Next in insurance 2024

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Hard realities highlight the need for insurers to reinvent themselves

The insurance industry is under pressure. Social, technological, environmental, economic and political risks that seemed abstract or improbable just 20 years ago have become increasingly severe and acute and are affecting the very nature of the business. What's more, established business and operating models haven't kept pace. Given the immediacy of these threats, insurers don't have much time to respond, and their short-term strategic and operational decisions will play a large part in determining their long-term viability.

Unfortunately, most carriers are opting for incremental change. This may keep the lights on for the time being but future success depends on radical reinvention. Regardless of business line, this entails putting customers — not products, channels and geography — at the center of everything throughout key life moments, using resulting satisfaction and trust as drivers of profitable growth. In practical terms, leading carriers will reduce traditional coverage risks and offer higher-value solutions by actively moving to risk reduction and prevention — for example, by working with partners and other stakeholders to develop climate solutions that mitigate existential threats to property, habitats and human health.

Adopting this strategy is one thing. Supporting it requires modern, cloud-based systems and applications that enable an organization to quickly and economically configure for innovation and scale. Many insurers are doing this only in pockets, resulting in disconnected silos rather than truly tech-enabled businesses. For example, if you're investing in generative AI (genAI) like most carriers, you're unlikely to realize its full potential unless you can scale it throughout your organization — and that can occur only via a properly implemented and utilized cloud foundation.

Lastly, as they always have, insurers will continue to use deals to support their strategy. As they do so, dealmakers will need to plan carefully to realize the intended benefits of divesting non-core businesses. To avoid unwelcome surprises, they should proactively and effectively scale centralized shared services and distribution models. Moreover, ongoing broker and agency consolidation has reached a point where remaining intermediaries are gaining pricing power over carriers. We expect the latter to increase disintermediation efforts in response.

"Social instability, technological disruption, demographic shifts and climate change are leading to a fractured world in which insurers have to cover a greater array and frequency of intensifying risks. In turn, these developments have resulted in major changes to the very fabric of the industry." - PwC Insurance 2030

Reinventing business and operations with a customer-first approach

Customers and policyholders are vocal about wanting more from insurers. They expect seamless transactions, personalized, easy-to-understand products and services, and a quick, painless claims process. In many cases, they're not getting any of this. And they're publicly sharing their dissatisfaction and switching carriers.

It's important to note that putting customers first isn't just about making them happy. It's a catalyst for growth and ultimately the reinvention of insurance as a business. True customer-centricity integrates understanding, engagement and advice so that carriers can monitor risks in real time to prevent claims events — thereby reducing traditional coverage risks — with customers paying primarily for risk prevention.

In 2024, we expect prescient carriers to revise business and operating models accordingly. This includes making corresponding changes to corporate culture, enhancing human and technology resources, and increasing involvement in partnerships. This is a comprehensive transformation that, done properly, not only can increase profitable growth, decrease loss ratios and create new revenue streams, but also improve public perception and create stronger brand loyalty.

CMOs and CTOs need to broaden market reach at the point of sale

To broaden carrier market reach and meet buyers' needs at the point of sale — when they're most likely to purchase protection — CMOs and CTOs will need to coordinate a strong network of partnerships, including embedded insurance arrangements and ecosystems of partnered offerings.

Learn more:

- Insurance 2030
- Insurance 2030: Customer experience
- Insurance 2030: Personal lines
- Insurance 2030: P&C commercial lines

Using technology to support strategy

Most insurers still use a variety of uncoordinated systems to support the business. This hinders strategy and operations, compromises the user experience and ultimately hurts the bottom line. Ironically, this occurs despite considerable investments in technology. The problem is that carriers don't take advantage of the interdependencies between and among different business functions and wind up with "reinventions" that occur in disconnected silos.

As insurers look to increase their focus on the customer to reinvent their businesses, they're moving to cloud-based systems to enable their strategy. But they shouldn't view these transformations as an end in themselves. Instead, their real strategic purpose is to facilitate internal and external integration, speed to market and IT that's a strategic driver, not just a maintenance function. When an enterprise is genuinely tech-driven, it gets value from its tech investments by being able to quickly configure for innovation, facilitating effective scale and lowering costs. This is especially important for enabling functions that rely heavily on new technologies — notably GenAI — to be effective.

"100% of cloud-powered companies have improved decision making through cloud transformation." - PwC's 2023 Cloud Business Survey

Front-end success depends on back-end quality

CIOs need to impress upon their executive and business unit peers that digital offerings are only as good as underlying data resources. For example, providing customers a chatbot for self-service is great, but what good is it if there's no central, trusted source of truth it can access?

In addition, Pillar Two represents a major change in how companies are taxed on international operations. For tax executives, a tech-enabled, data-first approach will help enhance strategy, compliance and stakeholder trust

Learn more:

- Insurance 2030: Back and mid-office transformation
- Metaverse and insurers
- CopperPoint cloud-first strategy Guidewire case study
- Amica financial systems transformation Oracle case study
- TransRe ERP upgrade Workday case study
- Pillar Two model for data and reporting

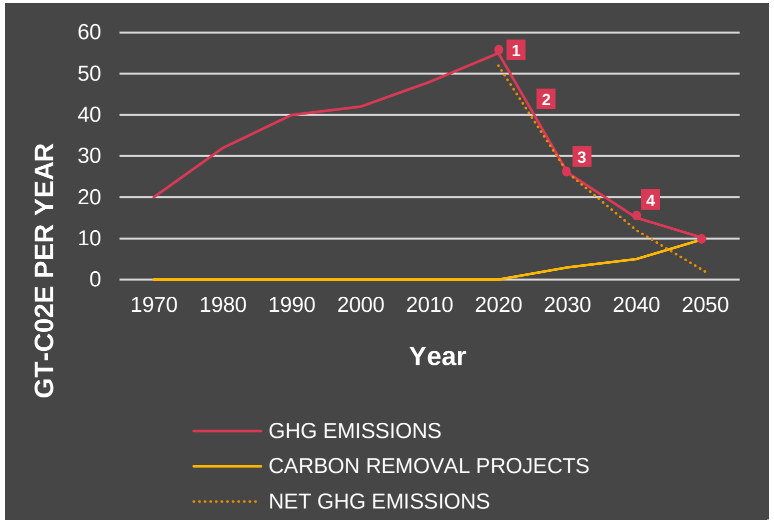
Building relevance and trust with climate solutions

There's an urgent need for insurers to help society manage increasingly acute and severe climate risks to property and human health. This isn't purely altruism: Climate risks are a major threat to the business of insurance.

We expect proactive carriers to use the coming year and beyond to devise and contribute to practical solutions that help close personal and commercial coverage gaps, contribute to reaching net zero and grow their businesses. Fortunately, practical options already exist. For example:

- Resiliency services and parametric coverages correlate directly to event magnitude.
- Sensors and wearables help both carriers and policyholders collect data in a real-time feedback loop to assess and mitigate risk.
- Warranties and coverage enhancements encourage purchase and use of carbon-reducing building materials and components (e.g., solar panels).

The challenge for carriers is to quickly scale these technologies and practices, incentivizing those with the greatest potential impact. And because of climate change's scope and complexity, engaged insurers are actively collaborating with a variety of stakeholders — brokers, partners, governments, NGOs, scientists and others — to develop these solutions.



How to reduce emissions

1 **Quick Wins** - halt highly destructive practices such as widespread deforestation and methane emissions

2 **New Infrastructure** - start replacing old infrastructure with new, low-emitting systems

3 **Growing Natural Sinks** - protect existing carbon sinks, which remove ~55% of CO_2 and 40% of GHG emissions

4 **New Tech Deployment** - leverage technology to remove carbon beyond what nature-based solutions can do

Source: Dr. Jonathan Foley, Project Drawdown, drawdown.org

Innovative climate risk solutions that benefit carriers, policyholders and society

Chief sustainability officers and CMOs should look to develop new products and services that facilitate low carbon growth, including: 1) entering new markets like clean energy and climate tech, 2) providing coverage enhancements for green buildings and 3) offering climate risk management/emissions modeling services.

Learn more:

- Net zero and insurance underwriting
- Climate change and life/health insurers
- Insurance 2030: Brokers and independent agents

Trending deals impacts on insurers and other industry stakeholders

Many insurers are intently focusing on their core businesses and reducing the cost of maintaining in-house underwriting and in-house and captive distribution networks. In response, investors and asset managers who seek reliable cash flows and economies of scale continue to acquire and consolidate brokerages, agencies and managing general agents/underwriters (MGAs/MGUs). The resulting fewer, larger entities are gaining product and pricing leverage over carriers. We expect one way personal lines carriers in particular will respond is by further disintermediating the lower end of the market via AI-enabled direct channels, with the ultimate goal of automating basic product underwriting and sales.

Moreover, some dealmakers are finding that insufficient planning can compromise the potential benefits of divesting non-core businesses. Unwelcome developments can include higher overhead and corporate expense ratios that the pre-divestiture entity was able to absorb, and diversions from strategic priorities that a previously larger shared-services expense base was able to conceal. To avoid these pitfalls and recognize actual cost by segment and product line, it's important to proactively and effectively scale centralized shared services and distribution models.

"An enhanced focus on specialization continues to drive insurance deal activity for carriers and both distribution and underwriting targets." - Mark Friedman, PwC insurance deals leader

Learn more:

- Deals day
- Insurtech IPO preparedness
- PE and insurance deals

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