Global Insurance Market Pulse 2023

Trends, Insights, and Strategic Imperatives for the Insurance Industry.

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Introduction

Innovation Meets New Insurance Risk Concepts: Navigating Inflation, Digitalization, and Climate Risks.

With our commitment to advancing the insurance industry evolution, we are introducing the bi-annual publication of the Global Insurance Market Pulse. This publication aims to provide crucial insights and detailed market trends that are essential for developing the Insurer of the Future. It is designed to assist forward-thinking insurers in addressing current challenges, strengthening their market position, and identifying new opportunities.

Essentially, this report is more than just a source of information – it acts as a catalyst for change and a guide for insurers ready to leverage innovation. It lays the foundation for the development of the Insurer of the Future, focusing on resilience, relevance, and sustainable growth, providing a strategic roadmap for those looking to innovate and grow within the evolving insurance landscape.

Executive Summary

The global economic landscape is experiencing a slowdown, notably in developing economies characterized by restricted access to credit and a neutral fiscal stance. Core inflation is expected to cool down due to several factors such as global activity reduction, housing market adjustments, eased supply chain strains, and tightened monetary policies. The anticipated cost-of-living crisis calls for fiscal support to cushion the populace, necessitating fiscal position revisions.

As we move into the later half of 2023, the insurance industry is gearing up to adapt to a slowing economic backdrop, heralding a period of transformative shifts. The focal point of this transformation revolves around narrowing the protection gap, a strategy that is dual-faceted and embraces the advancements such as parametric insurance. Moreover, the industry needs to continue to prioritize Environmental, Social, and Governance (ESG) factors, with impact investing holding a significant position in portfolio deliberations.

To navigate this changing landscape successfully, existing players in the industry need to foster innovation and adaptability. This entails a profound exploration of customer-centric approaches, aiming to resonate deeply with customer needs and preferences. The role of technology and digitalization is central in this narrative, offering avenues to refine operations and enhance efficiency substantially. In addition, fostering a culture that is collaborative and encourages a continuous learning ethos stands as a vital strategy. A resolute commitment to sustainability and corporate social responsibility is anticipated to serve a dual purpose: it will both nurture a positive footprint in society and drive business growth, setting the stage for a future that is responsible and purposeful.

Insurance Market

Insurance companies are likely to face significant challenges during periods of high inflation due to increased claims costs and reduced demand for their products. However, higher interest rates may provide an earnings tailwind through improved investment returns.

Key Takeaways

- Insurers maintain a steadfast commitment to pursuing profitable growth while retaining well-performing risks.
- Market participants view inflation as structurally embedded in the investment landscape and consider it as the top threat to their bottom line and investment portfolios.
- In the long term, relentless technology advancement, ever-rising consumer expectations and competitive chaos (resulting from the dissolution of industry boundaries) are reshaping the very definition of insurance.
- Environmental, Social, and Governance (ESG) factors and impact investing continue to be at the forefront of portfolio considerations.

As we continue to move through 2023, the insurance industry is grappling with a range of challenges that are reshaping the sector. From the rising costs associated with inflation to the need for digital transformation, insurers are navigating a complex landscape. The increasing frequency and severity of natural disasters due to climate change are additionally putting pressure on the higher claims costs as well as widening already existing coverage gap. Insurers are also under pressure to incorporate ESG factors into their business models and investment strategies. The digital realm introduces increased cyber risks, challenging insurers to provide effective coverage and manage their own cyber security.

We are highlighting several factors presently influencing critical business outcomes from the insurers' perspective, as well as how these elements are sculpting the financial trajectory of insurance entities.

INFLATION

The rising costs of goods and services continue to be of a significant concern for the insurance industry. The fact remains that irrelevant from the reasons of source of the inflation bubbling, the persistently high inflation is eroding the purchasing power of customers. Furthermore, inflation is increasing the cost of claims, particularly in sectors like health and property insurance. It can also impact investment returns. Monetary policy actions to combat inflation are in position to trigger recession if it has not already begun in several regions.

DIGITAL TRANSFORMATION

The insurance industry is continuing its significant digital transformation. Adapting to new technologies and digital platforms is a challenge both in terms of successfulness of such transitions as well as their financial impact on the insurers, as evidenced by numerous reports published on this topic. This is particularly true for established insurers still reliant on a large number of legacy systems.

CLIMATE CHANGE

Climate change is expected to significantly influence, if not undermine, the trajectory of the insurance market. It is facilitating a surge in the occurrence and intensity of natural catastrophes. This escalation is consequently driving up claim expenditures for insurers, notably within the property and casualty domain.

ESG RESPONSIBILITY

The insurance sector is under escalating pressure to embed Environmental, Social, and Governance (ESG) principles into their business paradigms and investment philosophies. As underscored previously, climate change is poised to have a deep-seated impact on the operational dynamics of insurers. Hence, it becomes incumbent upon insurance entities to prioritize the integration of ESG factors. Thereby not only safeguarding their business viability but also exerting a positive, downward pressure on their customer base, steering them towards sustainability.

CYBER RISKS

As we move deeper into the digitalization of personal and business realms, the epicenter of economic value has unequivocally shifted to digital mediums, predominantly safeguarded in cloud environments. This transformation brings to the fore an urgent and critical need for insurance against a backdrop of escalating cyber threats, a situation further intensified by geopolitical fluctuations. The 21st-century society demands a heightened focus on cybersecurity, rendering it a fundamental prerequisite for seamless operation in this digital epoch. Insurers stand before a formidable task: to devise potent coverage strategies for cyber risks while simultaneously bolstering their own cybersecurity defenses. It is pivotal that insurers elevate the role of sophisticated tools in mitigating cyber risks, steering them to the forefront of their service portfolios.

Structural Issues within the Industry

In light of the unprecedented challenges brought forth by the COVID-19 pandemic, as has already been highlighted, the insurance industry is navigating through a complex environment and transformative phase in the industry lifecycle. We are in an era characterized by the emergence of new complexities, such as AI and the acceleration of pre-existing dynamics, in particular climate change and cyber risks impacts. It is incumbent upon established firms in the sector to respond swiftly and strategically to these substantial structural shifts, provided they have not already initiated measures to adapt to this evolving landscape.

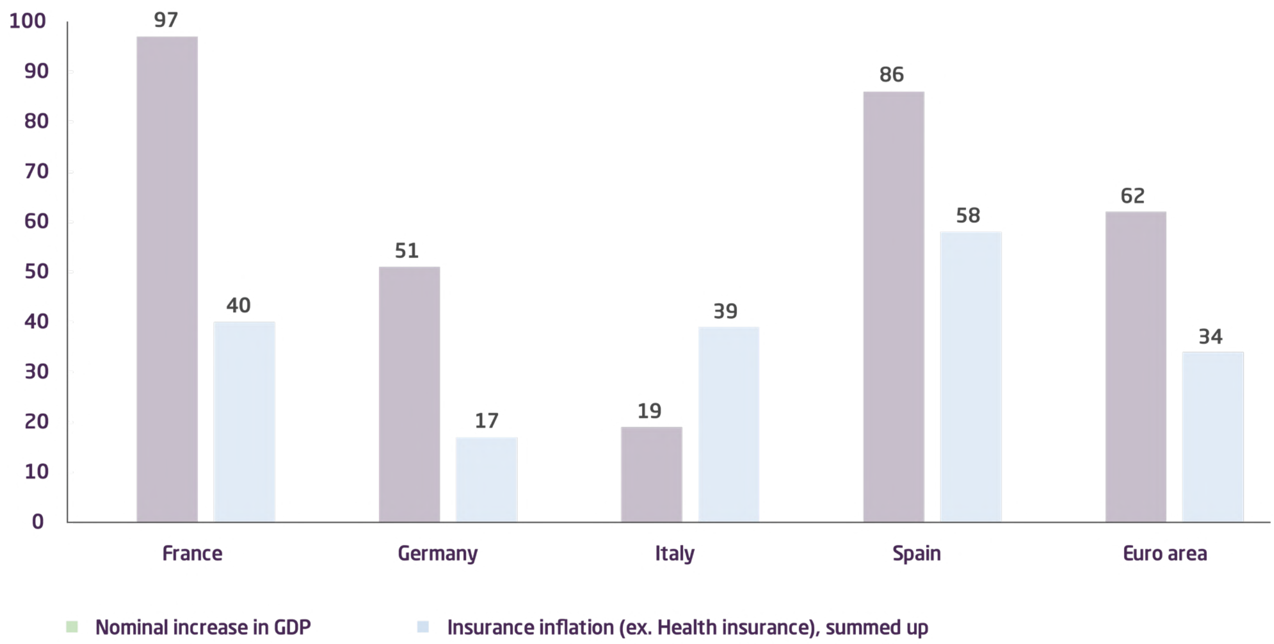
INDUSTRY LIKE ANY OTHER

The forthcoming sections of this report will delineate the strategic responses in detail. Presently, we concentrate on examining the entrenched structural issues pervading the industry, which fundamentally underpin the anticipated strategic approaches.

The prevailing circumstances in the industry are characterized by a sustained impediment to revenue augmentation, a deficiency in adopting a customer-centric approach, and an inadequate response to emergent risks, thereby exacerbating the protection gap. Furthermore, the burgeoning role of intermediaries in reaching the end consumers and the relentless challenges posed by insurtech enterprises amplify the need to innovate. Despite the advent of technological advancements, the industry finds itself ensnared in a cycle of elevated expense ratios, unable to fully harness the potential benefits.

PROFITABILITY THROUGH REVENUE GROWTH

Revenue augmentation in mature markets is currently facing headwinds due to pricing pressures and a sluggish pace in the growth of organic demand. A closer scrutiny of the dynamics in developed economies unveils a reliance on price augmentations to drive growth, a strategy that eclipses efforts to broaden the customer base through increased policy volumes or the introduction of innovative products to cover emerging risks. This trend potentially signals a diminishing relevance in the contemporary market landscape, necessitating strategic re-evaluations to foster sustainable growth.



NOMINAL P&C MARKET (PRIVATE CUSTOMER BUSINESS) GROWTH VS. INSURANCE INFLATION, 2002 - 2021 IN %: MORE THAN HALF OF (NOMINAL) GROWTH IN EUROZONE OVER THE PAST 20 YEARS WAS DRIVEN BY INSURANCE INFLATION ALONE. SOURCE: EUROSTAT

CUSTOMER IN THE CENTER OF MARKET EFFORT

Despite concerted efforts to pivot towards a more customer-centric approach, the insurance industry finds itself grappling with a series of entrenched challenges that hinder this transition. A critical examination of the sector reveals a pronounced inability to fully align the development and delivery of products and services with the evolving needs and preferences of the modern consumer. To illustrate the point further, despite a surge in marketing expenditures aimed at enhancing customer-centricity, the impact on industry premiums has been negligible, indicating a disconnect between marketing strategies and actual customer needs and preferences. This is partly attributed to a historical reliance on traditional business models such as agent-based sales, which are often rigid and not designed to foster a dynamic, customer-focused approach. The overall result is a widening of the protection gap.

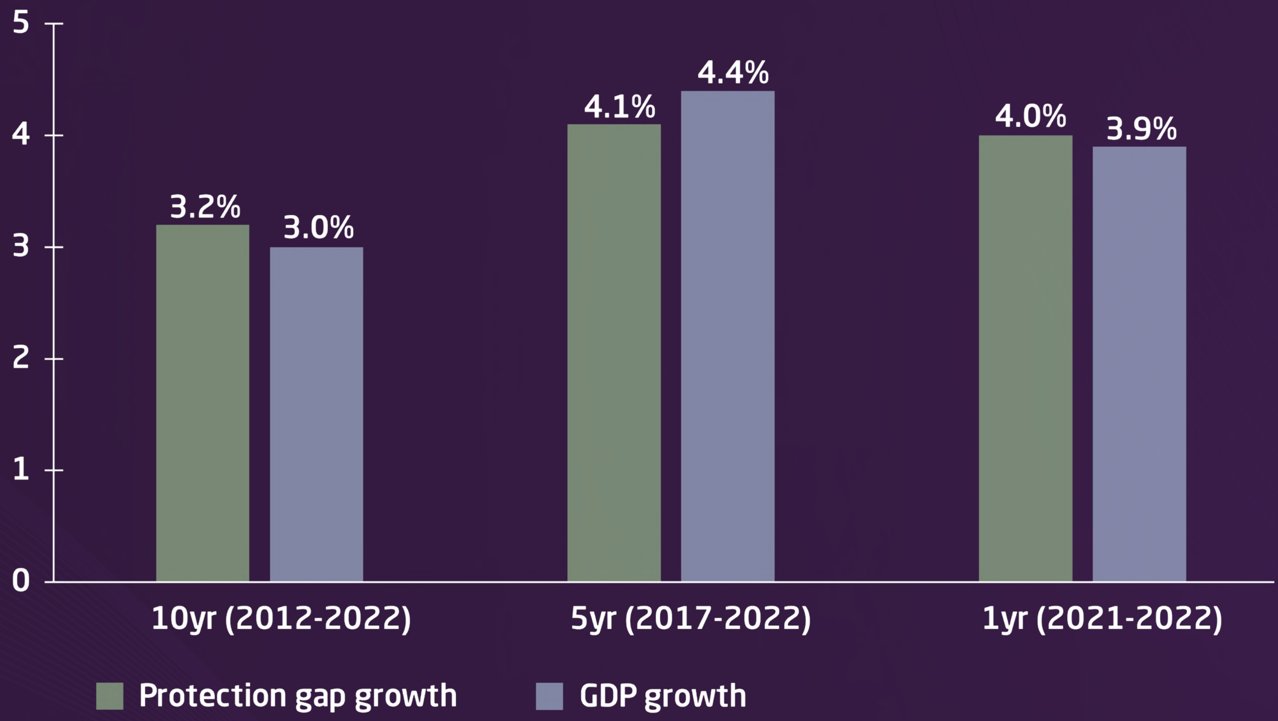
PROTECTION GAP

The protection gap refers to the uninsured or unprotected portion of the resources needed to fully mitigate risk. The value of this unprotected risk exposure has been steadily rising over the past five years.

Swiss Re Institute estimates the global protection gap at USD 1.8 trillion in premium equivalent terms for 2022, up by a cumulative 20% from a comparable USD 1.5 trillion in 2018. About 43% of risk globally was unprotected by insurance and other assets in 2022, improved from 46% a decade ago.

The global protection gap of USD 1.8 trillion in premium equivalent in 2022, 4.0% higher in nominal terms than in 2021, similar to global nominal GDP growth.

The global protection gap growths at roughly the rate of global GDP, at 3% to 5% annually on average, in nominal terms over 1, 5 and 10 years.



SOURCE: SWISS RE INSTITUTE

STRATEGY APPROACH FOR CLOSING PROTECTION GAP:

In closing the protection gap the insurance industry will need to implement a dual-strategy approach.

Loss-prevention strategies focus on reducing risks and potential damages through safety education, adherence to codes, and use of technology. Meanwhile, risk-transfer strategies aim to spread financial risk across a wider group using innovative insurance products, increasing insurance penetration, and fostering public-private partnerships.

Both approaches play a pivotal role in closing the insurance protection gap, with loss prevention aiming to lower the occurrence of insurable events and risk transfer seeking to ensure adequate financial coverage when such events occur.

The Insurance Industry needs to close the Protection Gap through Risk Loss Prevention and Risk Transfer.

LOSS PREVENTION:

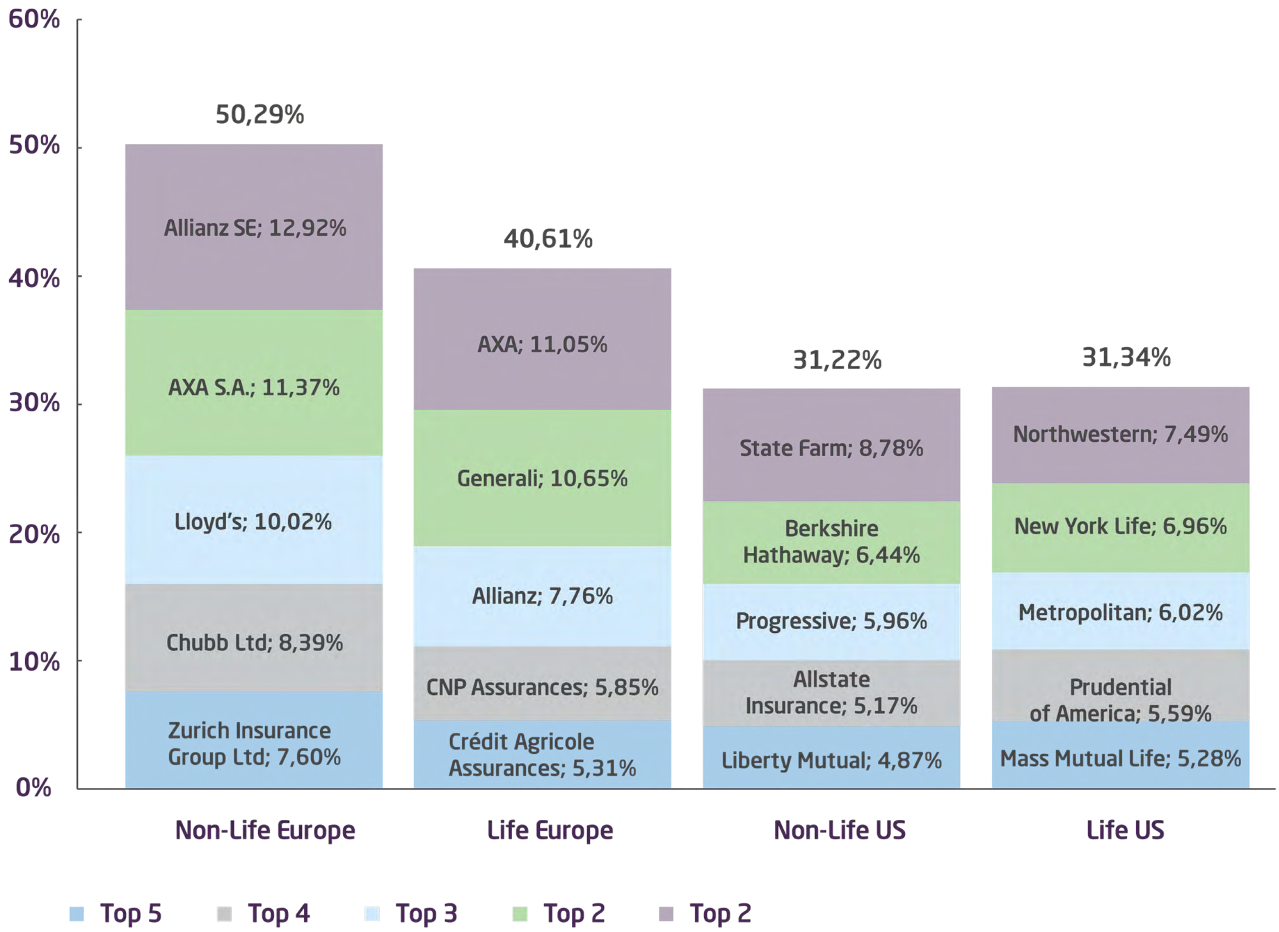
- Implement safety education programs to increase public awareness of potential risks.
- Enforce stricter building codes in high-risk areas to reduce potential damages from natural disasters.
- Promote healthy lifestyles and preventive care to decrease the incidence of chronic diseases.
- Utilize technology and data analytics to identify risk patterns and inform preventative measures.
- Prioritize preventative measures over other immediate needs.

RISK TRANSFER

- Innovate insurance products with features like parametric triggers for swift disaster recovery.
- Boost insurance coverage in developing economies.
- Diversify and enhance accessibility of insurance markets, particularly for at-risk groups.
- Strengthen collaborative relationships between public sector entities and insurance firms.
- Leverage public-private partnerships to circumvent political and financial barriers.
- Amplify understanding and acceptance of risk transfer solutions as resilience builders.

INSURETECHS AND INTERMEDIARIES

In the dynamic landscape of the insurance sector, insurtech trends are spearheading at least some advancements, chiefly within the marketing and distribution dimensions of the insurance value chain. Despite this, the sector faces a substantial barrier to reaching its full potential, primarily due to the limited scalability of insurtech initiatives and, even more importantly their inability to truly innovate the underlying products. Established entities within the industry find themselves grappling with the integration of these avant-garde, technology-driven innovations into their existing value chains. This scenario delineates a pressing need for a harmonious amalgamation of the new-age solutions with the existing frameworks to foster a culture of continuous innovation and to maintain a competitive edge in the market. However, this is difficult to achieve when industry remains highly concentrated and the incentive to truly innovate low.



CONSOLIDATION OF INSURANCE INDUSTRY, MARKET SHARE OF TOP 5 LEADING COMPANIES IN THE RESPECTIVE MARKETS AND LINES OF BUSINESS IN GWP, 2021. SOURCE: Q_PERIOR

The role of intermediaries in the insurance industry has been significantly amplified in recent decades. These intermediaries, including agents and brokers, have been instrumental in helping customers find the best insurance policies tailored to their needs.

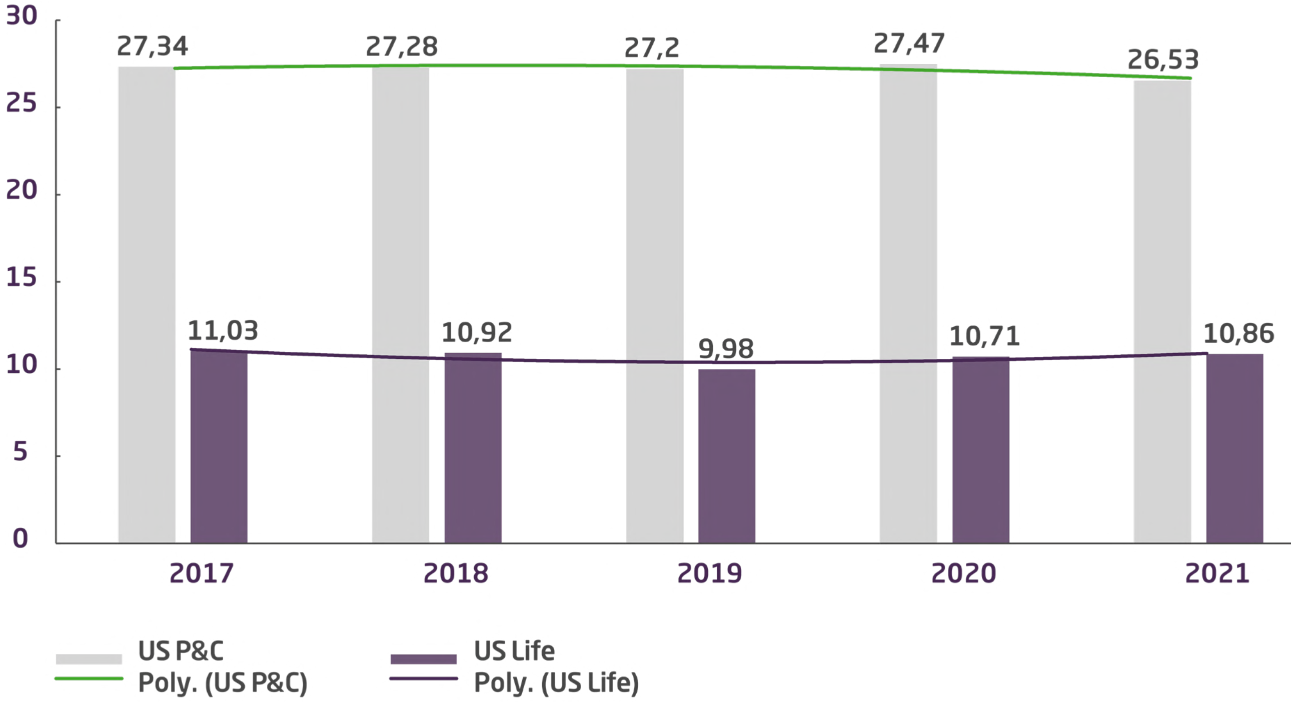
Insurers find themselves in a precarious position where they are gradually losing touch with the end customers, a scenario that could potentially dilute the brand value and customer loyalty that they have built over the years. The intermediaries, leveraging digital platforms, have managed to offer a more personalized and streamlined service, overshadowing the traditional approaches employed by insurers. This shift has brought to light a pressing concern for insurers; the urgent need to reinvent their customer engagement strategies to foster a direct and more profound connection with the end-users.

In this evolving landscape, it is imperative for insurance companies to not only collaborate efficiently with intermediaries but also to find innovative avenues to connect directly with customers, understanding their preferences and needs from a first-hand perspective.

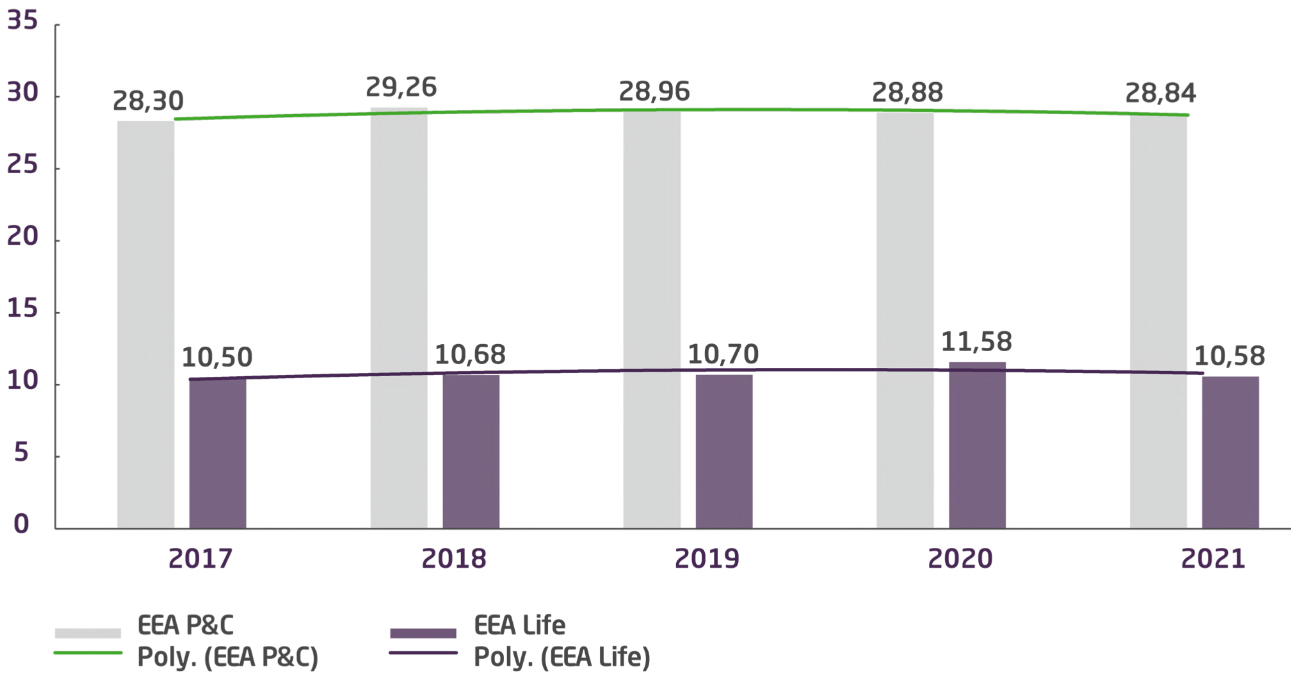
THE SLOW PACE OF PRODUCTIVITY AUGMENTATION

Despite concerted efforts to enhance efficiency, the insurance industry has witnessed only marginal gains in productivity over recent years. Between 2014 and 2019, a mere 45 percent of global Property and Casualty (P&C) carriers managed to reduce their expense ratios, a statistic that paints a rather stagnant picture of the industry's progress in this realm. Even in the face of rapid technological advancements, the industry seems to be caught in a relentless cycle of high expense ratios, unable to fully leverage the potential benefits that these advancements can offer.

The situation calls for a deeper introspection and a radical overhaul of existing operational strategies. In other words, the industry players should foster a culture of continuous improvement. Innovative solutions are not just accepted as there is an expectation from the market but are actively sought. By incorporating modern technologies and streamlining existing processes, there is a substantial scope to enhance labour productivity across all facets of the value chain, a move that can potentially redefine the productivity landscape in the insurance sector. The goal should be to transition towards less labour-intensive operating models by 2030. Such a shift would not only enhance efficiency but also open up avenues for personal connections with customers, adding a much-needed personal touch to the services offered.



EXPENSE RATIO ACROSS P&C AND LIFE SECTORS SINCE 2017 IN US (%). SOURCE: Q_PERIOR



EXPENSE RATIO ACROSS P&C AND LIFE SECTORS SINCE 2017 IN EUROPEAN ECONOMIC AREA (%). SOURCE: Q_PERIOR

Strategic Imperatives for the Insurance Industry

As we navigate through this intricate web of information, chief executives will find themselves prompted to engage with a series of strategic inquiries, a necessary endeavor to foster resilience and steer their organizations towards a future grounded in innovation, adaptability, and sustained growth. This discourse aims to shed light on the critical pathways that leaders must traverse, leveraging previously discussed market sentiment as a beacon to illuminate the road ahead, and to carve out strategies that are both responsive and forward-thinking, ensuring a competitive edge in
a market that is as volatile as it is unpredictable.

Strategic Questions that the Insurance CEOs need to Address:

- How can organizations foster innovation and adaptability to stay ahead of the competition in today's dynamic market landscape?
- What customer-centric approaches can be implemented to gain a deeper understanding of customer needs and preferences?
- How can organizations leverage technology and digitalization to streamline operations and improve efficiency?
- What strategies can be employed to enhance collaboration and foster a culture of continuous learning within the organization?
- In what ways can organizations embrace sustainability and corporate social responsibility to create a positive impact on society while driving business growth?

The path to future relevance and success lies in strategic adaptation and innovation. We take a look now at the pivotal strategies that insurers need to implement, from integrating ESG considerations to leveraging AI and data analytics, to remain competitive and relevant in the evolving landscape.

Both approaches play a pivotal role in closing the insurance protection gap, with loss prevention aiming to lower the occurrence of insurable events and risk transfer seeking to ensure adequate financial coverage when such events occur.

STEP FORWARD AND INNOVATE THE PRODUCT LINE

The world is changing rapidly, and with it, the types of risks that people and businesses face. Insurance companies need to stay ahead of these changes by innovating their product offerings. This could involve offering coverage for new types of risks. Additionally, there are many underinsured risks and substantial risks that have been left uninsured. To address this, insurers need to make their products modular, reallocating capital between personal and commercial lines, and moving quickly to establish a strong market position.

One such product that should be highlighted is microinsurance. This product has the potential to provide cost-effective and efficient coverage options to households. The uptake of microinsurance has seen a significant rise in recent years, especially in the areas of life, property, and agricultural coverage. According to the Microinsurance Network, as many as 223 million individuals across 34 countries were reported to have microinsurance coverage in 2022. Life microinsurance emerged as the most prevalent product, providing coverage to the largest population in both Asia and Latin America. With the emerging middle class facing increased financial vulnerability due to inflation, affordable life and health insurance covers have become even more crucial to prevent households from slipping back into poverty in the event of a death or illness.

ELEVATE CUSTOMER INTERACTIONS AND THEIR EXPERIENCES THROUGH DEEPER PERSONALIZATION:

Today`s customers expect a seamless, personalized experience, whether they're interacting with a tech company or an insurance provider. To meet these expectations, insurers need to leverage available technology and data analytics to understand their customers deeply and provide them with personalized products and services. This includes creating a seamless, consistent "multi-access" experience in every channel. Activating alternative channels and utilizing new technologies to distribute insurance the insurance companies can reach currently under-served consumer groups. These alternative distribution channels, that no longer rely on agent networks can be for instance utility and remittance companies, mobile network providers, cooperatives, financial institutions, and insurance aggregators. Following these, insurance companies will be able to reach wider audience that also include customers who have not previously purchased insurance. This strategy of enhanced and personalized customer engagement is crucial for the future success of insurance companies.

START LEVERAGING ADVANCED MODELLING AND ANALYTICS

Insurers can leverage advanced modelling techniques to dissect and comprehend the primary elements driving risk. To broaden the reach of insurance and tap into new and under-served risk segments, there is a need for product innovation and development, with a strong focus on data and analytics.

Parametric solutions, which rely on indices rather than actual losses, are particularly effective in areas like crop and catastrophe property insurance. The roles of predictive modelling, underwriting automation or streamlining, AI-enabled virtual assistants, electronic health records, lifestyle data, and wearable devices cannot be overstated in making life and health insurance products more efficient and accessible to new customer groups.

REVAMP YOUR TECHNOLOGY FOUNDATIONS

Per market projections that insurers are poised to allocate a substantial budget towards Information Technology (IT) in the forthcoming year, with a notable emphasis on modernizing their core technology infrastructures. This financial commitment underscores the industry's recognition of technological advancement as a cornerstone for operational efficiency and competitive differentiation.

Nonetheless, the dispersion of this investment across the sector exhibits a degree of variance. In fact, several studies have pinpointed the fact that a moderate percentage of insurers have successfully transitioned to contemporary policy administration systems. This disparity highlights a pivotal area of focus, urging insurers to accelerate their digital transformation endeavors to stay abreast of industry standards and consumer expectations.

Such observations call the attention the imperative for insurers to meticulously strategize their IT investments. By doing so, they can significantly enhance their technological capabilities, streamline operations, and foster a culture of innovation, thereby propelling the industry towards a future-ready state.

ELEVATE WITH PRODUCTIVITY

The insurance sector, much like its counterparts in other industries, is consistently faced with the need to boost productivity and minimize operational costs. There exists a potential for insurers to augment productivity and cut down operational expenses by a substantial 40 percent in the coming decade.

However, despite numerous cost-saving initiatives, the overall results have been underwhelming. Productivity gains have been limited on an industry-wide scale. In the period between 2014 and 2019, expense ratios saw a decline for merely 45 percent of global P&C carriers, with notable regional discrepancies. For a significant portion of insurers, these ratios either remained unchanged or saw an increase.

This paints a bleak picture for an industry that has been vocal about the importance of productivity improvements. To tackle this, a comprehensive, structural approach is needed, which includes the adoption of advanced technologies, automation of routine tasks, and enhancement of customer experience.

INCORPORATE ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) FACTORS INTO THE BUSINESS CORE

As society becomes more conscious of environmental and social issues, insurance companies can differentiate themselves by integrating ESG considerations into their core business models. This could involve offering insurance products that incentivize sustainable behaviours or investing in sustainable businesses. It is not just about compliance, but about aligning the company's values with those of its customers and society at large.

EMBRACE ECOSYSTEMS THROUGH INSURTECH

The insurance industry is on the verge of a paradigm shift. Traditional industry borders are falling away, and ecosystems are becoming increasingly important. Insurers need to engage with these ecosystems and with insurtechs to stay relevant. This could involve either partnering with insurtechs to leverage their technology and innovation or creating their own ecosystems.

TRANSFORMING BUSINESS CULTURE AND PRACTICES

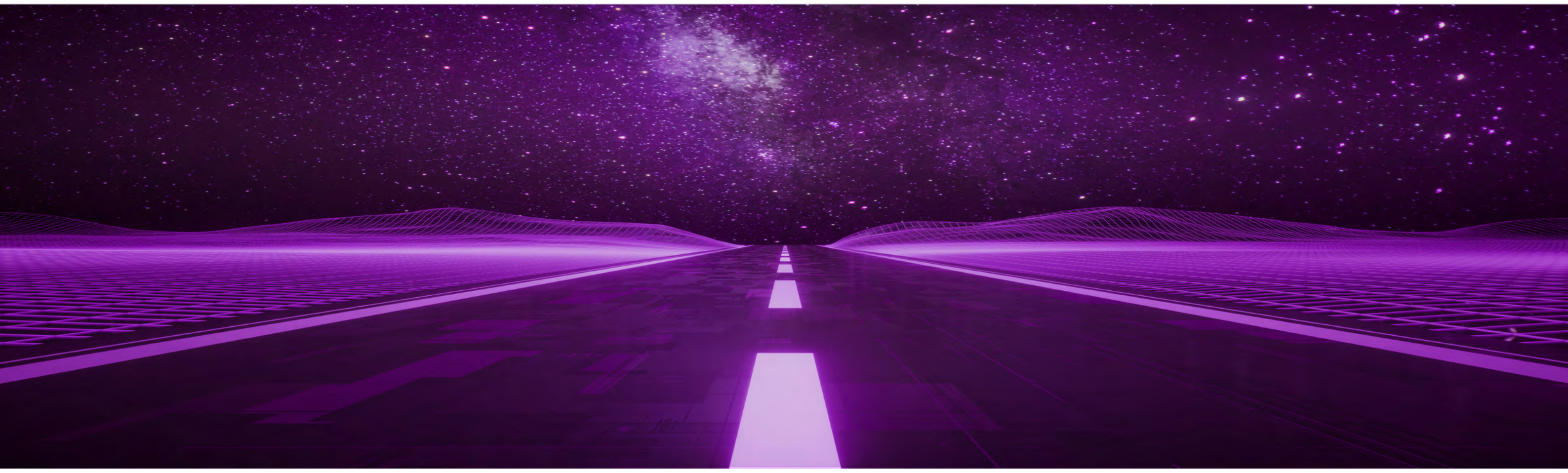
The aftermath of the COVID-19 pandemic has brought about a significant workforce transformation within the insurance industry. The shift towards hybrid work models and the need for more dynamic, agile work practices have become more apparent. As a result, insurers need to reimagine their work culture, diversity, and work methods to align with these changes.

This involves identifying essential skills and talent and devising the best strategies for engagement and retention. The industry is also transitioning towards a global talent marketplace, enabling recruitment from anywhere in the world. This presents both opportunities and challenges for insurers.

To remain competitive, insurers are focusing on increasing their talent liquidity, enabling more effective workforce utilization in line with business needs. This involves exploring new talent pools, allocating and deploying resources where they are most needed, and building a value proposition for their employees based on the company's values and work methods.

Concluding Remarks: The Road Ahead for our Insurance Customers

In wrapping up this report, our aspiration is that you've gathered deeper understandings of the evolving insurance sphere, with its imminent challenges and promising prospects. The unmistakable rapid pace of change, propelled by elements such as cutting-edge technology, macroeconomic shifts like inflation, environmental hazards, and emerging protection gap, necessitates that insurers remain alert and forward-thinking.



Central to this transformative phase remains unwavering commitment to customer-centricity, operational resilience, and sustainable strategies. Insurers are urged to prioritize their clientele, harnessing technological advancements and insights to craft tailored, fluid experiences and innovate their product offerings. Moreover, reinforcing their operational structures to withstand potential threats, especially in the context of climate change repercussions, is crucial. Adopting sustainable practices and upholding societal values is no longer optional; it's integral to their success and the broader societal good.

Cultivating an ethos of perpetual growth, learning, and refinement is equally significant if the insurers want to remain competitive in the market for top-tier talent.

Peering into the insurance horizon, it's teeming with potential. By championing innovation, customer-focus, and sustainability, insurers can not only persist but flourish in the forthcoming era and be on path to become insurers of the future.

Q_PERIOR

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Q_PERIOR is an internationally active and independent business and IT consultancy. The company advises customers in a solution-oriented manner with industry-specific and cross-industry expertise and a profound understanding of business and IT requirements. This results in new approaches for innovative business models and digital solutions. Q_PERIOR offers the complete range of services from strategy development and business concepts to technical implementation and operational rollout.

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