

Next in insurance

Top insurance industry issues in 2022





The business of insurance, which once was stable and predictable, isn't that way anymore. Growth without sacrificing profitability is challenging, climate change is irrevocably impacting certain risk profiles, distribution needs have become truly omnichannel, and customers expect products tailored just for them. All the while, technology has continued its relentless advance and an emerging player ecosystem (please see the appendix) is threatening to shake up customer acquisition. As a result, industry executives now have to make an array of deliberate and aggressive strategic choices to succeed. Incremental change or hoping to avoid change altogether are no longer viable options.

Compounding the difficulty of addressing these challenges is how the COVID-19 pandemic accelerated them. Customer and employee expectations changed more in 18 months than they did in the previous two decades. This has put immense pressure on the industry and carriers have had to adjust practically—in some cases, literally—overnight. Even though the pandemic has ebbed and flowed, the pace of change has remained relentless.

Despite disruption and the new entrants trying to take advantage of it, the good news for many carriers is that they still have a competitive advantage that others can't easily replicate. There's room in most market segments for multiple players, but because not all competitive levers are fully or equally available to everyone, insurers typically focus on one of the following five areas:



Digitization, data and integration



Brand and distribution



Superior, innovative products



Strategic partnerships



Effective structuring

Commitment is an act, not just a word

Unfortunately, while most insurers do try to focus on their strengths, they also typically underinvest in these areas and fail to act with urgency, resulting in a race to the middle. We tell clients that they need to **fully fund and support** their way to play and hold themselves accountable for the results. In other words, commitment without action won't get you very far. While carriers may have been able to get away with a fuzzier approach in the past, they can't anymore. Private equity, asset managers and other new entrants are moving quickly, with great focus and discipline, to capitalize on industry disruption. Companies that continue to work from three-to five-year timelines that are vague and lack strategic focus are likely to lose market share and perhaps even wind up as someone else's acquisition.



Real-life examples: Ways to play

Leading carriers aren't relying on past success. They're defining new ways to remain relevant and grow.

Distribution: Ecosystem orchestrator

Creates an integrated ecosystem (typically via partnerships) that offers customers "more than just insurance," focusing on distribution and product offerings to win at the point-of-sale.

Partnerships: Platform services innovator

Leverages advanced tech and data capabilities to create a seamless, digital-first experience from quote and sale all the way to claims. Features ease-of-use, simplicity, and competitive prices.

Data and integration: Digital simplification operator

Leverages advanced tech and data capabilities to create a seamless, digital-first experience from quote and sale all the way to claims. Features ease-of-use, simplicity, and competitive prices.

Products: Unmet needs customizer

Develops innovative differentiated, and customized products to address unserved/underserved segments or new, emerging risks via advanced analytics and pay-as-you go pricing.

Structuring: Economic value creator

Employs a lean operations focus to compete competitively on price and enable investments in key strategic areas.

What makes a winner?

Based on our experience working with all segments of the industry, we've observed that most successful insurers in today's environment have a few key traits. In particular, they:

- **Define a strategic direction and say “no” to what doesn't fit.** Simply setting financial goals isn't enough. Committing to a way to play, then continuing to do everything you did before while funding whatever else comes along, is **not** a strategic direction. Leaders know how to prioritize.
- **Fully fund their strategy.** They don't shortchange big bets or dilute key investments with allocations to less vital areas. Of note, they're typically able to make these investments because they've implemented structural, financial and tax approaches that minimize their cost ratios.
- **Get creative with products.** They're able to identify new product **categories** (as opposed to just adding new features) and have the brand strength to deliver them. For example, early movers are designing products that take into account two increasingly important issues: Stakeholders' environmental, social and governance (ESG) concerns and the still overlooked employer as distributor market for a wide variety of financial and service needs, particularly retirement and college savings and paying for childcare or elder care.

- **Get involved in partnerships and make deals to meet strategic goals.** Inorganic strategies have a long history in the industry but have picked up steam recently as carriers focus on core competencies and enhancing technology. In fact, partnerships and deals have become a necessity for most carriers to enable their chosen ways to play. They take part in ecosystems and invest in InsurTech. Although most of these kinds of investments aren't game-changers on their own, when they get the acquiring company closer to a strategic goal, they're worth it.

That said, the best ecosystems and InsurTech innovations in the world aren't going to help you if they don't align with your strategy or if you're not executing your strategy properly. As carriers find new partners, technologies and business models that align to their core principles or strategic growth plan, they can test their value and determine whether or not to adopt the innovation or maintain the partnership.

Are you able to give customers what they want?

Product selection factors in flux

2018

- 1 Competitive price
- 2 Discount offers
- 3 Prior interactions
- 4 Brand name

2021

- 1 Competitive price
- 2 **New**—Product variety
- 3 **New**—Product expertise
- 4 **New**—Digital offering

(Source: PwC 2021 survey of 6,000 insurance customers)



Technology platforms that drive strategy

Even a clear and consistent strategy is going to founder if your technology can't enable it. We haven't spoken with a single business leader who doesn't recognize that investments in new technologies are the best way to facilitate market access, risk selection and management, quality financial information and customer service capabilities.

However, we've seen many carriers fail to stick to a coherent strategy beyond "digitization." There's often a lack of clarity and correspondingly nebulous goals about how these substantial investments relate to the business. The above discussion of funding a competitive advantage also applies here. Carriers should fully invest in ways that build on their strengths and hold the organization accountable for the results.

At the risk of repeating ourselves, we've seen time and again that many carriers simply don't do this. Customers (and employees) increasingly expect insurers to be as easy to work with as an online retailer—and new entrants are giving them exactly what they want. If you can't, you're going to lose business and employees.

A truly strategic technology platform features:

- A **core processing system** that efficiently issues policies and contracts, enables payments and keeps track of finances. You don't need bells and whistles for their own sake, but you **do** need something that does the essential job of helping you achieve scale faster.
- **Digital data and integration capabilities** that enable access to and understanding of your own data and from third parties to inform management decisions and enable new capabilities.
- The absolutely vital **customer/distributor/employee-facing systems** that support your call centers, customer chat and walk-in-locations. They enable carrier representatives to immediately determine client identities and service histories to quickly solve customers' problems. Moreover, an effective integration layer facilitates quick incorporation of new partners and solutions into your digital capabilities.
- **Reporting and compliance platforms** that provide high quality data, facilitate accurate financial reporting and accounting, and enable effective compliance.
- **Cloud**, because no insurer needs to—and, more importantly, probably shouldn't—support its own infrastructure anymore. Those that do risk it being an impediment to operational flexibility. Practically everything in insurance eventually becomes a margin game with the advantage going to the carriers that can scale effectively, drive out cost, and achieve broad price competitiveness. Carriers with adaptable cores that can be quickly configured for new innovations—a key advantage of cloud technology—can achieve this scale faster.

Changing customer expectations 2018 to 2021

Would switch carriers due to lack of a user-friendly digital interface

^ 80%

Prefer to submit claims via mobile.

^ 77%

Expect 24/7/365 online support.

^ 45%

(Source: PwC 2018 and 2021 surveys of 6,000 insurance customers)

The path forward

None of this is easy, and no single company has mastered all of these ways to win. But, we've never seen a truly competitive insurer that didn't at least:

- 1 Set and stick to clear goals.
- 2 Support business goals with a technology strategy that's built on and integrates proprietary and third-party data.
- 3 Fully invest in and hold itself accountable for achieving 1 and 2.

Whatever your business focus—data and integration, brand and distribution, products, strategic partnerships, or structuring—these three are absolutely essential.

The other releases in this series will focus on issues that directly relate to and influence the capabilities strategies we describe here. We'll address current ways to win in the market and, recognizing that what works today may not work even a few months from now, what we expect will typify the leaders of the future.



Appendix—The new insurance ecosystem

Incumbents must define their role in the evolving Insurance ecosystem, devising strategies for partnering and/or competing with non-traditional players.

Digital “attackers”

- Several challengers (either full stack carriers or point integrations) have grown rapidly using new and innovative business models.
- Insurtech funding continues to rise with just the first half of 2021 investment surpassing all of 2020.

Operational enablers

Incumbents are entering into partnerships across the value chain to learn, adapt, and implement faster as they push the limits of digital capabilities.

External data providers

- Embedding data enabled decision making is vital to enhancing relationships with their customers and improving the claims handling experience.
- Mobility data platforms are enabling more detailed behavioral insights.

Distribution partners

- To reach more customers, carriers are exploring ecosystem gaps related to consumer demographic, product type and location.
- InsurTech partnerships are providing digital tooling to agents and point-of-sale relationships are enabling bundling of insurance with other purchases.
- Partnerships with the automotive industry are resulting in embedded point of sale insurance that provides tailored coverage for new car buyers.

Alternative capital providers

- Carriers are beginning to think like asset managers in the procurement and allocation of capital, upsetting traditional revenue models.
- Venture capital investment and private equity partnerships allow insurers to diversify investment classes and target greater levels of return compared to traditional fixed investment classes.

Contact us



Ellen Walsh
Insurance Consulting Leader
PwC US
ellen.walsh@pwc.com



Francois Ramette
Principal, Consulting Services
PwC US
francois.ramette@pwc.com



Marie Carr
Principal, Consulting Services
PwC US
marie.carr@pwc.com



Bruce Brodie
Managing Director, Consulting Services
PwC US
bruce.brodie@pwc.com

Thank you

www.pwc.com

© 2021 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

