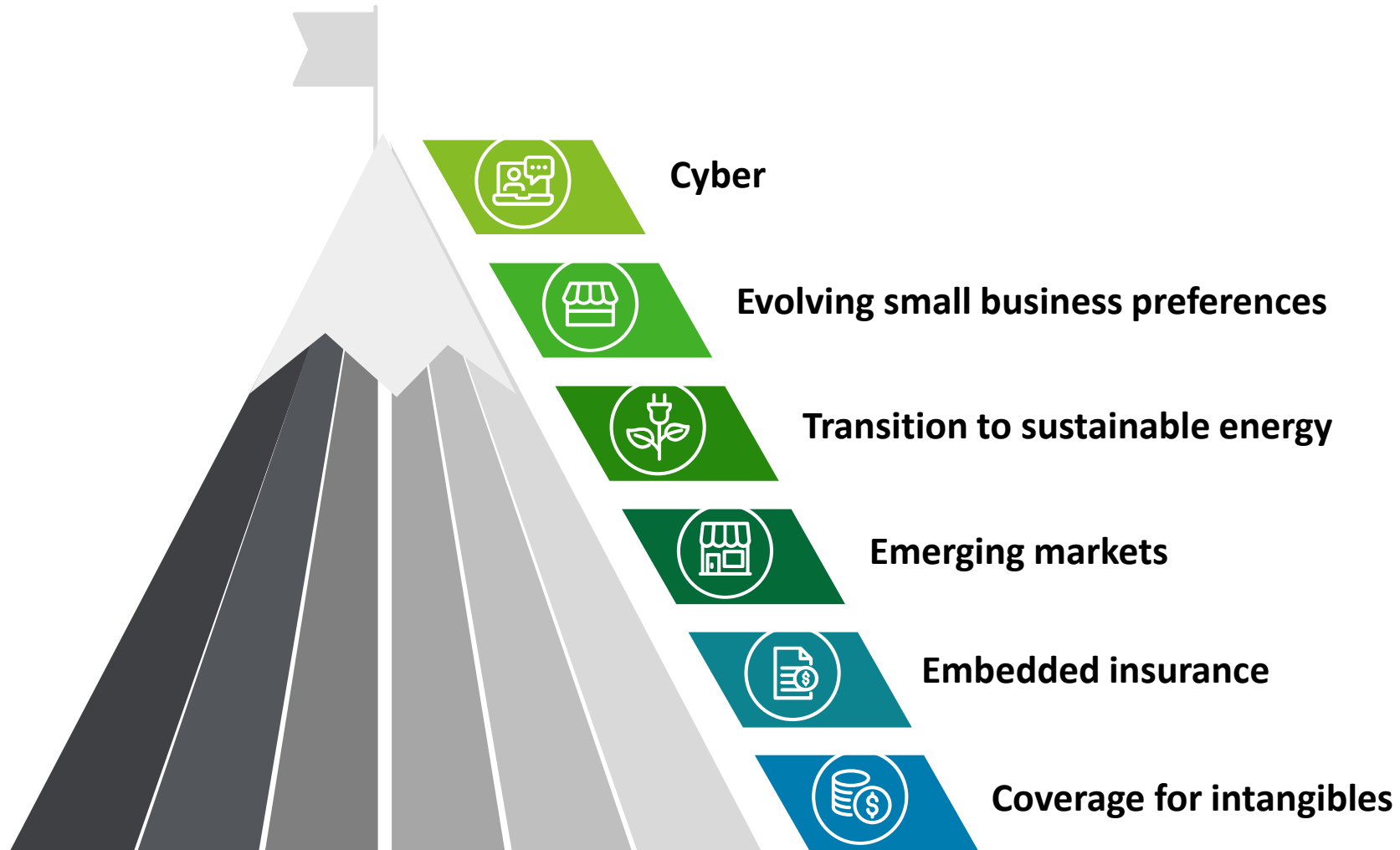
2. Reinsurance Association of America, ["Quarterly underwriting and operating report,"](#) May 27, 2022.

3. Gallagher Re, [Global \(re\)insurers' Q1 2022 financial results](#), May 31, 2022.

4. Wholesale & Specialty Insurance Association (WSIA), ["2021 Stamping Office Premium and Transaction Report: Surplus lines premium growth in 2021,"](#) press release, January 25, 2022.

5. Lloyd's, ["Lloyd's reports return to profit and a resilient capital position in 2021 results,"](#) press release, March 24, 2022

But there are still plenty of opportunities for growth for P&C players



L&A carrier transformation likely key to sustainable growth

A metamorphosis appears to be occurring, largely due to forces beyond the industry's control

Digitization: After fueling digitization during the pandemic, insurers cannot stand still now - it's time to double down

Inflation: May be a double-edged sword for life insurers

- Positive: Improve investment yields and spreads on interest-sensitive assets
- Negative: Higher operating, labor, and administrative costs may pressure earnings

Yield volatility: May drive client attrition or an increase in policy surrenders as customers seek higher returns if yields lag on existing portfolios compared to alternative investments

Interest rates: Could fuel M&A activity in the sector as anticipated higher future yields can help both product pricing and profitability



Forces driving change

Group insurers get innovative amid shifting dynamics

Group insurers seek to uncover new areas of sustainable growth in a competitive market



- Development of fee-based “as a service” solutions
- Provide more holistic benefits packages that span a broader lifestyle experience through partnerships both within and outside the sector
- Enhance technology capabilities to share more data with brokers and employers to design more meaningful benefit options for employees

Source: Deloitte Center for Financial Services analysis

Cross-industry challenges for 2023 and beyond in talent, tech, and sustainability



Human capital outlook: Insurers reinvent workplace strategies and culture as talent war intensifies

Shift in thinking and culture may help attract and retain talent



Flexibility

Based on function/
individual needs



Leadership intervention

Excellent change
management



Broader- based hiring

Embracing diverse
workforce



New hire acclimation

New approaches to
onboarding and
mentorship for
better retention



Training/upskilling

Embed training into
workweek to
encourage
participation

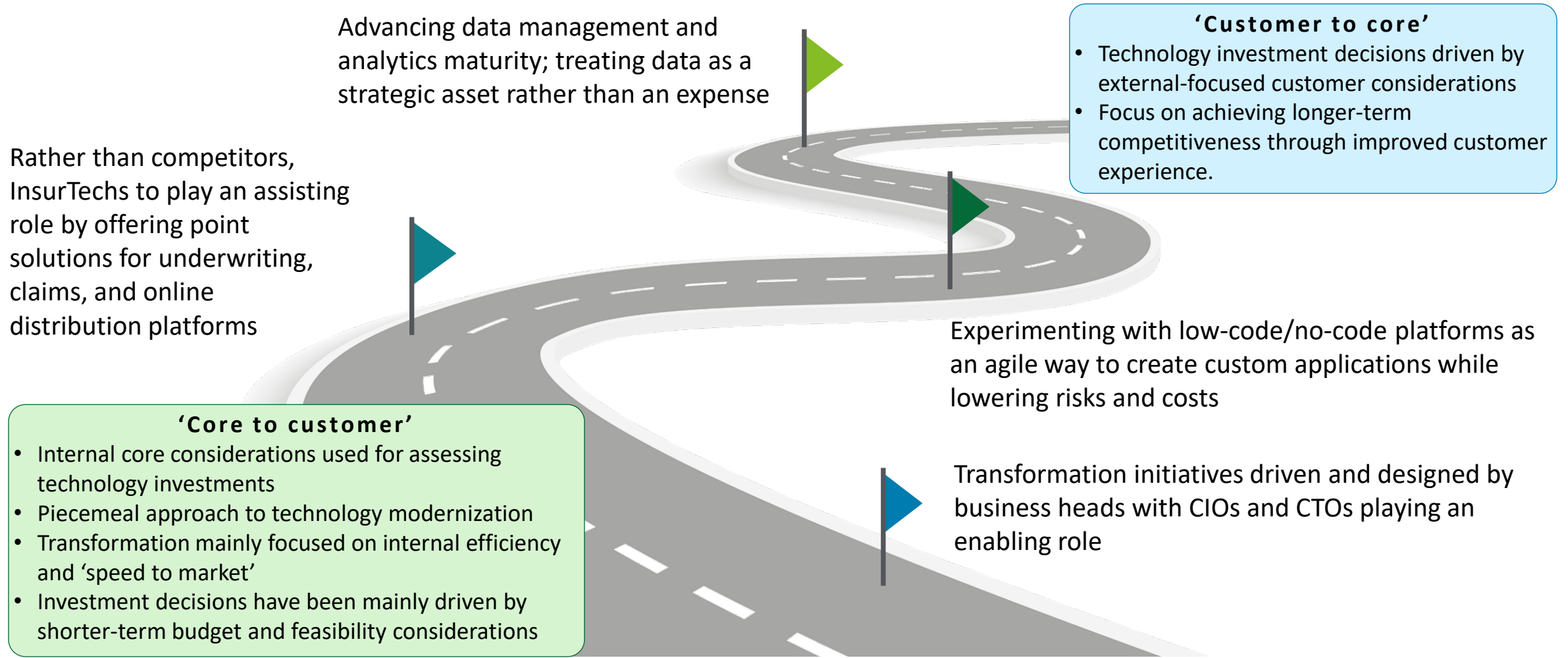


Pride in workplace

Embrace mission to
help employees feel
proud of their work
and where they work

Source: Deloitte Center for Financial Services analysis

Technology outlook: Shifting priorities from 'core to customer,' to 'customer to core'



Source: Deloitte Center for Financial Services analysis

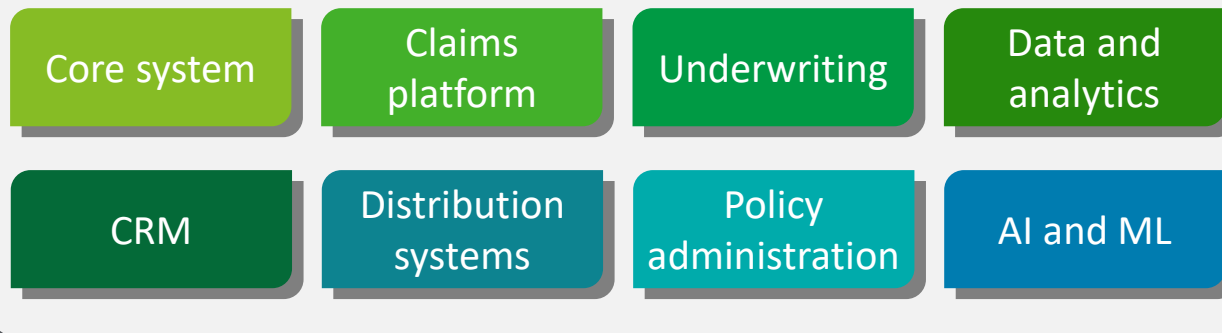
Technology outlook: Optimizing tech stack realizes full benefits from tech investments

A cloud-native architecture propelled by industry cloud solutions can boost agility, customer-centricity, and differentiation

What should a cloud-native architecture look like for insurers?

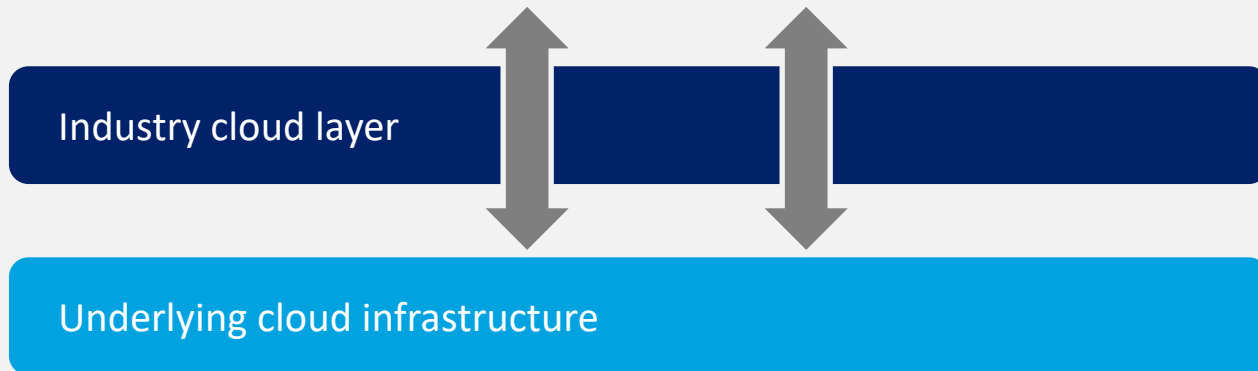
An agile and modular architecture with ability to 'plug and play' apps, enabling greater innovation

Application layer



Potential advantages of cloud-native system

- Core becomes one part of a broader ecosystem on a cloud-native platform
 - Applications are modular—easily plugged in and played, or replaced as necessary
 - Data from multiple internal and external sources is streamed right at the point of usage, easily consumed and shared across apps
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- Industry cloud providers contextualize the underlying platform for insurance-specific uses
 - API layer should make it easier to add customized functionality on top of cloud foundation
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- Hyperscalers provide underlying cloud infrastructure in a more secure environment

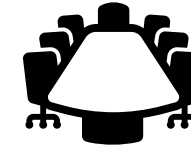
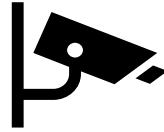


Source: Deloitte Center for Financial Services analysis

What challenges might insurers face in realizing data's full value?

Address Risk Management Challenges

- Cybersecurity threats
- Compliance considerations
- Data accuracy/applicability checks

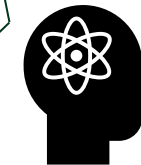


Consider View From The Top

- Manage C-Suite expectations
- Multiple stakeholders to satisfy

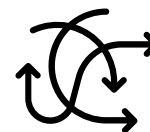
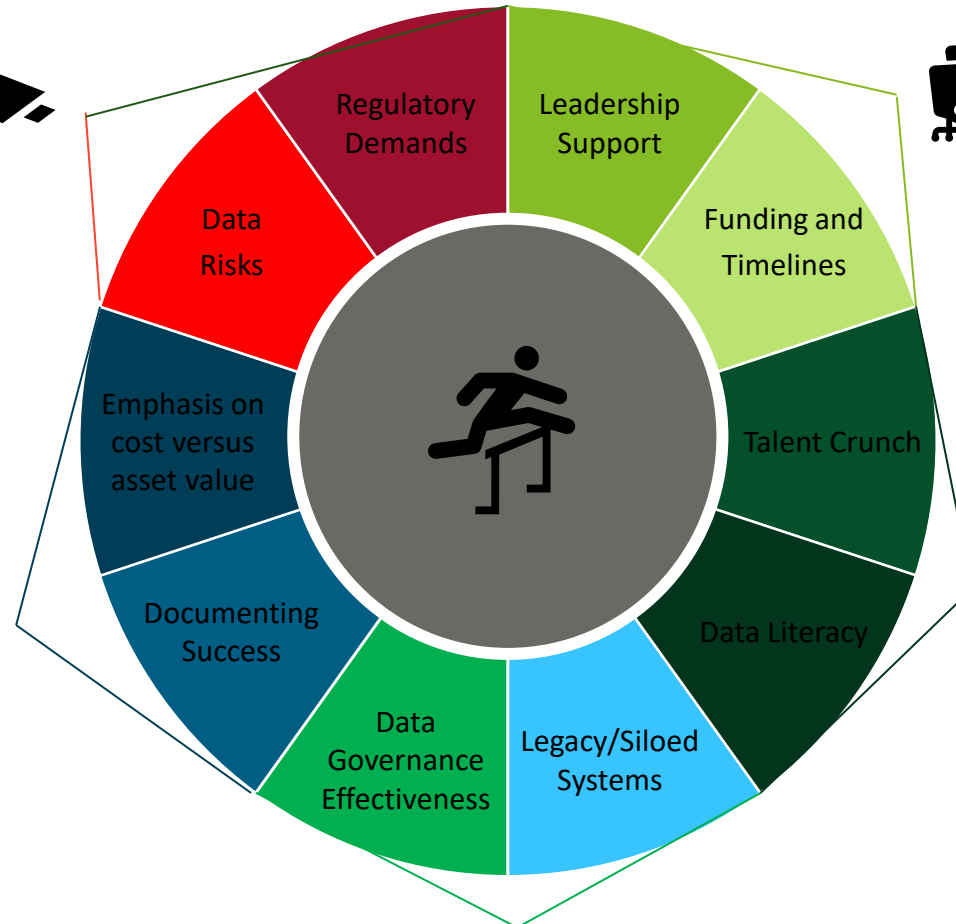
Do The Math

- Dearth of quantifiable metrics
- Expense focus vs asset multiplier



Resolve Rank & File Talent Issues

- Shortage of data scientists/techies
- Turnover in personnel
- Limited awareness/understanding of data value

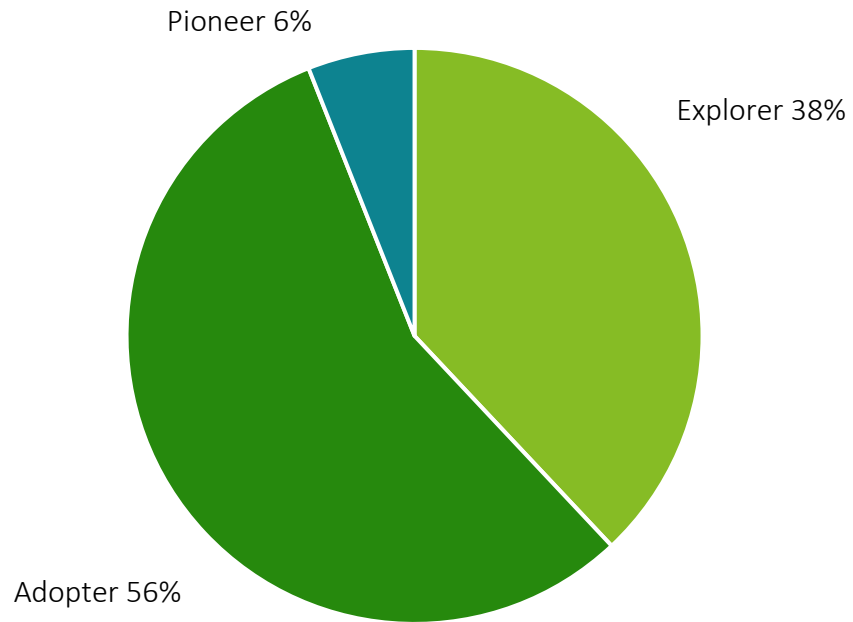


Reconcile Incompatible Systems/Processes

- Lack of integration, standardization
- Data not accessible/shareable

Most carriers surveyed are still in the early-to-middle data/analytics maturity stages

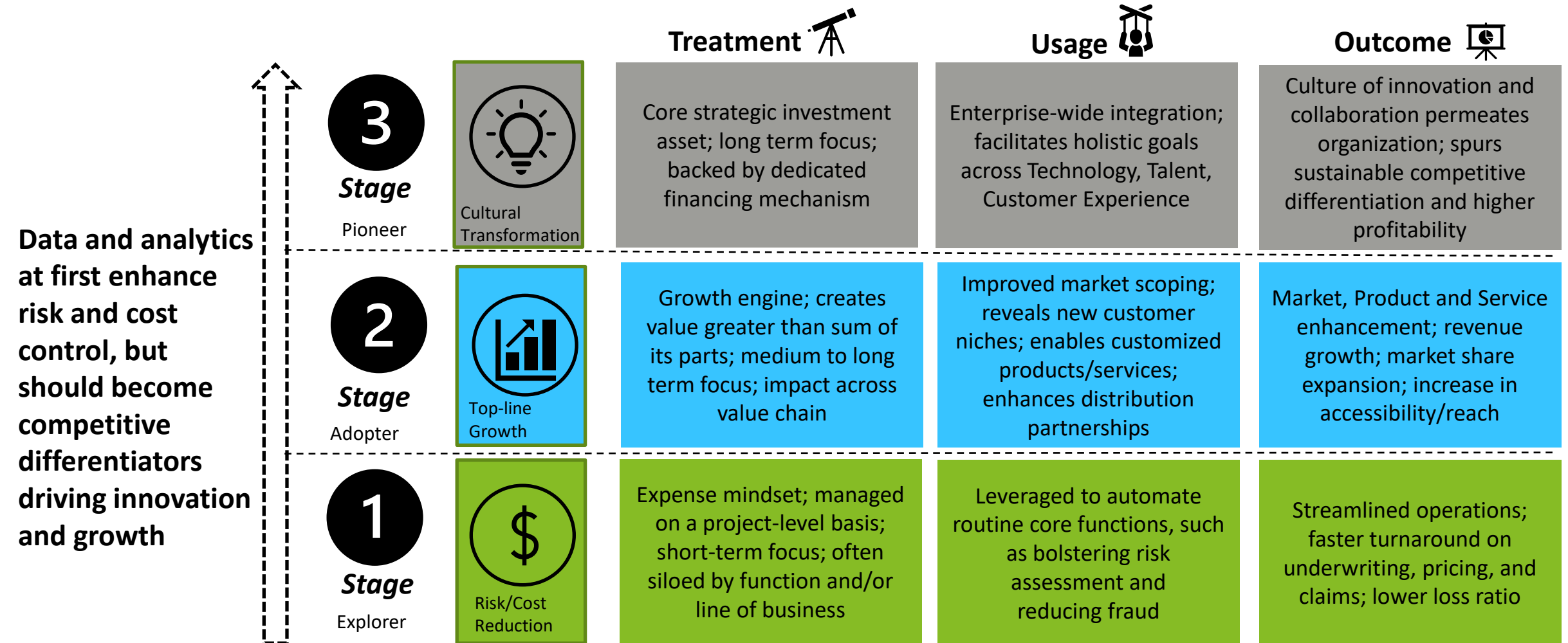
Few responding insurers consider themselves advanced 'pioneers' at this point



- **Explorer:** Basic reporting for operational metrics and some predictive modeling
- **Adopter:** Making data more widely available and actionable through machine learning and artificial intelligence in selected areas but not all business functions
- **Pioneer:** Advanced data analytics drives most decision making and spurs innovation across operations and functions

Source: Online survey of 50 insurance company data/analytics executives, Deloitte Center for Financial Services, April 2022

How might insurers improve business outcomes to raise their game on data/analytics?



Source: Analysis by Deloitte Center for Financial Services

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How can insurers upgrade value of data to become strategic assets?

Technical systems/processes

Build holistic governance systems and infrastructure to make data more accessible, shareable, consumable, and actionable

Expand beyond narrow project-focused outcomes to 'hub and spoke' approach emphasizing enterprise-wide goals

Reassess/bolster data quality, accuracy, timeliness, and relevance--particularly when purchased through third parties

CDO/IT collaborate with line of business heads, compliance officers, and cybersecurity officials to align data/analytics strategies with privacy and data protection considerations

Personnel attitudes/approaches

Broaden data/analytics focus from a tactical to strategic framework

Shift data value mindset from expenses that are managed to differentiating assets that are continually nurtured

Take data/analytics from an IT-centric function to a core competency, while raising data literacy/capabilities across the organization

Document incremental wins to maintain leadership support and funding; establish benchmarks to demonstrate quantitative/qualitative impact

Transition from siloed, project-focused initiatives to interoperable systems driving innovation, enhanced performance, and achievement of enterprise-wide goals may entail a mindset shift in operations and culture

Sustainability outlook: Product innovation and risk-transfer offerings may be key to mitigating climate risk

Create awareness

- Promote climate mitigation products and risk management services through marketing and distribution force
- Test appetite for new products and risk management requirements
- Explore transition challenges
- Train staff on climate literacy

Provide incentives

- Promote decarbonization efforts for policyholders via reduced premium costs
- Support low-carbon technologies and startups with customized coverages

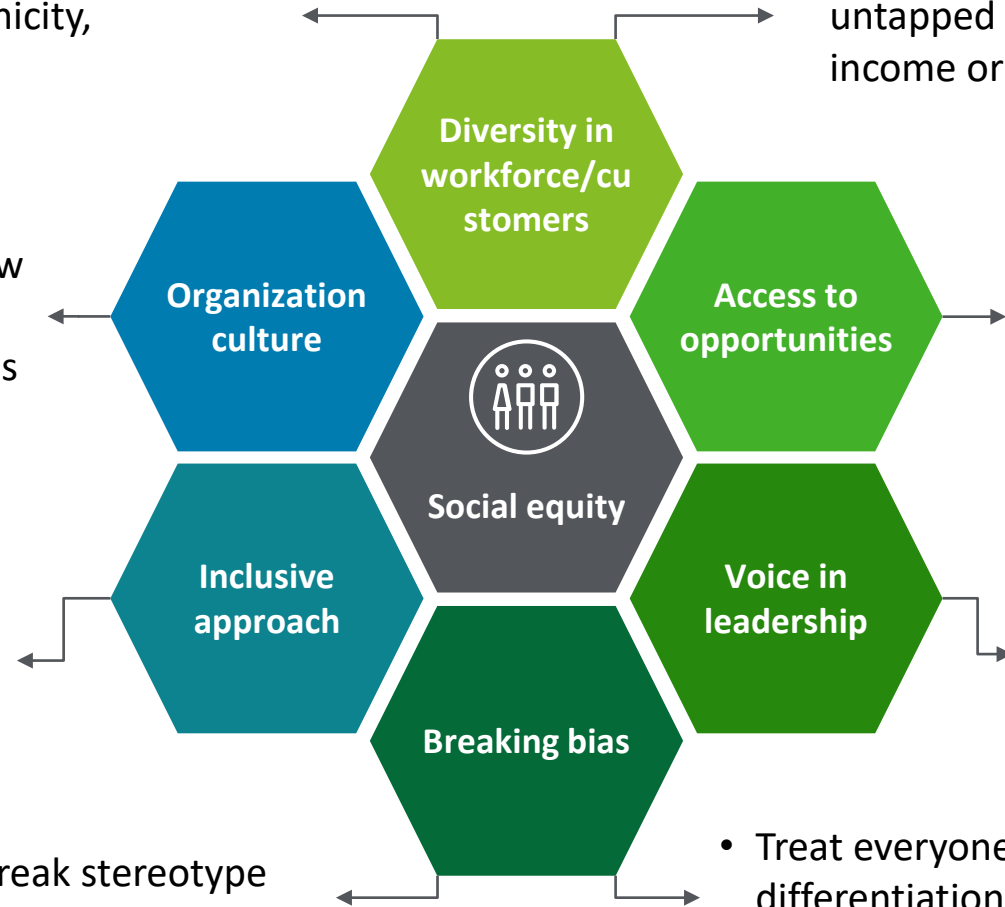


Expand risk mitigation services

- Provide risk advisory services to improve clients' climate mitigation understanding and approach
- Create new risk transfer offerings to enable capital flows toward green solutions
- Support sustainable decommissioning of carbon-intensive assets
- Develop solutions for reducing climate liability and environmental litigation

Sustainability outlook: Insurers pressed to move further, faster from words to deeds on diversity, equity, and inclusion (DEI)

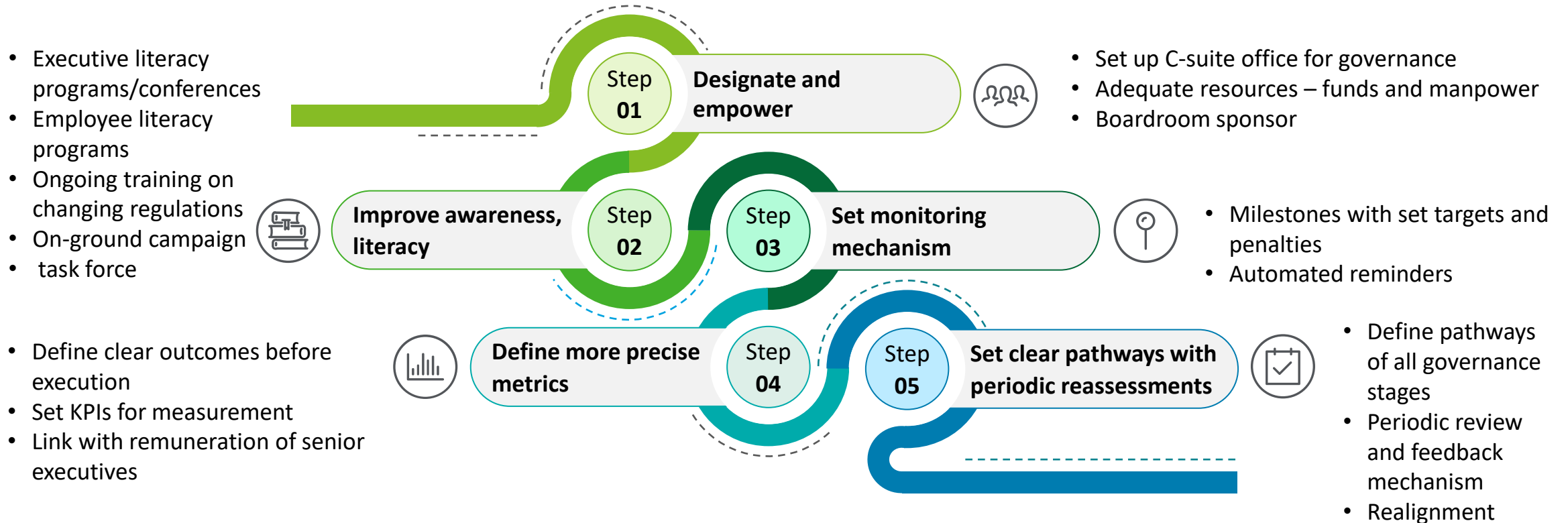
- Increase recruitment efforts to tap minority groups based on race, gender identity, ethnicity, nationality, age, etc.
- Appoint, resource, and empower chief diversity officer (CDO)
- Elevate scope to consider DEI in how business is run
- Laser focus on results and outcomes
- Establish formal and consistent accountability
- Welcome, value, and support all stakeholders
- Encourage allyship in workplace, both in word and deed
- Awareness programs/trainings to break stereotype biases at workplace



- Products/services cater to the needs of the untapped population segments such as low income or female.
- Empower to perform
- Leverage thinking of diverse groups
- Cross-team pollinate ideas
- Increase representation of minority groups in senior management/ leadership positions
- Groom future leaders through training and mentoring
- Treat everyone with respect and without differentiation, and encourage full participation and contribution

Source: Deloitte Center for Financial Services analysis

Sustainability outlook: Insurers should set sights beyond compliance concerns to make ESG a competitive differentiator



Innovative insurance offerings

Climate change risk mitigation

Corporate governance

Clearer communication to board/shareholders

Embed in culture

Workplace, marketplace, society

Brand ambassadors

Insurers lead from the front, internally and externally

Source: Deloitte Center for Financial Services analysis

Finance outlook: New accounting rules put public insurers in the spotlight

New accounting rules put public insurers in the spotlight (ESG reporting next?)



Tax functions should remain vigilant and prepare for uncertainty

The final frontier: Changing culture as the ultimate infrastructure transformation

Insurance at its foundation is historically focused on the rearview mirror examining the past to predict the future

Headwinds that slowed or sidelined transformation initiatives became tailwinds during the pandemic

Don't stand still

- Keep brainstorming and experimenting
- Pivot to offense position to thrive over the long term
- Keep evolving company culture—from risk avoidance to more risk-taking innovation, from a proclivity for incremental change to bolder reinvention

Source: Deloitte Center for Financial Services analysis

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Question and answer



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