



2021 Global Insurance Outlook

Transforming the business
to be more agile, digital and
customer-centric



EY

Building a better
working world

From the EY Insurance leadership team

The global insurance industry faces a truly unique moment in its long history. The fundamental disruption caused by the COVID-19 pandemic equates to an opportunity for the industry to remake itself in line with new societal realities and market needs.

Individual companies must look to retool, reposition and even reinvent themselves. We believe the industry has innate advantages and proven abilities – as well as a noble purpose of protecting people and businesses – that underscore the case for continued growth and opportunity.

After a decade of significant investments in change, there is increasing recognition of the value of that purpose as a guide. Beyond new protections against pandemics, climate change and cyber threats, purpose can inspire and inform strategies to address social concerns about fairness and equality and huge retirement savings and protection gaps. Beyond the pandemic's impact, ongoing climate risk and developing sustainability imperatives require insurers to think bigger and differently in engaging with governments, their peers in other sectors and other stakeholders.

To successfully execute purpose-led transformation strategies in a turbulent era, insurers should center their operations on customer needs. Advanced technologies and new business models will allow insurers to become more digital and agile in satisfying those needs.

Insurers must also strengthen their current financial position through rigorous cost optimization and effective capital allocation. Because innovation investments are necessary, cost efficiency – rather than simply cost reduction – must be the goal. More consolidation is likely as insurers look for acquisitions to spark growth and divestment to provide strategic focus.

The EY Global Insurance Outlook reports focus on the strategic horizon of 18 to 24 months. More disruption is inevitable during that time. Those insurers that move proactively will be best positioned going forward. We welcome the opportunity to discuss your firm's plans and prospects and how these issues and opportunities are shaping your strategic agenda.



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About the Outlooks

EY Global Insurance Outlooks are annual reports that reflect our perspective on where the industry is today and where it needs to be in 18 to 24 months, based on the thinking of our entire Insurance team and our direct engagement with insurers across global markets. Our NextWave Insurance series takes a view of the coming decade, with the annual Outlooks tracking near-term progress. You can find some of our recent content on page 30.



Executive summary

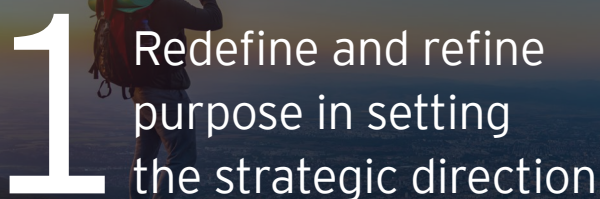
In the complex and dynamic insurance market of 2021, it's no surprise that the biggest risks and largest growth opportunities are closely intertwined. Insurers' top strategic and tactical imperatives are intrinsically connected and mutually reinforcing. There is no separating purpose-driven strategies from enhanced customer experiences and digital transformation initiatives or investment plans from cost optimization efforts.

Similarly, insurers' core value proposition, go-to-market and distribution approach, workforce strategies, and data and technology environments must be viewed as one unified and symbiotic entity. Even increasing regulatory scrutiny offers a valuable collaboration opportunity and a prompt to integrate back-

office functions and data repositories. To put it in management terms, adjusting one lever moves all the others. The goal must be to generate value from every cash outlay. For example, the question shouldn't be "what's the shortest and least expensive path to regulatory compliance?" but rather "how do we gain the most value from the necessary regulatory spend?"

Macroeconomic conditions, geopolitical developments, technology advancements, demographic changes and rising customer expectations can't be managed as distinct forces. The same is true of competitive factors and industry convergence: insurance is increasingly affected by trends and shifts in other sectors, and vice versa.

To navigate this multidimensional matrix of risk and opportunities, bolder and more creative thinking is necessary at the highest levels of the organization. The following pages represent our latest thinking about how individual insurers and the industry can move forward along three critical dimensions.



1 Redefine and refine purpose in setting the strategic direction

There's never been an era where the world was more in need of a high-performing insurance industry. But to meet the moment and return to growth, insurers must rationalize and rethink their core strategies – from what products they offer, to how they operate, to which markets they serve. We believe purpose and long-term value are the best lenses for this critical task. Purpose is a useful framework both for insurers to increase their relevance to customers' lives and to develop new solutions that align to changing needs. Beyond informing board- and C-level decision-making, orienting on long-term value, including environmental, social and governance (ESG) considerations, provides useful metrics to measure the impacts of purpose-driven strategies.

Key imperatives:

- ▶ "Stress-test" your existing purpose in light of the pandemic, social issues and climate change
- ▶ Develop targeted product offerings to address savings and/or protection gaps for specific customer segments
- ▶ Define metrics to guide capital allocation and monitor the impact of purpose-driven policies and actions

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2 Transform the business to be more agile, digital and customer-centric

While purpose should guide strategy formation and refinement, transformation efforts should be laser-focused on making the organization more agile, digital and customer-centric. Everything insurers do, from product portfolios and organizational models to marketing and sales programs, should be designed around deep insights into customer needs. This is not “tech for tech’s sake” with an end goal to optimize enterprise architecture, but rather to meet customer needs and drive better outcomes. Processes should be “digital by default,” with straight-through processing to eliminate frictional costs at key touchpoints. More agile operations and stronger digital capabilities will help insurers meet customer expectations for speed and personalization. Those attributes also are critical to boost performance across the value chain and develop new business models that hold the key to long-term success.



3 Create value by optimizing cost management and capital allocation

While balance sheets across the industry were in strong shape before the pandemic, insurers must take action to generate stronger returns for shareholders and more value for customers. By simultaneously optimizing cost structures and strategically prioritizing investments, insurers will be able to meet both goals. However, serious economic pressure, low interest rates, and significant strain on capital reserves and liquidity necessitate hard choices. All options should be on the table: automation, divestment, restructuring and outsourcing.

Cost efficiency should be viewed as an operational design principle that liberates funds for ongoing transformation and opens new paths to growth. For instance, prudent partnerships with InsurTechs can produce innovation without major capital expenditures. The goal is lean and agile operations, with a flexible cost structure that can easily scale up or down as business expands or contracts. Rather than tactical cost cutting, insurers need to manage a strategic cost agenda.

Key imperatives:

- ▶ Simplify application and purchase processes while rapidly increasing the intake of third-party data to enhance underwriting, marketing and policy administration
- ▶ Tier and tailor products and solutions for specific customer needs and different price points
- ▶ Create digital services, platforms and ecosystems that lead to stronger customer engagement and generate new demand

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Key imperatives:

- ▶ Expand cloud adoption exponentially in the next 24 months
- ▶ Refine your alternative capital strategy and identify plans for targeted growth investments
- ▶ Reassess productivity in light of hybrid working models, increased automation and shifts in workforce composition

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Market overview, 2021


What the near term holds for insurers and their customers

As the global economy emerges from the pandemic, several factors are setting the stage for broad-based growth across the sector:

- ▶ A broad-based economic recovery in 2021 is likely.
- ▶ Both individual and commercial customers see greater need for insurance solutions.
- ▶ The insurance industry suffered far less economic and reputational damage than many observers initially feared in the first days of the pandemic.
- ▶ Stricter regulatory oversight and new reporting requirements will force insurers to rethink how they manage performance and tell their story to capital markets.

To be clear, the effects of the pandemic will be felt for years to come and considerable uncertainty remains. Still, there is reason to return to the cautious optimism that was prevalent heading into 2020. After all, insurers demonstrated their ability to change quickly and purposefully. To pivot so deftly to the all-digital, remote working world was an impressive feat for a sector widely viewed as sluggish. These hard-won operational and cultural changes should be sustained in the face of difficult strategic choices and resource allocation decisions. However, insurers should not miss this unique moment to enhance their relevance and reputations.

Seizing the upside opportunity requires strategic repositioning, holistic tech-enabled and data-driven transformation across the business, and the creation of well-capitalized, cost-efficient business and organizational models.

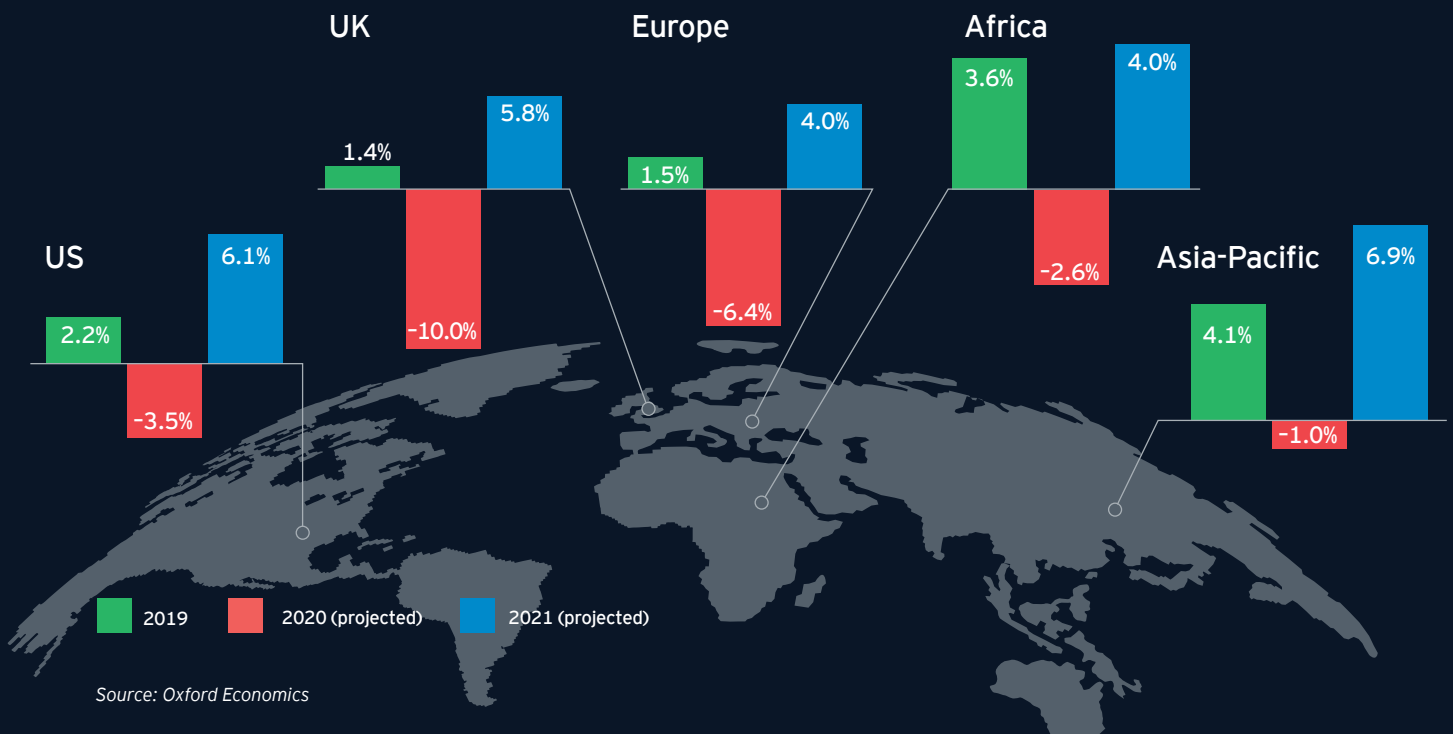


**It's a unique moment
for insurers to envision
a bright future.**

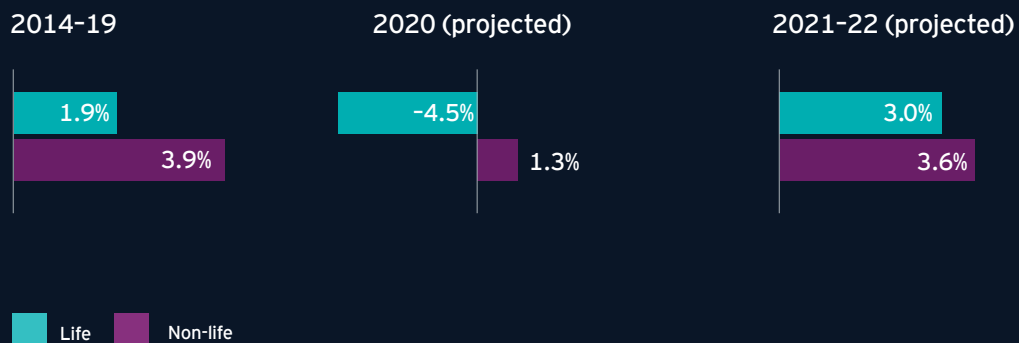
Macroeconomic outlook and industry scorecard, 1Q 2021

The macroeconomic numbers and the industry's recent financial performance shed light on the conditions for growth moving forward. They also place new urgency on both growth strategies and cost optimization. This does not mean insurers can cut costs to ignite growth. Too many critical investments remain and too much transformation is necessary.

YOY growth in gross domestic product (GDP)



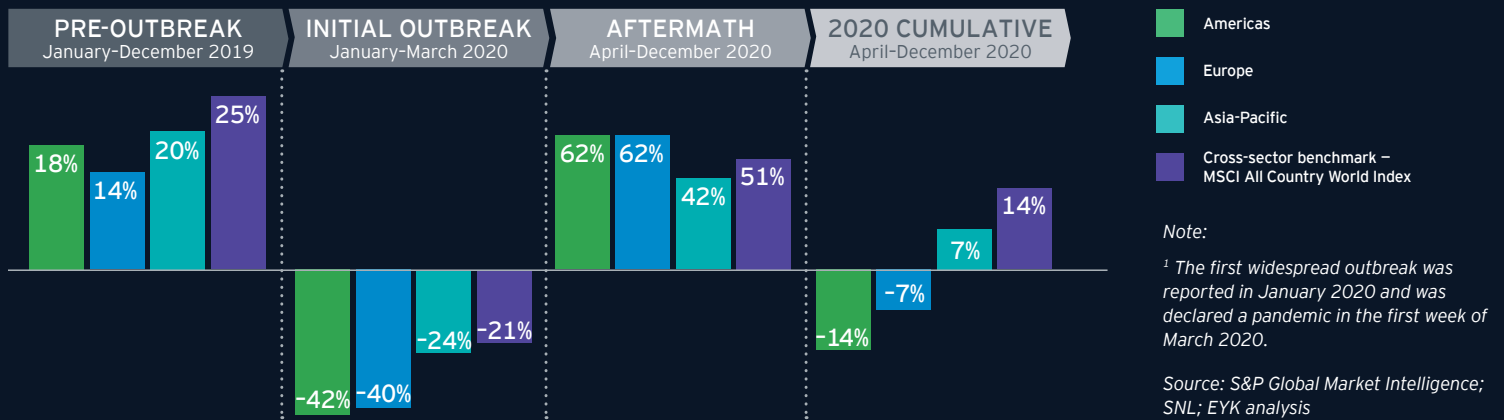
Direct written premium (DWP) global insurance industry, CAGR



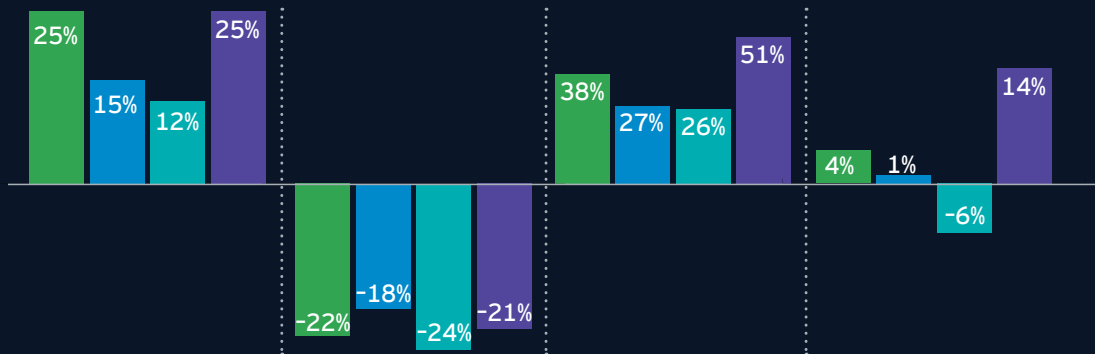
The view from capital markets

The turbulence in insurance stocks is an accurate barometer of the last year. Life and health stocks were downgraded severely in the early days of the pandemic, largely due to their exposure to low interest rates and fixed-income investment strategies. Life stocks recovered more quickly than their non-life counterparts. The hardening in commercial markets was not enough to offset drops in other lines (e.g., marine, aviation), which suffered from dramatic drops in travel. The outlook for both life and property and casualty (P&C) stocks is brighter for 2021, thanks to economic recovery and increased availability of vaccines.

Global life insurance stock returns



Global non-life insurance stock returns



Top 50 global life and health insurers

| Year | Cost ratio (median) | Return on equity |
|------|---------------------|------------------|
| 2014 | 19.9% | 10.8% |
| 2019 | 20.0% | 11.2% |
| 1H20 | 17.3% | 8.2% |

Top 50 global P&C insurers

| Year | Loss ratio (median) | Expense ratio (median) | Combined ratio (median) |
|------|---------------------|------------------------|-------------------------|
| 2014 | 64.5% | 30.6% | 95.2% |
| 2019 | 64.4% | 31.5% | 96.2% |
| 1H20 | 66.0% | 31.3% | 98.1% |

Source: SNL

How the COVID-19 pandemic changed customer needs

The year 2020 will forever be associated with the pandemic. The insurance industry experienced broad and deep impacts – financially, operationally, strategically – as COVID-19 brought the future forward, accelerating many trends that had been long underway. The effects will be felt for years to come.

However, surprising developments present opportunity. The dramatic spike in the interest of younger generations in life, health and other protection products is an encouraging demand signal. The demonstrated ability of insurers to move quickly and boldly in upgrading digital capabilities bodes well for the future. However, as indicated by some of the following data, insurers must work to ensure that customers better understand their products if they are to capitalize on the new demand.

Shifting customer needs and clear demand signals

Individual insurance consumers interested in products that:

Provide usage-based car insurance:



Pay three months of income in the event of a job loss:



Cover three months of mortgage payments in case of a loss of income:



Small commercial customers interested in products that:

Pay three months of business expenses in case of forced closure:



Protect against liability incurred from employees and consumers catching a disease in their place of business:



Source: EY Global Insurance Consumer and Small Business Owner Surveys, 2020

8%

Approximate increase seen in life insurance applications by consumers under age 45, 2020

Source: MIB Group

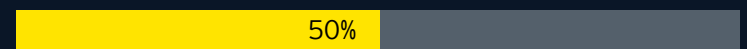
Lack of understanding and confidence in insurance

Proportion of individual insurance customers who:

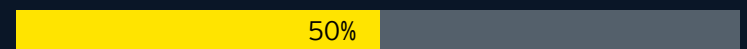
Do not completely understand the extent of their life insurance coverage:



Are not very confident in understanding their insurance coverage:



Are not very confident they will receive benefits consistent with their coverage:



Source: EY Global Insurance Consumer and Small Business Owner Surveys, 2020

Southeast Asian policyholders who think they are insufficiently covered:



Source: Swiss Re



Managing the impacts

Insurers will be managing the pandemic's powerful impacts – both positive and negative – well beyond 2021. Even as they build stronger digital platforms and develop more collaborative ways of working, their investment strategies will be tested. As they navigate the legal fallout of ambiguous policy wording and the denial of claims for business interruption, they must be creative in designing and launching new products.

Strategic and tactical imperatives, 2021-23

As insurers look to initiate growth in a new era, they must focus strategically, asking exactly what types of business they want to be and which market segments they are best positioned to serve. They must build on their pandemic-inspired shift to digital, retaining a laser focus on new and ever-evolving customer needs and becoming more agile in their thinking and operations.

Lastly, they must adopt bolder and more strategic approaches to cost transformation to establish a lean, flexible cost base that not only boosts margins and ratios in the near term but also sets the stage for scalable innovation and sustainable growth.

We believe the following three imperatives – which are closely interrelated and mutually reinforcing – are critical for insurers to create value for themselves and society as a whole:

- 1** Redefine and refine purpose in setting the strategic direction
- 2** Transform the business to be more agile, digital and customer-centric
- 3** Create value by optimizing cost management and capital allocation

Insurers must ask themselves who they want to serve and with what offerings.





1 Redefine and refine purpose in setting the strategic direction

43%

US consumers lacking confidence that insurers will treat them fairly when they have a claim

Source: Forrester

84%

Executives across all industries who believe organizations with shared purpose will be more successful in transformation efforts

Source: Harvard Business Review

It has become a cliché to say that insurers face unprecedented market conditions. However, that's an accurate description of today's risks and opportunities and why insurers must rethink their business holistically and across the entire value chain.

What's worked in the past may not work in the future and, in some cases, could become a liability. While every insurer will set its own course, renewed emphasis on the purpose of insurance and the need to deliver value to a broader set of stakeholders can help orient executives on the journey ahead.

Purpose in context and action

For insurers facing a complex matrix of risk and opportunity, a clearly articulated and fully authentic purpose statement provides a strong strategic foundation in a time of uncertainty. Aligning strategies, operations and cultures around purpose pays off in a number of ways. It can help restore trust with consumers who are looking for companies they can rely on in a time of dire need. Premium holidays and discounts offered after the pandemic are good examples of how insurers can live their purpose. Such steps also can create goodwill as insurers try to increase their social relevance and win over skeptics in the court of public opinion.

The usefulness of long-term value

Related to purpose, stakeholder capitalism, sometimes called inclusive capitalism, has gained traction in recent years. Emerging management frameworks have put tangible metrics around the idea that bottom-line numbers are not the only measure of success. The EY organization has been involved in multiple efforts to more clearly define and measure long-term value. For instance, the Embankment Project for Inclusive Capitalism (EPIC) defined measures in four essential focus areas: human talent, consumer needs, societal and environmental concerns, and corporate governance.

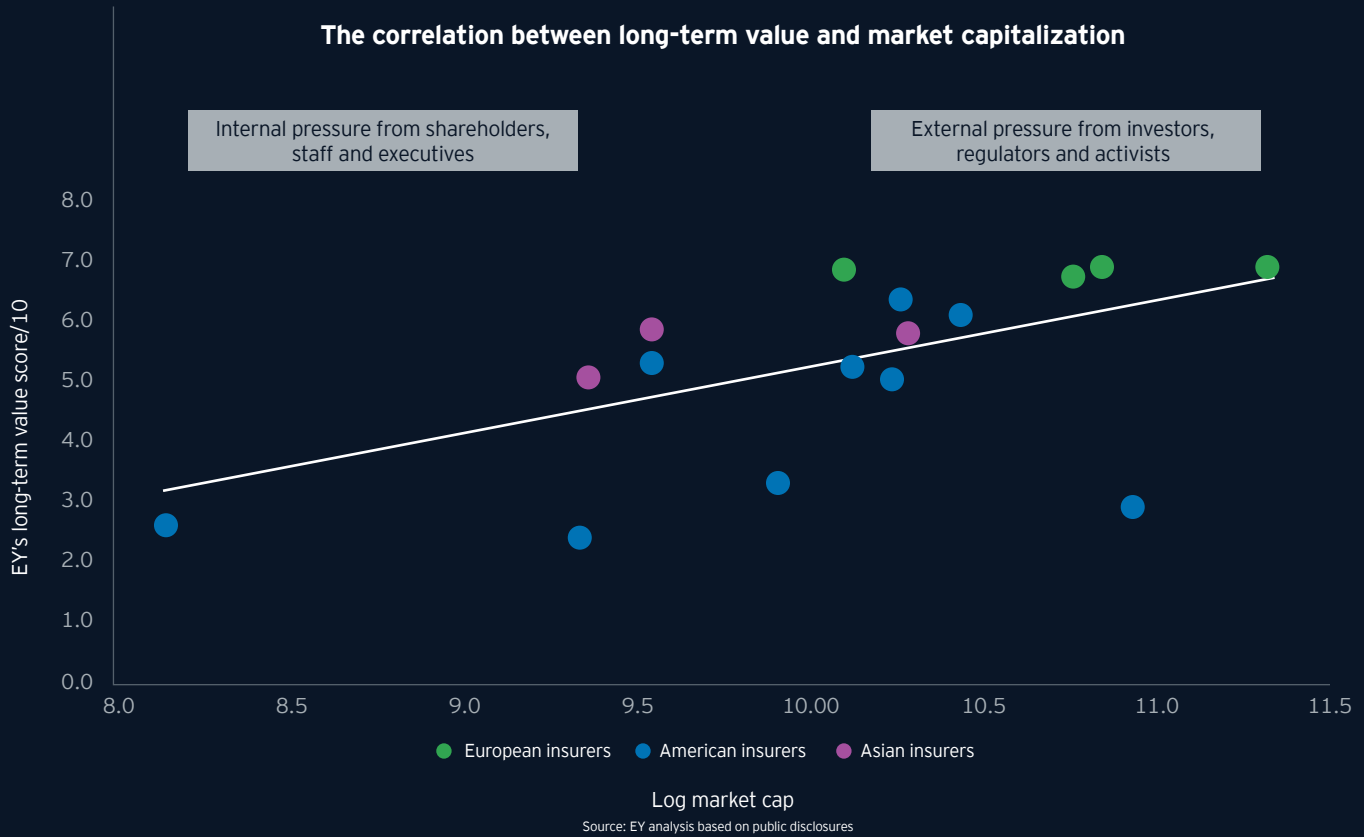
Extending EPIC's work, the World Economic Forum International Business Council (IBC), a group of approximately 120 global CEOs, along with the EY organization and the other Big Four consulting firms, proposed a common set of 22 metrics and recommended disclosures. These standards are organized around governance principles, people, planet and prosperity, with the goal of helping companies communicate how they create sustainable value and live their purpose.

The rise of ESG investing and related reporting requirements is one manifestation of long-term value. Insurers must recognize their impact both in terms of regulatory impacts and market opportunity. It is not just a matter of shutting down coverages for businesses that have a high-carbon impact; it's also about developing solutions for companies that need to transition to a low-carbon economy and communities increasingly at risk of flooding, wildfires or other natural disasters. On the social front, it's about addressing savings and protection gaps, promoting increased access to health care and ensuring that AI-enabled underwriting models are designed for fair and unbiased pricing decisions.

Insurers must also understand that they are being evaluated in terms of their ESG commitments; for example, European investment banks have begun to include ESG inputs into their valuations of insurers and reinsurers.

The Business Case for Purpose

EY research, conducted jointly with Harvard Business Review Analytic Services, confirms that insurers, like their peers in other sectors, have a great deal of work to do to embed purpose in their operations. A global survey of 474 executives, **The Business Case for Purpose**, found that 90% of global respondents believe their company understands the importance of purpose as a driver of strategy and decision-making and to provide benefits to local and global societies. However, only 46% believe their company had actually articulated a strong sense of purpose to inform strategic and operational decision-making and strengthen motivation. We expect these numbers to improve as it becomes even clearer that purpose is correlated with stronger financial performance.



EY research, as well as studies conducted by other organizations, reveals a strong correlation between market capitalization and ESG scores. Top global insurers and reinsurers lead the way on all three dimensions (E, S and G), while smaller firms rate well on only one or two. The implication is that the greater the ESG commitment, the greater the potential value to be created. Therefore, insurers should lean into the market opportunities, rather than taking a narrow regulatory view of ESG.

Up to 9%

Valuation impact estimated for insurers' exiting coal underwriting and investments

Source: Societe Generale

ESG-related assets under management (AUM) in sustainable high-yield corporate and municipal mutual funds in the US

June 2019

US\$1.7 billion

June 2020

US\$46.3 billion

Source: Sustainable Investing; S&P Global

95%

Proportion of US millennials interested in sustainable investing

Source: Morgan Stanley

The innovation opportunity of savings and protection gaps

The enormous health care, savings and protection gaps represent a huge opportunity for insurers to translate their purpose into meaningful action and create value for individuals and society. The starting point must be affordable, customized insurance that addresses previously unmet needs.

Such solutions can unleash badly needed growth for the industry, even as they mitigate a critical societal risk. They will also help reposition insurers with a more attractive and clearer value proposition to boost engagement. Seizing the opportunity requires insurers to overcome traditional barriers on both the demand (affordability, awareness, appeal, trust) and supply (transaction costs, adverse selection, insurability limits) sides.



US\$1.24 trillion

Combined protection gap for mortality, health and natural disaster, 2020

US\$83 billion

Combined global insurance losses from natural disasters, 2020

Source: Swiss Re

56%

Proportion of global households lacking mortality protection,* pre-COVID-19

Source: Swiss Re Mortality Resilience Index

*Life insurance, social security survivor benefits or household savings

41%

Proportion of companies that consider business interruption a major risk in 2021

Source: Allianz Risk Barometer 2021

Projected growth in the global cyber insurance market, 2018-25:

>400%

from US\$3.5 billion to US\$18.0 billion

Source: Geneva Association; Swiss Re

Projected annual growth in global cost of cybercrime, 2015-25:

15%

from US\$3.0 trillion to US\$10.5 trillion

Source: Cybersecurity Ventures

It's clear that individuals want more and simpler options for life insurance and retirement planning, as well as solutions that protect against loss of income. Beyond being affordable, these products must help customers create wealth or protect their finances.

Life insurers may look to expand into health insurance solutions in pursuit of better margins. For instance, they can look to comprehensive solutions for the "silver economy" (e.g., home care, memory care, assisted living) rather than products that only accumulate funds. The convergence of life and health businesses will play out differently in unique markets based on the regulatory environment and other factors. However, the general reduction in health public spending and the widespread protection gap means life insurers have an opportunity to do well by doing good.

Insurers must take a long-term view on well-being, building customer relationships from an early stage and supporting customers across multiple aspects of well-being (e.g., financial, physical, mental). Recent EY research into the effects of the pandemic on market demand details the scope and extent of the opportunity in both personal and commercial lines.

Rising market interest in new products

Share of individual insurance consumers indicating interest in:

Coverage of credit card bills in case of a pandemic-related job loss

65%

Coverage for home protection services

62%

Life insurance providing access to funds in case of an emergency

60%

Coverage for after-hour repair services if a claim occurs

55%

Subscriptions that include bundled life insurance coverage

52%

Source: EY Global Insurance Consumer and Small Business Owner Surveys, 2020

Purpose in action

- ▶ **A leading Chinese insurer** has made insurance accessible to a previously excluded majority. The company offers a range of affordable and flexible products, educates consumers about insurance needs and produces personalized recommendations – all through an app. Simple pension annuity products can be purchased for premiums starting at US\$0.15. Disease protection products are similarly affordable, even for preexisting conditions. The company focuses on product design and distribution, with partner insurers taking on most underwriting and regulatory risk.
- ▶ **A UK-based InsurTech** aims to make it easier for pensioners to manage multiple pensions, with live dashboards and intuitive tools for contributing, transferring, withdrawing and projecting balances as part of an industry-leading customer experience. The company's values of love, honesty and innovation are reflected in its commitment to transparency, simple and low fees, diversity and inclusion, and fossil-fuel-free investments.

Commercial customers are also looking for ways to protect their businesses from unpredictable disruptions, such as those from cyber attacks, climate change or another pandemic. In the meantime, insurers must fill current communication gaps between agents and small business owners and instill more customer confidence in the value of their policies.

Changing needs of small commercial insurance customers:

Concerned about loss of business income/cash flow

76%

Concerned about successfully complying with safety regulations and sanitation expenses

39%

Have yet to meet with their insurance advisor for COVID-19 related needs

59%

Prefer working with an insurance advisor/agent either by phone or online/digitally

84%

Would seek emergency planning assistance from a financial advisor

47%

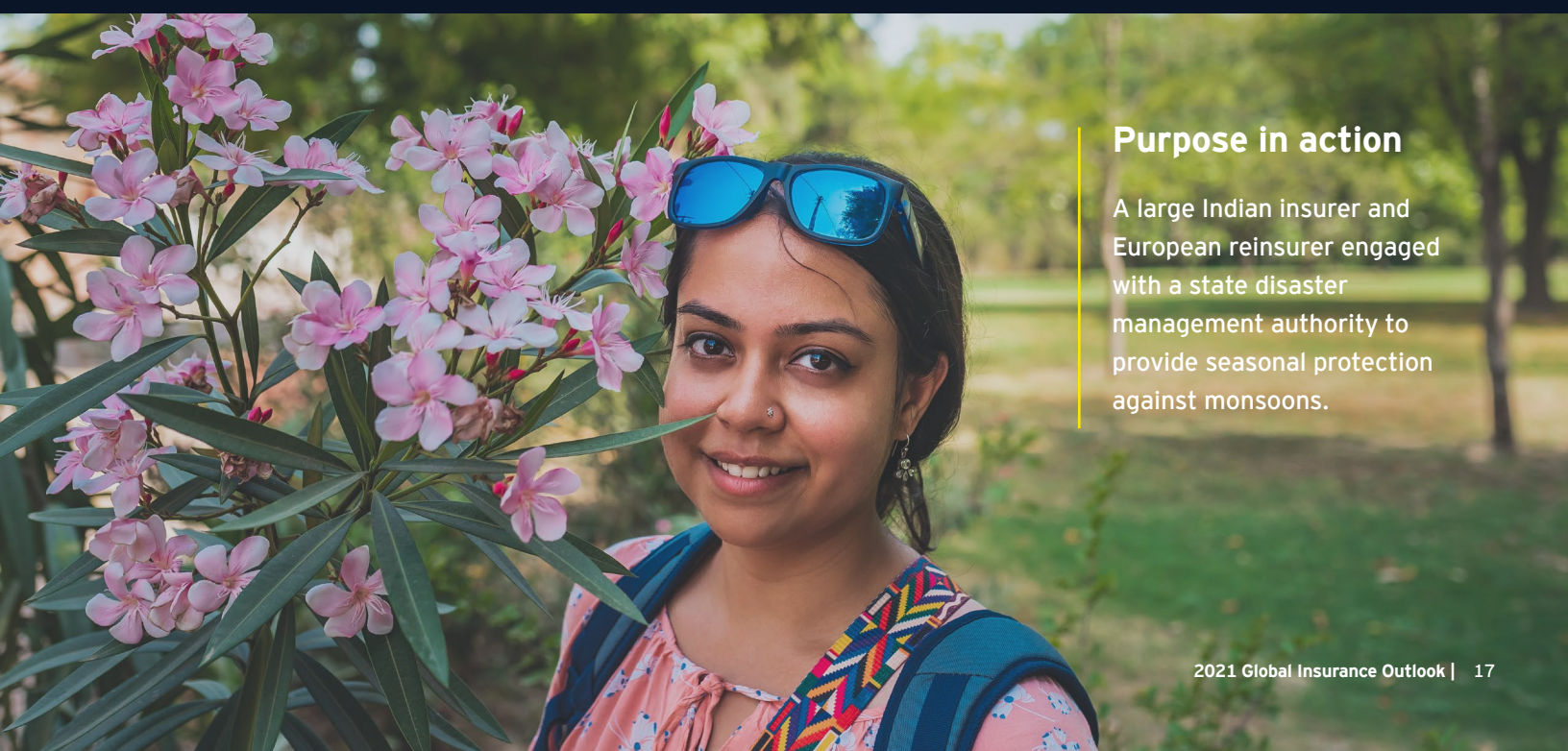
Are very confident in the coverage they've purchased

50%

Source: EY Global Insurance Consumer and Small Business Owner Surveys, 2020

Some insurers will look to engage with governments and public-private initiatives to shape risk management strategies for huge societal challenges. Some US insurers are beginning to offer new products through group insurance and employee benefits programs.

The pandemic remixed the risk landscape. Business interruption, future pandemics and cyber are all now viewed as larger and more severe risks. In 2020, concerns about climate change were briefly marginalized, but it is now surging as a critical risk worldwide, though attitudes vary by region. For insurers, these risks all represent opportunities to innovate with their product offerings and demonstrate societal leadership.



Purpose in action

A large Indian insurer and European reinsurer engaged with a state disaster management authority to provide seasonal protection against monsoons.

The tangible value of purpose

Purpose statements were once articulated mainly in the context of marketing, public relations or corporate social responsibility programs. Today, however, purpose offers a “reason to believe” for consumers skeptical of the industry. It also can serve to differentiate in the “war for talent,” as rising generations of workers are increasingly looking for a sense of purpose in their careers.

Whatever path they choose, whichever customer segments, product niches or regions they decide to prioritize, we believe insurers must set their course forward by the “North Star” of purpose. That’s true both in making the highest-level strategic decisions and more tactical moves, such as redesigning customer experiences, streamlining claims processes and updating policy language. Indeed, a renewed focus on purpose is one critical aspect of how the “next normal” will be new and different across and throughout the business.

As highlighted in the following sections, “digital-first” thinking and operations are necessary for insurers to close the loop between purpose, products and profits, while a lean, efficient cost base will allow them to meet the needs of more people and businesses. Insurance leaders now recognize that a more secure and equitable society and a more prosperous industry are complementary – rather than competing – goals.

Imperatives for insurers:

- ▶ Stress-test your existing purpose in light of the pandemic, social issues and climate change
- ▶ Develop targeted product offerings to address savings and/or protection gaps for specific customer segments
- ▶ Define metrics to guide capital allocation and monitor the impact of purpose-driven policies and actions
- ▶ Engage with industry groups to refine and drive adoption of insurance-specific performance indicators and reporting standards for ESG and long-term value
- ▶ Navigate underwriting challenges to design policies for commercial customers transitioning to lower-carbon operations

Strategic connections:

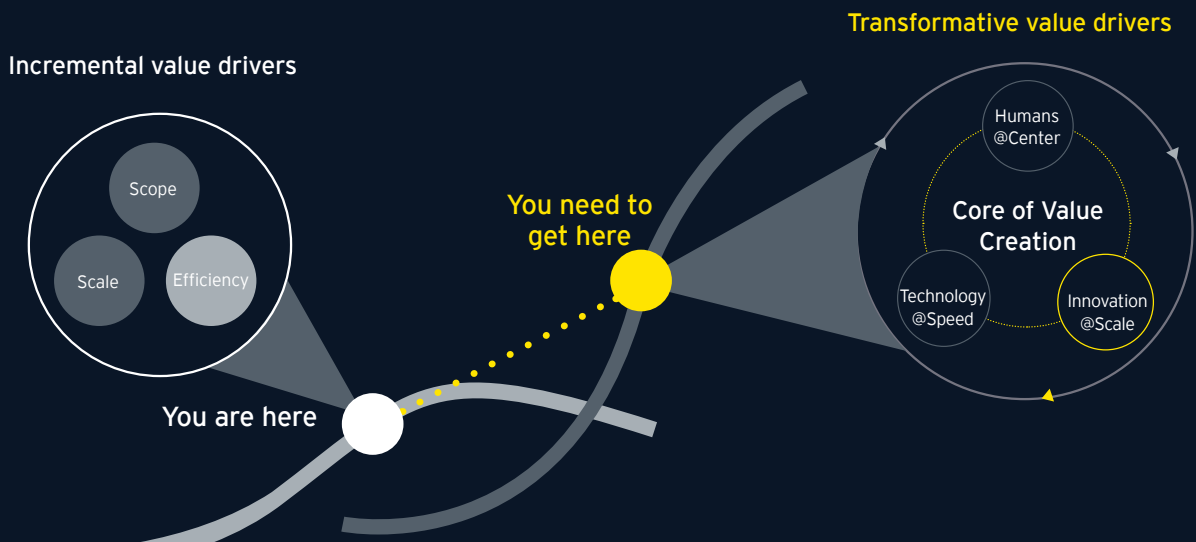
- ▶ **Purpose and transformation:** Digital transformation will help bring purpose to life by providing easier access to more affordable and understandable products that offer the protections consumers need.
- ▶ **Purpose and cost and capital optimization:** Purpose can provide guidance on the tough decisions about divesting some lines of business and expanding others.

A new approach to realize the value of transformation

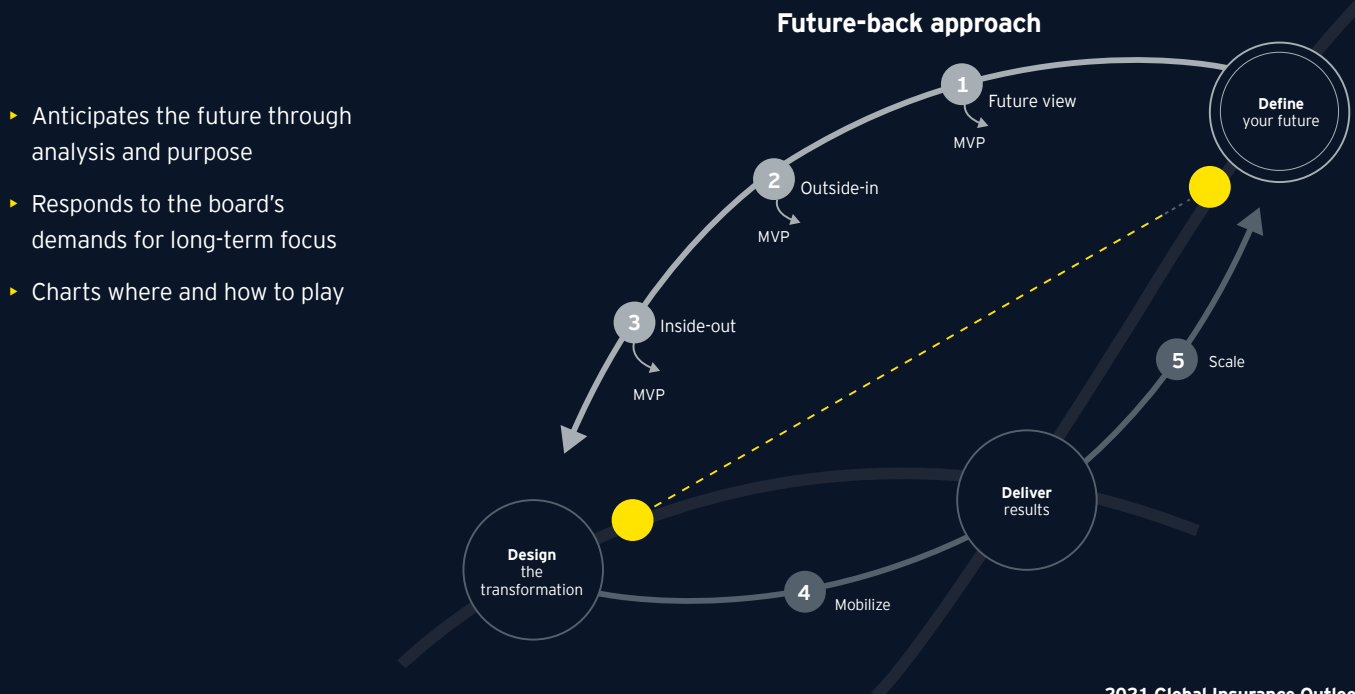
Insurers must be proactive in resetting their strategic course and consider new ways to identify opportunities and risks. Historically, conventional management wisdom held that the value was best created by scope, scale and efficiency. Insurers seeking transformative – rather than incremental – value must look to deploy technology at speed, drive innovation at scale and place humans (both the customer base and the workforce) at the center of their operations.

That requires thinking from the future back, envisioning future disruptions and strategic opportunities and assuming both inside-out and outside-in perspectives. From there, organizations can define the customer experiences, business models and capabilities they need to execute on the vision and meet milestones in two-, five- and ten-year time horizons.

A new set of value drivers represents the core behaviors necessary to create transformative change and jump the S-curve.



We use a future-back approach to envision potential future disruptions and strategic opportunities and then define the future customer experience, business models and capabilities needed to capitalize.



- ▶ Anticipates the future through analysis and purpose
- ▶ Responds to the board's demands for long-term focus
- ▶ Charts where and how to play



2

Transform the business to be more agile, digital and customer-centric.

Insurers have been moving — in some cases, boldly — in the direction of agility, digitization and customer-centricity for the last several years. Those efforts were accelerated dramatically, and by necessity, by the pandemic. The long-standing concerns and debates about the need to digitize distribution were resolved because digital was the only available channel.

Now is the time to build on those initial gains and expand transformation efforts to provide streamlined and personalized experiences to more customers. Life insurers, in particular, need to increase their investments in technology and digital, as they lag their peers in P&C and other sectors.

These are important steps to address the fact that many insurance customers feel underserved. They have irregular contact with their insurers or agents, especially when compared with their relationships with other companies (such as retailers, financial institutions and e-commerce platforms). Insurers may look to embed their offerings within these other relationships to make their products more relevant and, therefore, more appealing.

To realize the potential of this strategy, insurers will have to digitize their products and experiences in such a way that they can be easily and seamlessly inserted into their partners' processes and platforms. Such solutions will leverage application programming interfaces (APIs), software development kits (SDKs) and IoT-linked sensors to make risk prevention and protection a routine part of everyday life. Some insurers may even create InsurTech platforms to aggregate and distribute their own and related third-party products, as well as embed into third-party platforms.

This more digital and customer-centric approach offers advantages over traditional customer acquisition and growth strategies, such as partnering with affinity groups and other resellers to distribute standardized products. Specifically, AI-enabled and embedded offerings can provide more data to enhance customer knowledge, product innovation and pricing. Other benefits include more accurate underwriting, enhanced claim management, improved fraud detection and reduced risk.

Digitization everywhere with a focus on customer outcomes

Digital transformation programs are focused largely, but not exclusively, on customer-facing interactions, with investments targeted to digitization, data integration and re-platforming legacy systems. Automation of core underwriting processes was imperative to adjust to the remote working world. More gains are within reach. Powerful new workstations, automated workflows, more intelligent data ingestion and document management solutions are helping insurers take advantage of richer data sets, leading to stronger risk decisions and more beneficial pricing.

Looking forward, digitization will allow the most skilled and experienced resources to do what they do best: make critical judgments on risks and pricing, rather than spending excessive time collecting data and handling administrative tasks.

Transformation in action

- ▶ **One of the largest US health insurers** has created an ecosystem to provide enhanced services. Process digitization and data integration enable the connection of independent entities across a vertically integrated supply chain. Deep customer intelligence is used for proactive preventive care, helping to enhance patient health and reduce overall treatment costs. In line with its purpose to improve conditions that lead to poor health, the company has become the first US health care system to achieve carbon-neutral status.

40%

Proportion of digital transformation programs that are focused on customer experience, insurers in Europe and the Asia-Pacific region

Source: *Celent*

69%

Proportion of customers who prefer buying automotive policies online

Proportion of customers who would likely purchase life and health policies online

Life

58%

Health

61%

Source: *EY Global Insurance Consumer and Small Business Owner Surveys, 2020*

Proportion of customers who prefer online research for life insurance

Sweden

68%

Spain

52%

Source: *Swiss Re Institute*

However, even back-office digitization should point to better customer outcomes; consider how rapid risk and pricing decisions can satisfy, even delight, life insurance applicants accustomed to waiting days or weeks for approvals. Both customer-facing operations and internal functions should be built on a foundation of rich, high-quality data and advanced analytics. For many insurers, the first steps will be to integrate their own data repositories, as well as third-party data sources. These actions offer tangible cost and analytical benefits to set the stage for the re-platforming of legacy systems. Then they can expand AI and advanced analytics to scale.

Poor claims experiences, such as slow payments, cause many customers to switch insurers. That's why many insurers have automated claims management, with the goal of achieving straight-through processing for most claims. Lower administrative costs are also key, given the high volumes and low prices necessary for success with direct-to-consumer and digital products.

Transformation in action

- ▶ **A well-capitalized French InsurTech** helps the world's leading insurers detect fraud and automate many claims management tasks, using AI-native solutions, while also enhancing customer experiences.

The trend is clear: claims will be increasingly automated and parametric. However, in weighing the benefits of automation against the objective of customer satisfaction, more companies are embracing "human-in-the-loop" process design that satisfies customers who need or want personal assistance. That's an important consideration for certain claims (e.g., life insurance, serious auto accidents or property damage) and for value-adding services (e.g., investment advice).

Transformation for product innovation

The combination of digital transformation and customer-centricity is most powerful in the realm of new product development. EY research clarifies that customers want products with clear benefits and value. Digital transformation is critical for insurers to develop these products efficiently, launch them quickly and operate them profitably.

Individual consumer interest in new insurance products and models:

Usage-based automotive policies **69%**

Premium discounts in exchange for installing a smart device and sharing real-time data **56%**

Health plans offering customized pricing in exchange for sharing personal health data **67%**

Subscription models (UK consumers aged 35-49) **57%**

Subscription models (US consumers aged 35-49) **51%**

Source: EY Global Insurance Consumer and Small Business Owner Surveys, 2020; EY UK Insurance Survey

To capitalize on these new demands, insurers must generate deep and nuanced customer insights as a first step in targeting products to distinct market segments and specific needs. Products should be designed simply, so they are easy to understand, offer clear value and can be bought via digital channels. That's especially important for complex life products, which face new competition from wealth and asset managers. Add-on features will enable consumers to customize their protections for specific needs. Seamless and personalized experiences help insurers keep consumers engaged, with AI-enabled prompts for safer driving, saving money or risk prevention.

Affordability is crucial, too, despite the underwriting challenges. For instance, insurers could design policies to offer fixed reimbursement if a business is forced to shut down, rather than a payout linked to actual losses. That would be easier for insurers to model and price attractively, while still providing the security that small commercial customers are looking for. Innovation in risk modeling and pricing also will be necessary to develop products that offer businesses protections for the intellectual property, relationships and other intangible assets that make up the bulk of most companies' value today.

Collectively, the potential of modern technology and new customer expectations point the way to next-generation capabilities, such as hyper-personalization and subscription-based models. For instance, embedding insurance coverage at the point of sale for non-insurance products will be within the technical capacity of insurers that can develop the right retail and e-commerce partnerships. Such offerings can reorient customer relationships away from periodic transactions to more frequent and ongoing engagement, where customers are free to adjust their premiums and protections whenever they need to.

Transformation in action

- ▶ **A large global reinsurer** is working to bring a leading HealthTech's AI-powered digital health platform to life insurance carriers and policyholders across the US. They will develop a customized life insurance solution delivered entirely through the mobile app, emphasizing preventive self-care with prompts for the right interventions at the right times.
- ▶ **A top global reinsurer** has partnered with a leading provider of advanced laser-cutting technology to provide manufacturers with access to the latest tools without the need for large capital expenditure. Combining financing with the internet of things to create an entirely new business model, the pay-per-use solution demonstrates how the reinsurer is looking beyond traditional protection solutions to help companies succeed.
- ▶ **A UK-based startup** offers point-of-sale product insurance for e-commerce transactions, with seamless integration into checkout processes and a one-click experience to complete and activate contracts between consumers and insurers in various countries.

Why agility matters – technologically, operationally, culturally

Of course, transformation takes more than technology. If they are to move at the pace customers expect, insurers need new skills and fresh thinking, along with new tools. InsurTechs can provide access to all of the above, as well as new ways of working and solutions targeted at specific points in the value chain.

Migrating more data, applications and processes to the cloud is one proven strategy for instilling agility. The good news is that many insurers have ambitious plans to expand their levels of cloud adoption, according to EY research. To maximize their cloud investments, they'll need to ensure they have the necessary internal expertise and viable approach to engage their partners.

Most insurers should adopt agility not just in revamping their technology platforms but also as a distinct part of management thinking and organizational culture. People should be encouraged to move quickly, take more risks, embrace design thinking, and test and learn new ideas. Breaking down huge projects into manageable increments and seeking to launch minimally viable products faster are other behaviors to adopt. We believe committing to such approaches helped insurers move quickly in the first days of the lockdown.

Primary objectives of cloud adoption among European insurers

Agility/flexibility **69%**

Speed to market **56%**

Innovation/digital transformation **67%**

Source: EY European Insurance Cloud Adoption Index, 2021

Transformation in action

- ▶ **An Asian digital insurer** generates returns on its technology investments through cultural alignment and strong performance management. For instance, it invests a significant percentage of its revenues in research and development, with particular focus on AI, blockchain and cloud computing. Its organizational structure is decentralized to stay close to customer segments and regional business, though one unified technology platform connects all operations. Performance incentives and reviews hold managers accountable for cultural factors, promote global thinking, and tailor development and career plans for a diverse management team and staff.

New ways of working also refer to the employee experience and where people work. As remote working looks likely to become a staple for many companies, many employees will be looking for more flexible arrangements. Managers and leaders will need support in getting the best out of their people and teams. It's a big part of the digital transformation story, and insurers must seek to cultivate these new ways of working across the enterprise.

Insurers that can enhance their workforce experience will have a better chance to attract the best talent. Insurers will have to compete forcefully if they are to get their share of the data scientists, tech-savvy business analysts, application developers and experience designers they need for the future. In some cases, the best option will be to "borrow" digital- and customer-focused talent via partnerships and collaborations with InsurTechs. As operations become more digital and automated, insurers will be better positioned to collaborate with other external partners via ecosystems, joint ventures and other models. Again, digital transformation is as much about opening doors to new possibilities as it is about eliminating manual activities.

While few insurers will be able to keep up the pace of 2020 deployments, they should build on the gains they made. All aspects of operations will be expected to be nimbler and responsive, with the ability to pivot to navigate market shifts and take advantage of emerging opportunities. Stronger digital capabilities and increased agility will enable insurers to be more customer-centric in everything they do – and do it at scale.

49%

Proportion of European insurers that want to move at least 80% of their business to the cloud

Source: EY European Insurance Cloud Adoption Index, 2021

Imperatives for insurers:

- ▶ Dramatically expand your company's intake of third-party data to enhance underwriting, marketing and other purposes
- ▶ Identify steps in application and purchase processes that can be eliminated or simplified
- ▶ Create or participate in digital services, platforms and ecosystems that lead to stronger customer engagement and generate new demand
- ▶ Develop new features that can help customers personalize standard products
- ▶ Handle the majority of claims via no-touch or straight-through processing
- ▶ Embed more insurance offerings within retail and e-commerce purchases of different product types (e.g., consumer goods, travel) through partnerships with non-insurers
- ▶ Deploy robust APIs to create an environment for data passporting and access, digital payment and other open finance innovations

Strategic connections:

- ▶ **Transformation and purpose:** Transformation programs are how insurers can operationalize their purpose-led strategies so that they are lived daily, in every customer interaction and for the long term.
- ▶ **Transformation and cost optimization:** Transformation isn't about fixing broken processes but rather adopting entirely new ways of operating, with sourcing models, partnerships and collaborations that reduce both cost and risk, free up funds for innovation investments and futurize the entire enterprise, from core technology and product portfolios, to culture and teams.

3

Create value by optimizing cost management and capital allocation

Exacerbating low interest rates, the COVID-19 pandemic intensified the considerable economic pressures that insurers were already facing. Achieving cost efficiency was the top trend in the *EY 2020 Global Insurance Outlook*, which was released before the global economy was forced to lock down. The significant strain on capital, liquidity and investment strategies is forcing hard decisions and an approach that balances operational excellence and profitability.

Decades of cost reduction efforts have yet to move the needle on ratios or margins for most insurers. Today, the need for lean and flexible cost structures is particularly acute in highly competitive lines of business and direct markets, where cost efficiency is closely correlated with market leadership. That's also true in life insurance, which faces intense margin pressures, thanks to stubbornly low interest rates. As much M&A and divestment activity has already taken place, there is more to come in competitive markets.

Even as cost pressures mount, the need to invest in product innovation and expanded digital capabilities is only increasing. Thus, the time has come to fully rationalize portfolios and books of business, deepen commitments to strong markets and choose the right geographies. Increased strategic focus and restructuring of the business help create the additional funding capacity for growth-oriented investments.

In terms of allocating capital, insurers must seek capital-efficient innovations. For instance, by teaming with InsurTechs in ecosystems or other partners, insurers can avoid large capital outlays as they seek new revenue. They also avoid the risk of subpar returns on big investments.

Creating value in new ways

- ▶ **A large global reinsurer** and the insurance arm of a global automotive manufacturer have launched a new company to provide fully digital automotive and mobility insurance products, embedding insurance into the vehicle purchase. The value proposition and technology platform are oriented to long-term relationships and future needs, including automated driving and usage-based subscriptions.

Another investment priority is specific value chain improvements that can deliver substantial returns quickly (e.g., automating claims and customer service processes). The optimal approach usually involves thinking big but starting small, assessing progress and next steps continually, and harvesting incremental value to free funds for ongoing investments.

Long-term implications can't be overlooked entirely. For instance, real estate cost savings from remote working are potentially large, but the lack of a physical presence or central headquarters could damage company culture, productivity for some functions and the ability to attract talent. Moving ahead, insurance executives will be balancing these considerations as they make resource allocation decisions.

US\$7.1 billion

Investment in InsurTechs, 2020; highest ever value

Source: CB Insights

European CFOs who:

Plan to reduce their enterprise-wide cost base in the next 12 months **76%**

Consider cost reduction as a top three priority **40%**

View cost constraints as a key inhibitor in delivering strategic priorities **51%**

UK CFOs who:

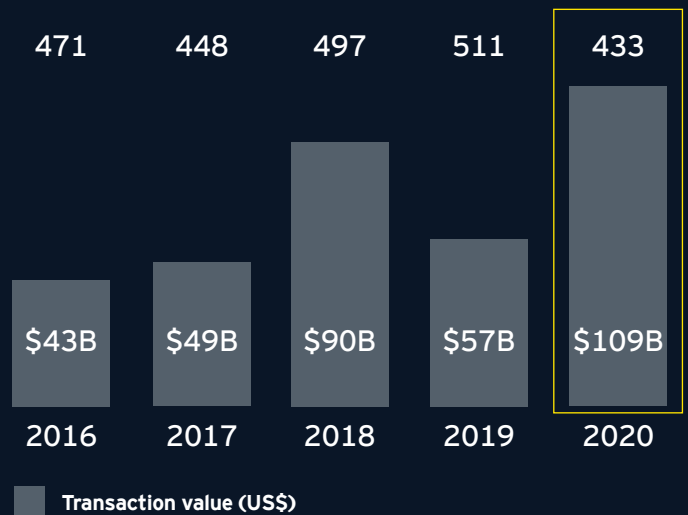
Consider cost reduction the most immediate priority **53%**

Are reducing costs to maintain solvency within a target zone **50%**

Source: EY CFO Survey, 2020

Global insurance M&A activity

Number of deals



Transaction value (US\$)

Source: MergerMarket, EY analysis

The role of technology in cost optimization

While cost optimization does not exclusively mean automating processes to reduce labor costs, technology does have a huge role to play. Purely administrative tasks should have already been automated, starting with claims, underwriting and customer service.

Modernizing legacy tech, which often presents barriers to cost efficiency, and moving data and infrastructure to the cloud are additional priorities. The industry is just now recognizing the extent of the cloud's operational and economic advantages, from the frictionless scaling of computing power, to the greatly reduced marginal and maintenance costs. The cloud also promises a way forward to those insurers faced with the extremely challenging and expensive task of re-platforming legacy systems. In some cases, the right cloud migration strategy will free insurers from the need to re-platform.

But cost optimization also includes a value dimension, including the value contributed by people and teams. To be clear, the future insurance labor force will be leaner and more productive, with fewer staff focused on higher-value and more analytical tasks. Top performers will be notable for the ability of their people and teams to use technology to the greatest effect. As such, senior management and boards must familiarize themselves with the potential opportunities associated with APIs, backend-as-a-service, license-as-a-service and other tech-driven concepts. This insight is necessary not just to drive specific initiatives but also to make better capital and resource allocation decisions between traditional and new businesses.

Optimizing the talent base

Further, more informed leadership can help attract badly needed digital talent, including data scientists and engineers and experience designers. This talent is so scarce that insurers must explore multiple ways to access it. Such an "all-of-the-above" strategy can involve retraining and reskilling existing workers, establishing new, digitally native businesses, collaborating with InsurTechs and launching new joint ventures with recognized entrepreneurs. All these approaches can reduce implementation costs, boost operational agility and minimize business risks.

For instance, while the majority of claims processes and activities will be automated, more insurers are recognizing that hybrid or "human-in-the-loop" processes that offer customers personal help when they need it may ultimately be more valuable, especially for life insurance claims and others that may be highly emotional. In other words, strategic cost transformation doesn't dictate the automation of every single process and interaction.

Synchronizing cost and capital optimization

In this sense, cost and capital are best optimized in a synchronized fashion. That's especially true relative to the development of new business models. The parallel imperatives of cost efficiency and product and business model innovation have motivated many insurers to explore "greenfield" or "NewCo" strategies.

Creating value in new ways

► **A top Swiss insurer**, launching its own startup, invited existing staff to apply and share new product ideas focused on future customer needs. The new company's operations are colocated with a FinTech incubator to facilitate fresh thinking and more agile ways of working, as well as accelerate prototype development. Initial products offer on-demand and tailored protection for bikes, consumer electronics and other personal assets, with no deductibles for fixed contracts. Coverage can be turned on or off on a daily basis, with monthly premiums automatically falling as assets depreciate. Linking to the firm's purpose, premium surpluses are turned over to charity and community service organizations.

67%

European CFOs who view legacy systems and IT complexity as inhibitors to cost efficiencies

Source: EY CFO Survey, 2020

Cost and capital should be optimized in synchronized fashion.

An alternative to legacy strategies

In an attractive capital-raising environment, some insurers are turning to alternative capital sources to fund spin-off business models and even entirely new brands. These strategies are designed to free insurers from the constraints of legacy systems, processes and thinking. Executives should be ready to make tough decisions, even consciously cannibalizing a portion of existing businesses, as they evaluate new growth investments. Senior leaders and boards must recognize that not all businesses can remain viable or relevant within specific group structures or strategies.

With more investors pursuing higher yields, more alternative capital is available, and InsurTechs have attracted a lot of it. They can play a catalyzing role in driving insurers' presence into digital platforms, with additional contributions from specialist agencies and brokerages, managing general agents (MGAs) and platform developers.

There's a real balancing act for insurers: cost optimization initiatives must be prioritized based on the near-term results they can produce and on their alignment to the long-term vision and purpose. Technology-driven strategies – including modernization of core systems, more migration to the cloud and adoption of SaaS models – typically map well to both short- and long-term objectives.

Best-in-class vs. best-in-cost

Instilling both operational excellence and cost efficiency across the value chain will be a difficult balancing act, but a necessary one to free capital for investment. The decision to use a best-in-class or best-in-cost approach will inform sourcing strategies, with options ranging from shared services and centers of excellence, to outsourcing, to value chain disaggregation. Insurers will employ fewer people and access more of the skills they need through external sources.

Again, cost efficiency and capital allocation are directly related to other top agenda items for boards and senior leadership. Purpose-led strategies should influence decisions on what to divest and automate and where to invest and innovate. The same is true of digital transformation: cost efficiency is both a driver and target outcome of insurers' biggest bets. Cost optimization and capital allocation are objectives that will be achieved via multiple strategies and tactics, from tech modernization and organizational design, to people and teams.

Imperatives for insurers:

- ▶ Expand cloud adoption exponentially in the next 24 months
- ▶ Quantify the economic impacts (e.g., cost savings, ROI) of alternate sourcing models
- ▶ Refine your alternative capital strategy and identify plans for targeted growth investments
- ▶ Develop and apply new productivity metrics for people and teams
- ▶ Rationalize product and business portfolios and geographic operations to free up capital for innovation investment
- ▶ Examine the mix and structure of capital resources to support both organic and inorganic change

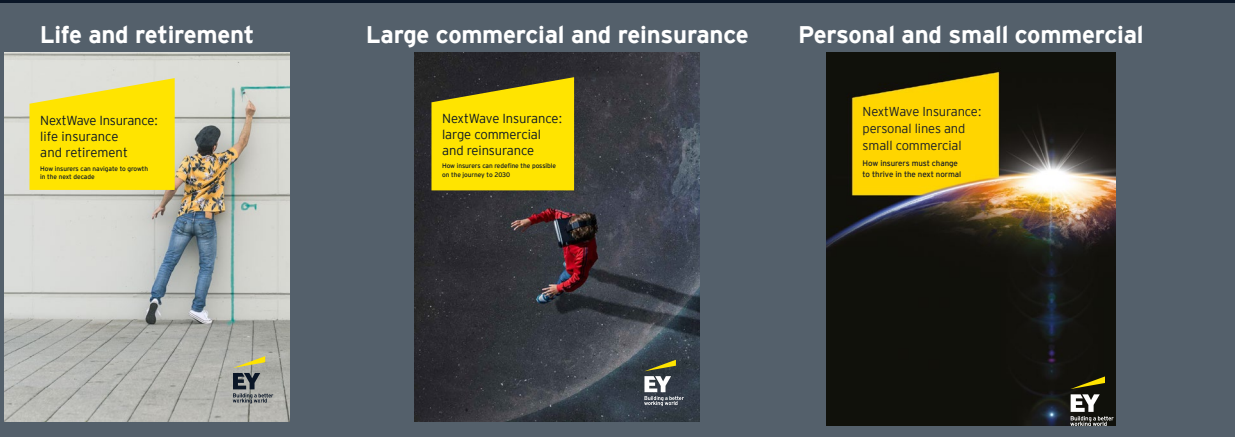
Strategic connections:

- ▶ **Cost optimization and transformation:** Cost efficiency may not be the top objective for digital transformation programs, but it should certainly be an outcome. Specifically, successful transformation can result in lean, flexible operations and capabilities that retain their cost efficiency even as they scale up.
- ▶ **Capital optimization and purpose:** More effective capital allocation allows insurers to live their purpose and serve more stakeholders, with the ability to bring affordable new products to market sooner.

Further reading

NextWave Insurance

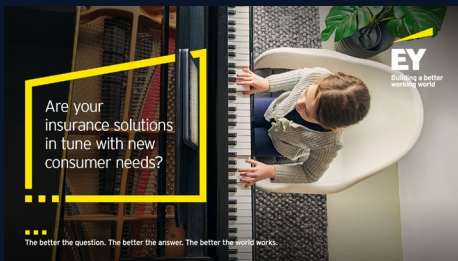
Our NextWave Insurance series outlines the key trends shaping the major insurance markets along the road to 2030, with detailed scenarios for likely developments and imperatives for insurers ready to start winning the future.



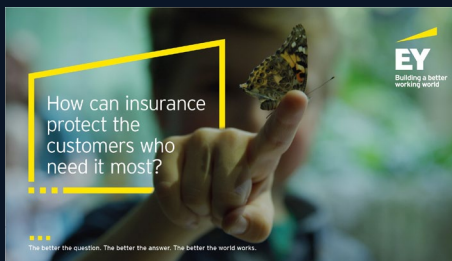
Consumer and Small Business Owner Survey

In late 2020, EY Insurance conducted a global survey of 2,700 consumers and 1,200 small business owners to understand how the COVID-19 pandemic has impacted their lives and insurance needs. Our global and local findings reveal opportunities for insurers to adapt their products and solutions to meet changing consumer priorities, support those most financially impacted and restore financial well-being.

Life and personal lines consumer findings



Small business owner insights



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