



# What should insurers do today to prepare for tomorrow?

Americas insurance outlook 2019



The better the question. The better the answer.  
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# Foreword

We are excited to share the latest edition of the EY insurance outlook series, covering the major trends, disruptions and innovations that are reshaping our industry. It's an opportune time to take stock, as insurers are investing more than ever to reshape their business models to take advantage of subtly different growth opportunities around the world.

For this year's outlooks, we brought together EY industry and functional professionals, as well as the strategists and technologists, in highly interactive "think tank" sessions. These groups identified and rank-prioritized the most powerful and dynamic trends and issues that they see in their work across the industry every day. The opportunities to innovate and disrupt are driving both customer-facing transformation and back-office optimization.

The EY team is clearly energized by what's possible for insurance – better ways of working, a clearer sense of purpose, more effective use of emerging technologies and ecosystems, as well as our industry's unique ability to promote financial wellness, provide protection and enable insurance customers to better manage risks. We would be delighted to hear your thoughts on the following report and this intriguing and challenging moment in the insurance market.



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# Americas insurance outlook 2019

No or slow growth in revenues. Intense profit pressures. Constant flux from technology advancements and rising customer expectations. That's what insurers have experienced in the recent past. Without bold action now, they risk seeing more of the same in 2019 and beyond.

## Growth trends

Non-life sectors have grown – albeit at low rates and mainly in health and automotive. Meanwhile, the life business is shrinking. Industry efforts to raise awareness regarding the value of life insurance (especially among millennials) have not effectively countered structural reductions in demand. Beyond low growth, margins remain suboptimal for both life and non-life.

## Macro-effects and growth outlook

In North America, interest rates remained at historic lows before improving in 2018. The combination of these low rates with the longest bull market in history pushed consumers toward equities and mutual funds and away from low-rate guarantees and traditional insurance products. Aging populations have shifted from accumulating wealth to actively decumulating it. In Latin America, weak economic growth – despite favorable demographics – has limited both savings and consumption, hurting both life and non-life businesses. Constant political headwinds have also contributed to economic uncertainty.

Not all the news is bad. Economic growth has rebounded with commodity prices having corrected since the lows of early 2016. Both trends bode well for insurers. Increased interest rates and record high employment favor life insurance sales, while enhanced economic activity drives demand for non-life products. The easing of regulatory pressures in some key markets is expected to boost growth.

Specific concerns that should not be overlooked include:

- ▶ Rising protectionism
- ▶ High crude oil prices
- ▶ Rising inflation on household income
- ▶ Ongoing political uncertainty in some Latin American markets

Still, North America has outpaced other mature economies, though growth in Central and South American markets generally lags other maturing economies around the world.

## Digital change and opportunity

Technology changes both enable and threaten insurers. Greater digitization, along with increased use of big data, IoT, RPA and AI mean better pricing and more effective processes for insurers – particularly in the US and Canada, but also in Brazil and Chile. New players adept in leveraging data and technology also present both risks and opportunities. Will firms like Metromile, Lemonade and other InsurTechs be competitors, collaborators or both?

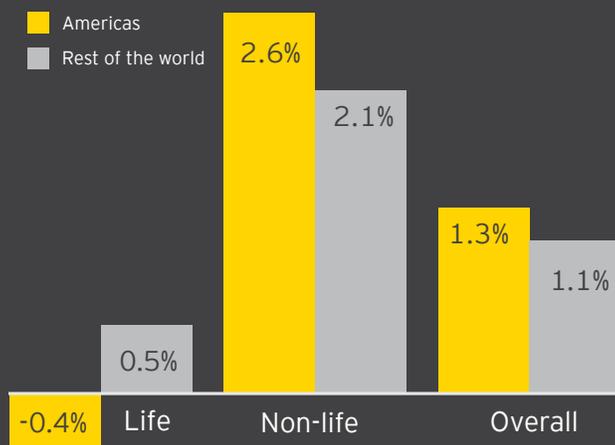
# 83%

US proportion of gross written premiums in the Americas

Source: Swiss Re

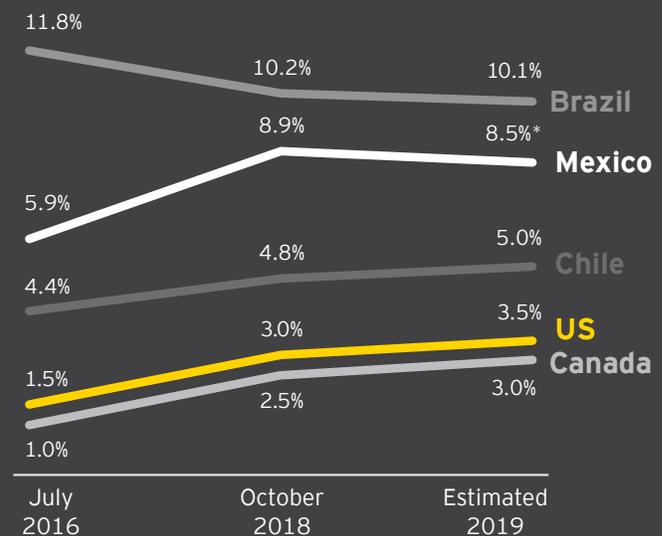
## Americas insurance: The big picture

Growth in gross written premiums, CAGR, 2012-2017



Source: Swiss Re

10-year bond yields



Source: Oxford Economics, investing.com

Note: Estimates for Mexico are based on long-term government bond numbers as 10-year bond yield forecasts were not available.

Average annual GDP growth



Source: Oxford Economics

# The state of the Americas life insurance market

## Overview and key trends

The Americas life insurance market has remained weak for years, though recent developments look promising. Improved financial markets, an uptick in growth, rising interest rates and aging populations are expected to drive demand for life insurance products. Life insurers should not simply wait for these fundamentals to work in their favor as they have done in the past.

To make the most of the growth opportunities, they must actively drive the agenda, develop long-term resilience and “futurize” the organization. The focus must be on:

- 1. Developing comprehensive new value propositions for holistic financial wellness that are aligned to evolving customer expectations and the needs of aging populations across the region**

- 2. Improving distribution through direct channels and empowered agents**

- 3. Collaborating with InsurTechs, new entrants and other incumbents on ecosystems**

- 4. Optimizing value chain “basics” to promote sustainability**

To achieve these ambitious goals, successful insurers will need to undertake digital transformation. In these transformation journeys, life insurers should seek to optimize the policyholder life cycle by catering to specific needs for specific types of customers, such as overall wellness for aging populations and rewarding experiences for millennials. By meeting these customers’ needs, insurers will enhance their own bottom lines by reducing costs, improving conversion rates and retaining more customers.

## Slow growth, weak performance

Total in-force annuity contracts, US, 2012-2017

**-18%**



Annual gross written premiums, 2012-2017

**-0.4%**



Americas

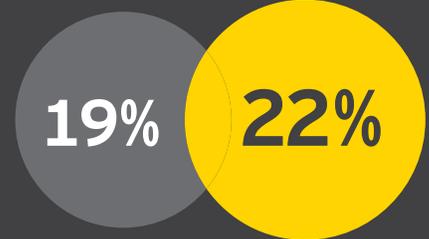
**-0.8%**



US

Expense ratios, US

**19%**



2014

2017

## The value proposition: The era of “It’s sold, not bought” is at an inflection point

### EY POV

Life insurance might still be sold, but it needs to be sold in a different way, focusing on overall financial well-being and more holistic financial advice.

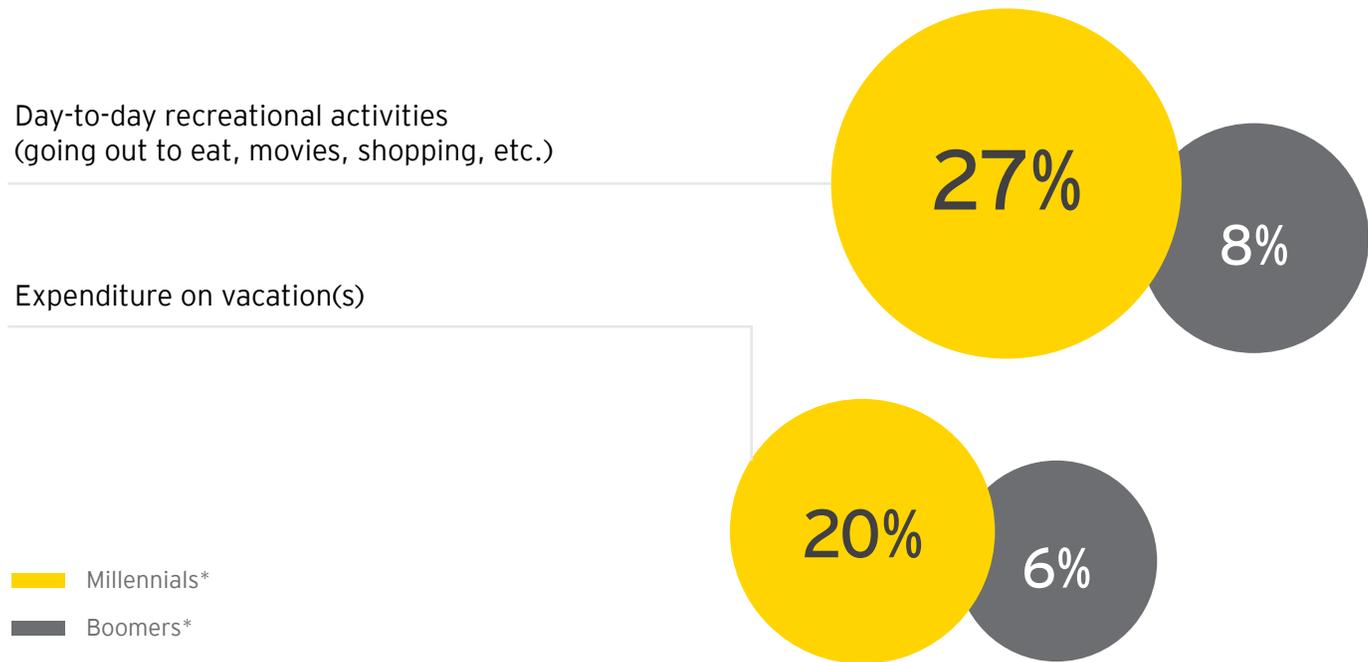
The conventional wisdom about life insurance being sold, not bought, is facing a paradigm shift. It’s clear now that today’s consumers are buying less life insurance and fewer annuities than in the past. That’s why the core value proposition must be refined to incorporate the holistic idea of financial wellness. Since everyone wants to be financially healthy and secure, products that deliver these attributes require little, if any, selling.

The long-term fall in overall premium points to larger sustainability issues for the sector. Competition from alternative financial products (including workplace products) and the perceived unsuitability of life insurance and annuities continue to erode share of overall household wallet.

Shifting customer preferences are the key determinants of these changes; millennials are less inclined to maximize wealth (through life insurance and annuity products, for example) – even though many of them are very focused on saving for the future more than Gen X was. *See figure 1* Deeper analysis clarifies the markedly different spending preferences of millennials and baby boomers.



**Figure 1: Financial reasons for not buying life insurance, by generation**



Source: LIMRA Insurance Barometer Survey 2018

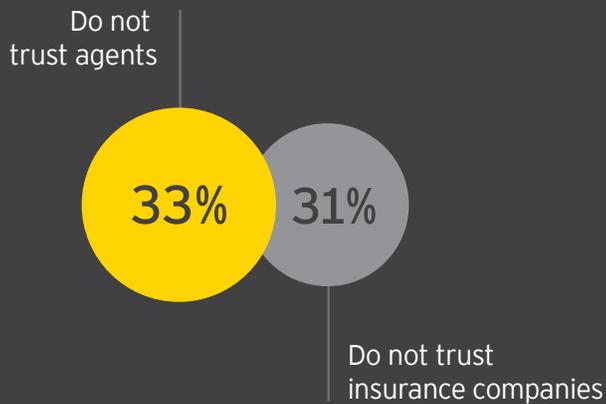
Millennials are generally defined as individuals born 1981-1996 and boomers are generally defined as individuals born 1946-1964.

Countering this shift in generational views requires a multi-pronged strategy focused on holistic financial wellness:

- ▶ **Product design and development:** Products must cater to all aspects of financial wellness including protection, retirement and health, and even provide the means to manage day-to-day finances. They must be both customizable and affordable. For instance, new long-term care and long-term disability products can generate a high level of interest within previously underserved customer segments.
- ▶ **Communication and distribution:** Effective communication and education are necessary to build traction. Insurers should leverage digital, agents and other distributors to articulate and demonstrate the value proposition to customers.

For years, many insurers have focused on high-value customers and wealth transfer strategies (reflecting the multi-decade low in number of policies sold). Now, they must decide if they want to focus on creating profitable propositions that can be effectively scaled to meet the needs of a much larger customer segment. Engaging more customers in conversations about financial wellness requires investment and time, but it will establish a stronger relationship with benefits flowing to both customers and life insurers over a much longer term.

**Figure 2:**  
Reasons for not purchasing life insurance



Source: LIMRA Insurance Barometer Survey 2018

**Figure 3:**  
Online purchasing – life insurance vs. retail



Source: LIMRA Insurance Barometer Survey 2018;  
Big Commerce

## Distribution: Think human *and* digital, not human *or* digital

### EY POV

Insurers must digitize their antiquated customer experiences and develop a streamlined, omni-channel proposition, supplemented by new advisory services.

The antiquated customer experience provided by most life insurers is inconvenient at best for customers and painful at worst. Poor service interactions reduce consumer trust. Insurers must digitize and enhance the most critical touchpoints – policy servicing, client onboarding and advice. *See figure 2*

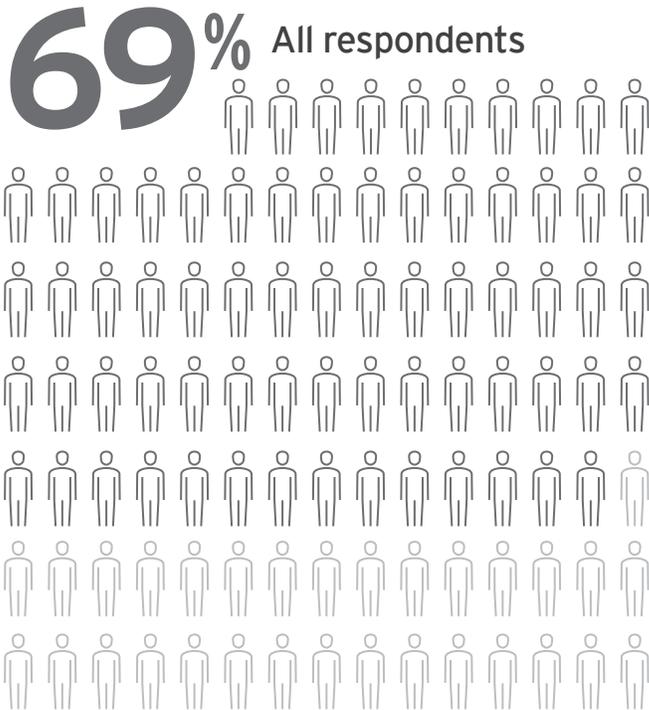
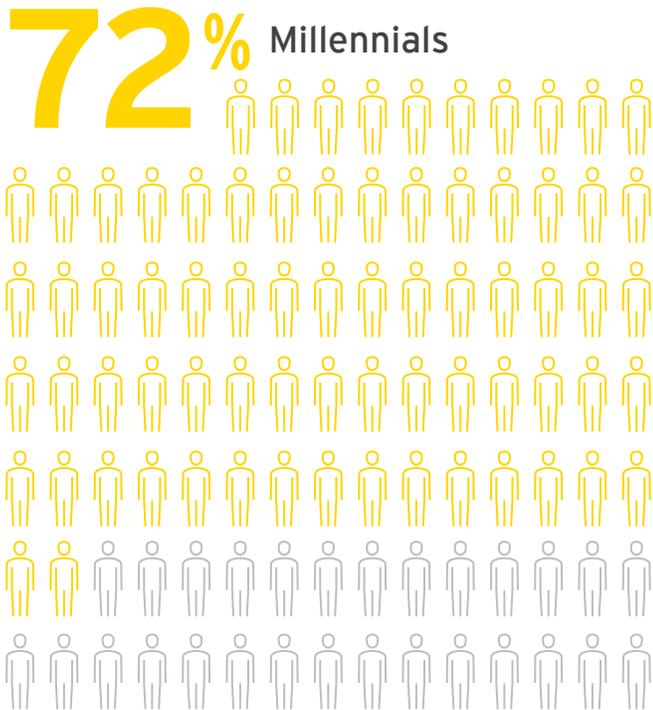
Specifically, insurers must deliver seamless self-service experiences, which customers now expect, given their interactions with other sectors. Insurers must also embed self-service capabilities for purchasing policies, accessing policy information, management policy administration tasks and performing other transactions.

The returns for customer experience investments will come in the form of increased direct sales and more loyal customers. Research shows more consumers are ready to buy life insurance through online channels, though a much lower percentage actually buy insurance online, especially when compared to buying retail products online. *See figure 3* This gap will only close if life insurers can deliver the kinds of seamless self-service options and personalized experiences customers have come to expect from their interactions with digital leaders in other industries.

Expanding digital channels doesn't mean eliminating human interventions. Ultimately, most customers still value face-to-face interactions, which is hardly surprising given the complexity of the products. *See figure 4*

A truly differentiated customer experience will feature both strong digital capabilities and human agents who are skilled, empowered and capable of holding substantive conversations around financial wellness. Implementing the "human+digital" strategy won't be easy, but it is the key to maximizing the lifetime value of customers.

**Figure 4: Customers who agree/strongly agree that "Meeting with an agent/advisor before buying life insurance is important to me"**



Source: LIMRA Insurance Barometer Survey 2018

# Ecosystem collaborations: Don't panic and be proactive

**EY POV**

Developing advanced ecosystems, involving InsurTechs and other potential players, or partnering with existing ones is the best way to prepare for the day when consumers buy insurance from Amazon, just like they buy food, medicine and other products.

InsurTech investments continue to expand. *See figure 5* But new entrants are now regarded less as direct competitive threats and more as potential collaborators for incumbents. The long-feared entry of tech giants has not yet materialized; they appear more interested in personal non-life lines than in life insurance. However, insurers cannot afford to be complacent, as the entry of non-traditional competitors with strong balance sheets remains one of the most significant risks to the traditional life insurance industry.

Figure 5: Global InsurTech investments in life and health insurance, 2012-2017



Source: Willis Towers Watson - CB Insights



Despite relatively low levels of investment when compared to overall FinTech investments, innovation in life insurance is accelerating. As a consequence, we believe customer acquisition, process efficiency and distribution will soon be radically redefined. Life insurers can learn from other industries and start integrating InsurTechs in their operating models now while exploring how to create and operate ecosystems to deliver financial wellness solutions.

The advantage of ecosystems will be in their simple, transparent end-to-end experiences that cater to customer needs and help them navigate complex product sets. New market entrants will struggle to do this on their own.

If platforms gain traction, it will be more difficult for tech giants entering insurance markets to find carrier partners willing to serve as “utilities” providing capital, regulatory knowledge and capabilities within a “white label” construct, while losing customer relationships. While some incumbent insurers might be tempted by these relationships, we believe life insurers that move now to strengthen their capabilities through InsurTech collaborations and by developing ecosystems will be able to expand their base and retain their relevance in the future.

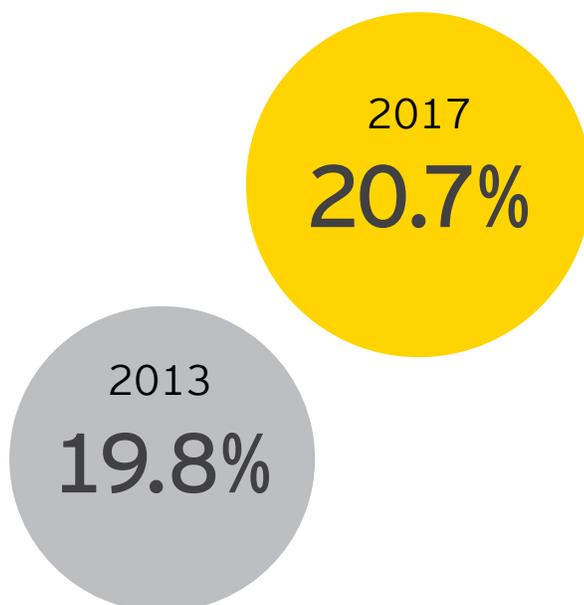
Additionally, beyond embracing changes delivered by InsurTechs, the life sector must look to enhance collaboration within the industry. This will address common but significant problems at an industry level and not just in silos.

## Value chain optimization: The time is now

### EY POV

Agile is no longer optional. Modernizing legacy systems is a must, because insurers with inefficient value chains are the most likely to be disrupted.

**Figure 6: Expense ratio\* for US life insurance industry, 2013-2017**



Source: S&P

\*Includes general expenses and commissions

Eliminating inefficiencies from the value chain has long been on the agenda of every life insurance CEO. Unfortunately, previous efforts have not lowered expense ratios. *See figure 6* As a result, transforming legacy operations and promoting a more agile approach are now non-negotiable imperatives. Those who fail to change immediately will miss out on current growth opportunities and will face the greatest threats (including going out of business) when disruptions occur.

Legacy systems and processes seriously constrain insurers in:

- ▶ Experimenting with new technologies, business models and partnerships
- ▶ Incorporating structural change to address new customer needs
- ▶ Preparing for mergers or consolidations
- ▶ Leveraging data and analytics along with machine learning to more effectively target and service customers

In light of these pressures and the need to access new technology, more insurers now consider outsourcing to be a viable option. The right sourcing relationships can drive down costs and improve performance for key links in the value chain. Such gains will be critical to remain competitive. More insurers now recognize that – thanks to technology advancements and changing customer expectations – it's impossible to be best in class across the entire value chain.

Thus, senior leaders face a number of critical choices:

- ▶ Determining where to specialize, where to partner and what to outsource
- ▶ Establishing clear metrics linked to target outcomes
- ▶ Identifying the right sourcing partners for specific parts of the value chain
- ▶ Aligning internal and external functions for consistent execution

The right decisions in these areas will reverse the deterioration of expense ratios and set the stage for future growth.

## Imperative actions: What life insurers should do next

While profitability and growth remain under pressure for life insurers in the Americas, overall economic conditions and rising interest will make life insurance products more attractive to customers. To seize the moment and “futuraize” the business model, insurers must:

**1.**

Design, develop and test a clear value proposition related to financial wellness and delivered via a holistic advice approach.

**2.**

Create a distribution road map integrating both human and digital channels and designed to maximize customer lifetime value.

**3.**

Evaluate buy, build and partner options related to customer ecosystems and future platforms where products will be sold, and identify the relevant InsurTech players for collaborations in line with current strategies, competencies and strengths.

**4.**

Review individual components in the value chain and identify opportunities for reengineering or automation.

# The state of the Americas non-life insurance market

## Overview and key trends

Low, single-digit growth has been the rule in the non-life sector, thanks to a mix of favorable and adverse trends. Improved pricing in automotive and health in North America has been largely offset by weak economic growth in Latin America. Of greater concern is falling profitability for the region's P&C insurers. The causes include higher underwriting losses and a weak pricing environment in commercial lines.

To manage through this low-growth, low-profitability conundrum, non-life insurers have focused on innovation and disruption, demonstrating a strong interest in new technological developments including telematics, the Internet of Things (IoT) and blockchain.

To demonstrate the value of these investments, insurers must move the needle on business outcomes. The focus must be on:

1. **Driving cost efficiencies to fund continuing investment in digital transformation**
2. **Strengthening direct channels to gradually reduce dependency on agents and brokers, particularly in personal and small commercial lines**
3. **Preparing for the market entry of tech giants**
4. **Exploring InsurTech partnerships and acquisitions to leverage relevant capabilities**
5. **Accelerating time to market to take advantage of new opportunities**

## Limited growth, falling profitability



## Digital transformation: Key technologies will separate winners and losers

### EY POV

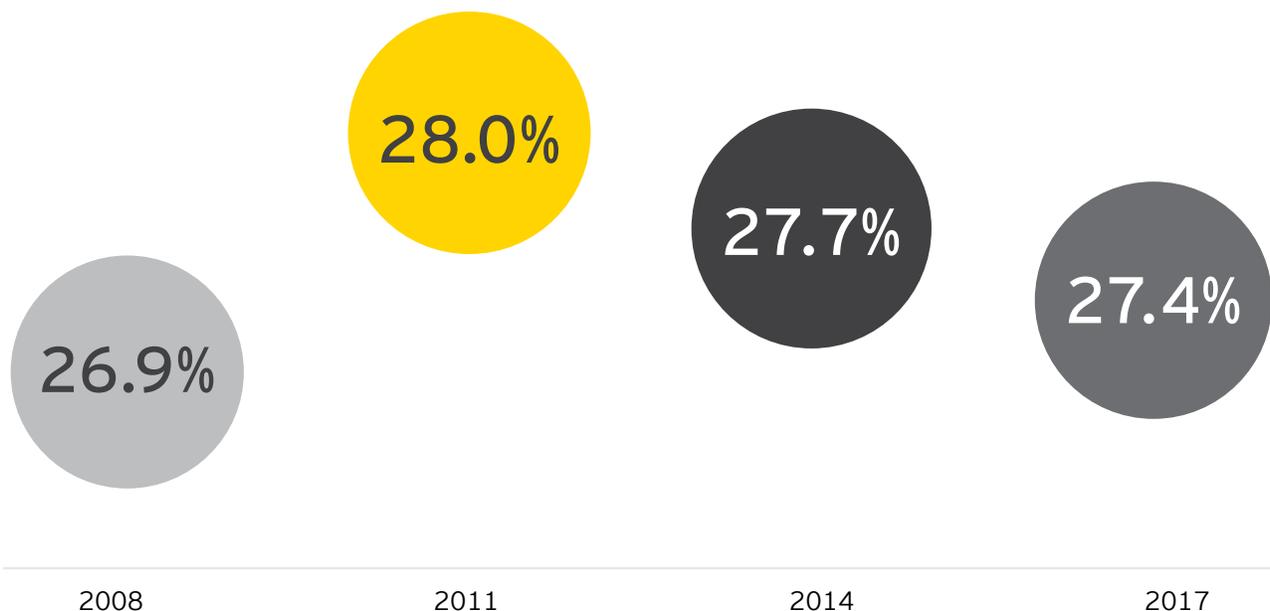
It's not enough for insurers to think about digital, rather they must BE digital.

Cost efficiency is a perpetual goal of all insurers. Today's intense margin pressures mean that it's more important than ever. Past efforts – fine-tuning operations or digital transformation initiatives – have produced incremental benefits at best. Stagnant revenue streams, legacy systems and rigid operating models have left expense ratios where they were a decade ago. *See figure 7*

Moving ahead, insurers should carefully design operating models and deploy technologies that can deliver short- and long-term cost and performance improvements. While some forward-looking institutions are starting down this path, the benefits are yet to be seen, and many insurers still need to follow.

Connecting systems across the insurance value chain – particularly claims and policy administration – will also be critical to eliminating redundancies and developing sustainable operating models.

Figure 7: Expense ratio for top 20 P&C insurers in Americas, 2008-2017





The top technologies for insurers to think about and experiment with in terms of their transformation programs are:

- ▶ IoT for accurately underwriting policies using real-time data and reducing or eliminating claims using allied services (e.g., sensors providing early detection of loss in homes or business facilities)
- ▶ AI for enhancing customer experience cost-efficiently and streamlining claims management, especially for simpler cases (e.g., auto damage)
- ▶ Blockchain for authentication, underwriting and claims attribution and to foster collaboration with external participants across the value chain and emerging ecosystems

These technologies – when integrated in a digital landscape that enables seamless transfer of information – will generate real-time insights that will provide the tools to better manage and steer the insurers' book of business to profitability. They will also offer additional benefits, including:

- ▶ Higher overall service quality
- ▶ Stronger customer satisfaction
- ▶ Increased innovation capabilities
- ▶ Clearer financial controls and transparency
- ▶ Reduced operational costs

Importantly, these benefits will also materialize for small commercial lines. Early adopters in this space have an opportunity to significantly increase the size of the market and win material share.

## Speed to market: It's time to go faster

### EY POV

Greater consumer trust can increase organizational velocity, which is necessary in everything from launching products to navigating competitive threats.

A generally conservative lot, insurers have historically only just reacted to macroeconomic trends, demographic shifts, market demands, technological developments and regulatory changes. This reactive stance has hurt customer trust.

Insurers must reverse the trend if they are to retain relevance in an environment with new and different competitors. More automotive, technology and consumer brands – many of them highly trusted by consumers – are considering insurance products as a means to diversify revenues and profits.

Beyond raising trust, insurers need to develop new capabilities, including the ability to:

- ▶ Precisely track shifting customer and market variables
- ▶ Identify demand before it materializes
- ▶ Launch products before competitors

A strong and flexible operational backbone, modernized processes and systems, and increased organizational agility underlie these capabilities. Tomorrow's leaders will also have robust data and analytics frameworks and leverage AI broadly to generate actionable insights.

This is what it will take to shrink product development and launch timelines from years to months. Speed to market will only become more important as competition proliferates for traditional insurers. But as organizational velocity increases, executives will have to increasingly spend time balancing this speed with return on equity and expense pressures.

## Tech giants get “personal”: Will insurers go backstage?

### EY POV

Insurers can and should learn from ride-sharing services, which have created new types of insurance covering individual riders and every ride.

Over decades, insurers have created a massive pool of historical customer data, allowing them to underwrite risks at appropriate prices. This has been a fundamental industry strength, but today's technology giants have just as much customer data, including information that goes far beyond basic risk profiles and financial status. This data gives them a strong foundation for entering a variety of financial services markets, from payments to insurance.

The partnership of Amazon, Berkshire Hathaway and JP Morgan Chase in a new healthcare venture is a sign of growing interest of tech giants and other firms in the insurance business, even if some initial attempts faltered (e.g., Google's aggregation play). Still, our view is that one or more of these players will soon scale up their presence in the industry.

# 30 million

Approximate number of  
Apple Pay users

*Source: EY estimates*

The threat of disruption is real and is happening now. Beyond their massive data troves, these companies are highly trusted brands with huge customer bases – despite recent privacy scandals. Given the trust differential with financial services brands, there is plenty of reason to believe that consumers would turn to technology leaders for financial transactions. *See figure 8*

Advanced analytical capabilities also give tech leaders a huge edge in underwriting, pricing and targeting new policies with unprecedented precision. They may create new market segments that didn't exist in the past.

Insurers must actively consider their options, which include:

- ▶ Embracing their role as providers of capital and actuarial know-how
- ▶ Leveraging existing and developing new capabilities to aggressively compete

Insurers' individual strategies will determine the best course of action. The development of future ecosystems centered on specific customer needs, and incumbents' roles in these, must also be taken into account.

While much remains uncertain, the entry of tech giants into insurance is a matter of when, not if. Thus, the time has come for insurers to act. It is somewhat ironic that partnerships with InsurTechs (who were feared as the most likely disruptive new competitors not long ago) are likely to be essential competitive weapons for incumbents seeking to fend off tech giants. Indeed, insurers must explore and capitalize on emerging opportunities with InsurTechs – and they should do so now.

**Figure 8: Consumer trust by sector – percentage of respondents who trust each industry**



Source: 2017 Edelman Trust Barometer

## InsurTech options: Partner or acquire to embrace innovation

### EY POV

To successfully build and manage an effective innovation portfolio, insurers must identify and pursue the right number of opportunities and clarify exactly what they want – including specific capabilities and ROI targets – from each investment.

# 45

InsurTech investments made by top 25 Americas P&C companies, January 2015-June 2017

Source: CB Insights

Bidding for distinct competitive advantage, several large insurers have made significant investments in InsurTechs. In fact, most top US insurers have invested in at least one InsurTech firm during the last several years. Results to date have been marginal, with only nominal contribution to volume and profitability, relative to the overall business. The dilemma is how many opportunities should be pursued to create an optimal portfolio of innovation.

Despite limited initial success, innovative carriers will – in the next few years – scale up their partnerships with InsurTech firms. These enhanced customer experiences will provide real inspiration for the industry and breakthrough innovations, although we expect most activity in the homogenous, low-margin part of the market. The biggest winners will most likely be those that can diversify earnings through fee-based packaged services.

To capitalize on these opportunities, incumbents and InsurTechs are collaborating in different ways, including:

- ▶ Industry consortia involving multiple insurers and tech firms focused on piloting new solutions
- ▶ Direct investments in specific InsurTechs (or complete takeovers) with the goal of embedding innovations and capabilities in the existing organization
- ▶ Dedicated innovation arms to pilot new and/or selectively implement emerging solutions

Each approach has its pros and cons. Thus, the first step is to clarify strategic objectives and then select the best approach or combination of approaches. Otherwise, great opportunities may be wasted if insurers fail or struggle to integrate InsurTech innovations with the rest of the business.

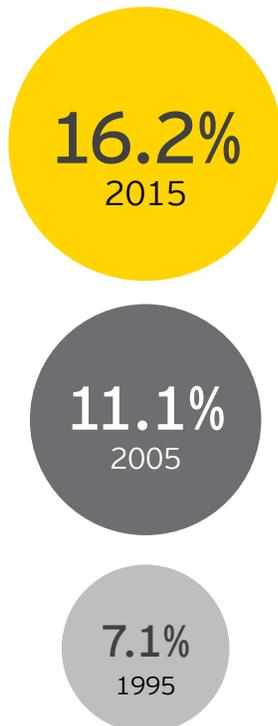
Insurers must be proactive in exploring these opportunities, but rigorous in assessing existing strengths and capabilities as a means to identify the most promising synergies with InsurTechs. To make the most of the emerging opportunities, insurers will have to find ways to monetize their investments.

## The evolution of distribution: D2C will ultimately predominate

### EY POV

Though all trend lines clearly point to direct channels, insurers must master the balance between human and digital because their diverse customer base wants access to both.

**Figure 9: Direct sales, as percentage of overall sales, P&C personal lines, US**



Source: Independent Insurance Agents & Brokers of America, Inc.

As the first touch point with customers, distribution rightfully attracts significant attention. It's also the value chain link most likely to be disrupted first. Direct channels have already increased transparency and produced differentiated customer experiences. Despite all the buzz about and inevitability of disruption, agents and brokers still dominate. That's especially true in large commercial lines, where significant change is unlikely anytime soon.<sup>1</sup>

A gradual shift toward direct sales can be seen in personal and small commercial lines. *See figure 9* In large commercial lines, agents and brokers will be forced to adjust their operations to cater to large clients with increasingly digitized operations. The winners are likely to be the most forward-looking brokers that start using new technologies, such as blockchain, to streamline their operations. That trend is well under way in marine insurance.

Similar, but much faster, adjustments are necessary to satisfy the varying preferences of different customer segments. For example, while millennials prefer using insurance comparison/quoting websites, baby boomers have a relatively lower inclination to use the Internet for insurance purposes. Both groups must be served.

As the distribution landscape evolves and becomes more technology-enabled, InsurTech players and aggregators will assume a larger role. The potential entry of major technology players also looms as a major threat. Distributors and insurers must keep a watchful eye on the horizon as these developments take shape.

<sup>1</sup> Insurwave: blockchain-enabled marine insurance

## Imperative actions: What P&C insurers should do next

With improved economic conditions in the US buoying their growth prospects, P&C carriers must launch multiple change initiatives so that they establish long-term sustainable operating models. To seize the opportunities in this highly dynamic environment, they must:

**1.**

Transform their direct channel and distribution strategies by exploring digital enablers, as well as relevant InsurTech opportunities.

**2.**

Identify a new value proposition to test a faster product development approach with clear deadlines and well-defined metrics for success.

**3.**

Identify areas for further cost efficiencies to transform the business and free up capital for targeted innovation investments.

**4.**

Identify areas of historical under-investment and prioritize areas for investments in modernization and digitization.

**5.**

Evaluate their internal capabilities relative to their strategy and identify critical development areas, particularly around experience design, analytics and digital architecture.



# US insurance outlook: Looking for an end to stagnation

The world's largest insurance market, like most developed markets, has seen tepid growth in recent years. Life insurance lost favor with US consumers due to low interest rates and heightened competition. P&C insurance has grown at low, single-digit rates, fueled largely by auto lines. Health has continued to grow. The commercial sector struggles with a weak pricing environment and persistently low margins. *See figure 10* Despite these challenges, insurers can reignite and sustain growth by strengthening the core value propositions and embracing new technology.

## Financial wellness:

### A new growth opportunity emerges

Insurers looking to enhance their value proposition would do well to focus on financial wellness. Consumer research confirms that many consumers are financially unprepared for retirement and unforeseen events, like the loss of a job. *See figure 11* Insurers are uniquely positioned to help.

Beyond protecting against financial risks, insurers could offer holistic advice and timely offerings across the entire customer life cycle by leveraging ecosystems and digital platforms to help customers manage their day-to-day finances and prepare for retirement and other major life events.

If insurers can position themselves to help this huge segment, they will help solve a looming social issue while also growing their revenues. On a practical level, US life insurers should:

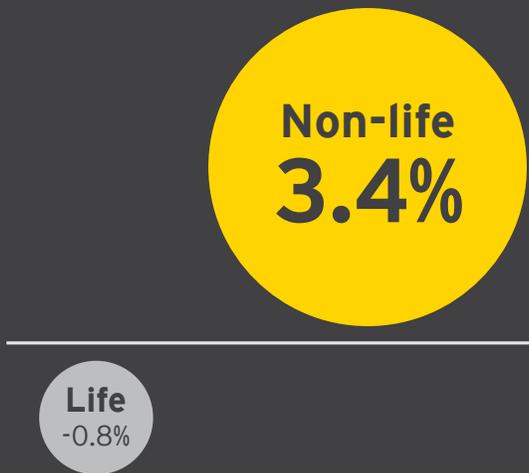
- ▶ Enhance the user experience and offer advisory services through multiple channels
- ▶ Engage partners to develop a robust product portfolio around financial wellness

## Annuities and long-term savings:

### The time is right for revival

Much of the decline in US life insurance can be attributed to weak annuity sales during the prolonged period of low interest rates. However, rising interest rates since mid-2017, coupled with a sharp equity correction in 2018, present an opportunity to reverse this trend. Still, life insurers can't afford to be complacent. Rather, they should actively prepare for the next cycle. *See figure 12* Streamlining operations and strengthening relationships with select distributors (e.g., advisors who view annuities as a core investment strategy), especially in light of the non-implementation of the Department of Labor fiduciary rules, will help insurers position themselves to take advantage of rising consumer interest.

Figure 10: Growth in gross written premiums, US, 2012-2017



Source: Swiss Re

Figure 11: Financial preparedness among US consumers



Source: Prudential Financial, 2017 Financial Wellness Study

Figure 12: Average annual annuity growth in the US



Source: EY analysis

### **P&C personal lines: First in line for disruption**

Within the P&C space, personal lines have attracted the attention of InsurTechs, tech-savvy incumbents and even major technology players. Direct-to-consumer models offer advantages in terms of cost and customization, which all players, including traditional insurers and non-traditional competitors, view as attractive. Therefore, incumbents need to focus on improving the end-to-end user experience. Those that don't leave the door open for disruption by new entrants.

### **P&C commercial lines: Modernization and digital transformation top the agenda**

Commercial insurance has been slow to innovate due to value chain complexities and high dependence on manual processing. However, as blockchain, IoT and AI enter the mainstream, modernization and transformation initiatives will gain momentum – and begin to deliver tangible value. *See sidebar* Commercial insurers that want to optimize ROI must apply rigorous cost-benefit analysis to strategically evaluate and prioritize initiatives.

#### **Recent innovations in commercial insurance:**

- ▶ Slice Labs' sharing economy on-demand insurance for personal and commercial customers
- ▶ Microsoft and Flyreel, an AI solution provider, tying up to offer AI-driven underwriting for commercial and personal property insurance

### **From B2C to B2B: Underlying changes to the nature of the business**

The personal space is increasingly expected to give way to the commercial space – even for major lines such as auto.

Sharing of assets at a mass level along with automation will alter the fundamentals of underlying assets, which will drive this trend. For example, in auto – which by far remains the largest P&C line of business both globally and in the US – we expect a combination of rising car subscription services, shared mobility and increased adoption of autonomous cars to reduce direct customer play.

Insurers will need to increasingly work with car manufacturers, ride hailing firms and technology providers to assess the underlying risks and create products which are more commercial in form rather than personal.

Changes in liability and use will necessitate major revisions to the insurance products to meet the market's needs. Pay-per-use (versus "blanket" cover) could imply that short-term rather than annual renewable policies would become the norm. Early innovators are likely to generate substantial benefit for their businesses by exploring new collaborative models to shape connected ecosystems.

## Imperatives for US insurers

### 1.

#### Optimize the value chain to boost ROE and promote sustainability:

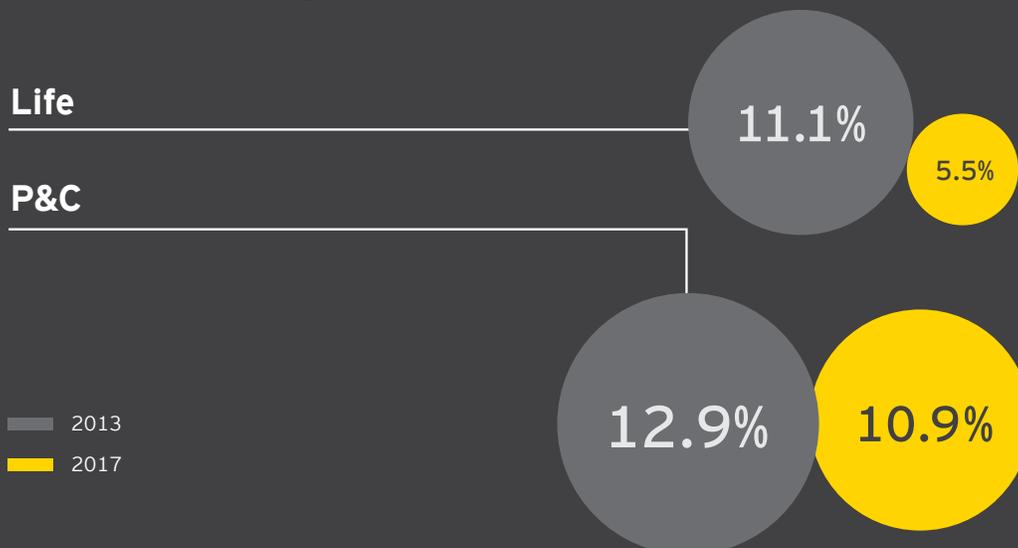
With the US insurance industry awash with capital, returns have declined. Insurers struggle to manage margin pressures amidst the push for more innovation and greater product transparency.

### 2.

#### Take control of ecosystems:

The ecosystems that are emerging now will shape the future of insurance in the US. Insurers must proactively define their roles and seek to collaborate with the right new market entrants. Otherwise, they risk falling into secondary positions. Some US life insurers are experimenting now. They would do well to emulate bolder innovators (e.g., ecosystems being developed in China) as they seek to differentiate themselves.

#### Return on average equity, US insurers



Source: EY analysis



# Canada insurance outlook: Moving past stagnant growth and regulatory pressures

The Canadian insurance market has undergone a slowdown in recent years. *See figure 13* An aging population and workforce have contributed to slowing growth in the life insurance sector, while property and casualty (P&C) insurance has also seen softer growth, due in part to increased pricing pressures on commercial lines and underlying macroeconomic drivers.

So how can insurers move past this stagnancy and reinvigorate growth in 2019 and beyond? Several key trends have the potential to redefine the Canadian insurance landscape and position the industry for advancement. Chief among them is an increase in experience-driven customer engagement, along with the emergence of “digital-only” entrants in the market. Meanwhile, data and analytics are starting to be embedded within business processes, though early adopters continue to struggle to monetize data assets. This struggle is one of the key barriers that must be addressed to overcome the current slowdown.

Another trend that we expect to impact the industry is market consolidation, particularly across brokers and managing general agents (MGAs). There is potential for consolidation across carriers as well, thanks in part to the introduction of IFRS 17. Investments and acquisitions of InsurTechs will also be a force for change in the year ahead. There is also additional activity in the carrier-InsurTech investment and acquisition space, as well as in carrier-MGA transactions.

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## Life insurance sector outlook

Profitability and expansion have long been barriers for the sector. Large carriers have been searching for growth opportunities in other geographic markets, mainly Asia and Europe (with a particular focus on the United Kingdom).

*See figure 14* Meanwhile, many mid-size and regional carriers have been re-examining their current market position, competitiveness and potential avenues for future growth.

The key issues and factors impacting the life insurance industry include:

- ▶ Stagnant life insurance product growth
- ▶ Changing customer demographics, behaviors and expectations
- ▶ Significant impact on both financial and human resources as a result of IFRS 17

Carriers have started to take action, with an emphasis on the evolving and very competitive wealth and asset management and group businesses. What’s more, digital offerings are focused on holistic financial wellness and driving more meaningful customer engagement.

So what are the expected outcomes from these activities and what are best courses of action for carriers? We expect to see an emergence of InsurTech investments and partnerships, resulting in new products designed to develop new and sustain existing client relationships, along with potential new entrants and consolidation across existing distribution channels. Improving response times and reducing time-to-market are also important drivers for future growth.

## P&C sector outlook

2018 was a difficult year for some insurance companies given the number of smaller catastrophic, or cat, losses, which had a direct impact on retention. P&C carriers have therefore been more focused on how they manage that impact within reinsurance and strike the right balance between assessing risk against the bottom line.

The key issues and factors impacting P&C carriers include:

- ▶ An increasing number of weather-related “mini-cats”
- ▶ Increased costs associated with vehicular repair, leading to auto losses
- ▶ Consolidation of the fragmented broker market

P&C carriers have been responding to these trends with an increased focus on data and digital tools. Commercial insurers in particular are taking advantage of analytics for its cost benefits. Predictive analytics is also being leveraged to predict and mitigate costs associated with vehicular repair. Continued investments in digital and data analytics will help to competitively differentiate carriers in the P&C sector in the years ahead.

## Regulatory compliance

The announcement of IFRS 17 so soon after the introduction of the Life Insurance Capital Adequacy Test (LICAT) meant that many insurance companies, already suffering from regulatory fatigue, were slow to tackle the important issue of regulatory compliance. These changes are impacting all types of carriers, though the impact and investment required has been somewhat greater for life insurers, whose costs are already exceeding expectations. *See figure 15* These regulatory costs are limiting investment available for other business priorities.

Moreover, the one-year delay in the proposed implementation date for IFRS 17 has reduced pressure to an extent, although this delay was widely anticipated in the industry and built into existing program plans. Life insurance companies are still taking a wait-and-see approach to product movement as it pertains to IFRS 17.

These regulatory changes are resulting in the following:

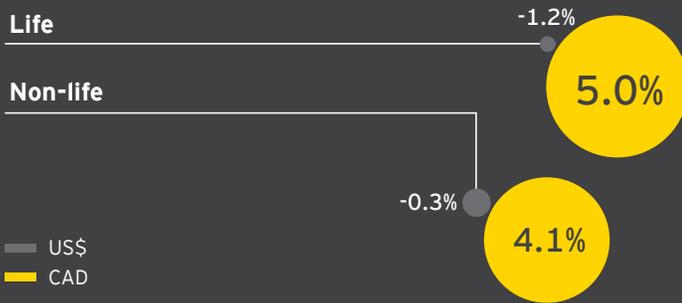
- ▶ Carriers are revisiting their investment in IFRS 17 - with the costs exceeding initial targets, carriers are seeking additional business benefits
- ▶ An extended implementation date is leading carriers to absorb an additional year of program costs, as opposed to creating value and generating momentum that would have stemmed from the initial implementation date

While it is still too early to say with certainty, increased pricing pressures across the insurance market are likely as a result of IFRS 17, in the form of no front-ending of profit, no leveraging reinsurance and no non-fixed income return.

## Conclusion

Although faced with ongoing regulatory pressures and slower growth in recent years, the Canadian insurance market can anticipate a rebound through increased use of digital tools to provide a robust end-to-end customer experience, larger investments in data and analytics tools, and a renewed focus on consolidation, acquisitions and strategic partnerships.

Figure 13: Growth in gross written premiums, Canada, 2012-2017



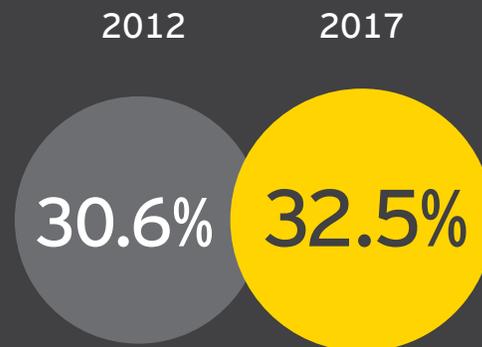
Source: Swiss Re

Figure 14: Absolute growth in assets held by Canadian life and health insurers on behalf of foreign policyholders, 2012-2017



Source: Canadian Life and Health Insurance Association (CLHIA)

Figure 15: P&C sector expense ratio



Source: Insurance Bureau of Canada P&C Fact Book

## Imperatives for Canadian insurers

1.

**Explore InsurTech investments and consolidation opportunities** to improve product offerings and customer relationships.

2.

**Leverage data and analytics to predict and manage costs** while modeling more realistic monetization expectations to ensure ROI can be achieved.

3.

**Consider implications of IFRS 17 across your operating model** and proactively evaluate emerging consolidation opportunities in the industry.

4.

**Develop a business transformation strategy centered on digital** to provide frictionless customer experience and a holistic value proposition.



# Brazil insurance outlook: Preparing for the next wave

The subdued economic environment of recent years has affected the market's real growth in both life and non-life segments. *See figure 16* With an economic revival and a rebound in the commodities market from 2016 lows, things are now looking up. A strong middle class, a robust bank distribution network and low penetration act as catalysts for long-term growth. However, to best seize the growth opportunities, insurers will have to improve product offerings, connect with customers digitally and enhance their operational and cost efficiency.

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## **Life: Future needs defining the path to growth**

While traditional life and unit-linked products currently dominate the market, retirement and universal life are expected to see strong growth in the future. This will be driven by the increased pressure on government and public sector budgets from a rapidly aging population. *See figure 17*

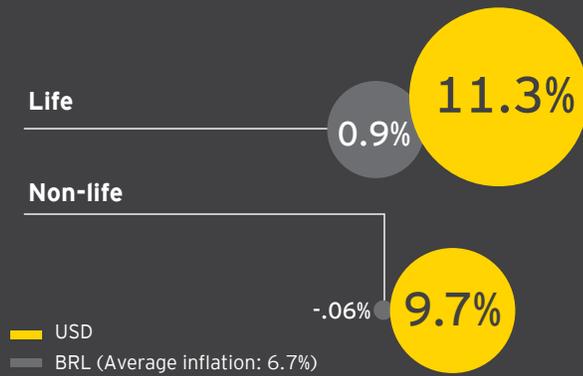
Proposed social security reforms and recent policies introducing universal life products should also promote growth for insurers. However, insurance companies will have to closely work with regulators to create a market for annuities and universal life products and address emerging needs.

## **Digital: Insurers pushed by banks**

Banks, which are the leading distribution channel (particularly in life insurance), have been moving aggressively to digital. *See figure 18* Their drive is expected to push insurers in the same direction.

Brazil is the FinTech hub in Latin America as the country has the largest number of FinTechs in the region, with several focused on digital banking and payments. Their offerings are already rubbing off on the insurance sector. The transition to digital can be expected to be faster for insurers owned by banking groups and for products sold heavily through banks.

Figure 16: Growth in gross written premiums, Brazil, 2012-2017



Source: Swiss Re, Oxford Economics

Figure 17: Proportion of Brazil population age 65 and above



Source: World Bank, Moody's

Figure 18: Mobile banking accounts in Brazil

**1.6  
million**

Number of accounts  
opened, 2017

**3x**

Increase since 2016

Source: Brazilian Federation of Banks (FEBRABAN)

### **InsurTechs: Focusing on new business models**

While the overall InsurTech landscape in Brazil is not as mature as in bigger markets, such as the US and China, it is starting to make its presence felt. Some of the existing players – particularly brokers – are launching distribution-focused InsurTech operations.

Another area of InsurTech focus is analytics and AI capabilities for risk assessment and pricing. However, it will take time for these players to compile the critical mass of data necessary to provide market-leading insights and capture significant market share.

Partnerships between InsurTechs and incumbent insurers are expected to take off, after some notable initial efforts. Indeed, Caixa Seguradora, a top-10 Brazilian insurer, launched a P2P digital insurance platform in mid-2016 to distribute online policies in a matter of minutes. By early 2018, the platform had gained significant traction. *See figure 19* Some InsurTechs may seek to fill the gap resulting from the lack of direct channels in Brazil.

### **Cost prudence in P&C: A strategic priority**

The combined ratios in Brazil's P&C market remain high. While claims and cost of distribution cannot be altered immediately, insurers will have to reduce operating expenses. *See figure 20*

Most insurers continue to grapple with legacy systems, some of which are decades old. IT transformation is non-negotiable for reducing costs and making better use of data and analytics. Efforts are aligned to future developments. Successful IT transformations and cost optimization programs require careful planning, the involvement of all elements of the business, and engagement with the right technology and implementation experts.

### **Health insurance: Continued growth**

Health insurance in Brazil has benefitted from strong consumer awareness and receptivity – primarily in light of a relatively underdeveloped healthcare infrastructure. Individual health insurance plans are unviable because of a controlled pricing regime that is not in sync with the level of medical inflation. However, commercial health insurance plans remain popular with employees joining a company. Health insurance coverage is commonly viewed as an important element of overall compensation. The aging population and high rates of medical inflation will create sustained demand for health insurance in Brazil.

### **Rural & SME insurance: Rising penetration in P&C**

Brazil has seen a sharp growth in its rural business in recent years, mainly in crop insurance. *See figure 21* Because Brazil is a top global producer of soybeans and other commodities, crop insurance growth was bound to happen and can be expected to continue, particularly in light of a relatively improved commodity cycle.

The other product segment expecting strong growth is insurance among small and medium enterprises (SMEs). There is large demand as SMEs contribute a significant portion of the Brazilian economy. Accurate pricing and effective distribution will determine the winners in the SME insurance market.

Figure 19: Brazil's first P2P online insurance platform

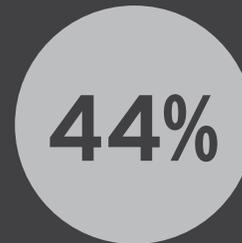
**900**

Daily policies sold through the digital P2P channel of Caixa Seguradora, a leading Brazilian insurer

Source: CNP Assurances

Figure 20: Underwriting expense ratios for Brazil's P&C segment

2013



2017



Source: Moody's

Figure 21: Growth in crop insurance, January 2018-August 2018

**+14%**

Crop insurance

Source: BN Americas

## Imperatives for Brazilian insurers

### 1.

#### **Prepare for a digital-first future:**

With banks making huge investments in digital, insurers must follow the lead. Bancassurance remains a major channel and insurers must effectively complement bank digitalization initiatives for maximum synergy.

### 2.

#### **Develop the annuities' market:**

Annuities remain both a major gap and a significant opportunity in Brazil for meeting retirement income needs. Industry participants must collaborate and work with policymakers to create the right enablers for a robust and sustainable annuities market.

### 3.

#### **Invest in raising cost efficiency:**

Both P&C and life insurers need to invest strategically in transforming legacy systems and modernizing operations.



## Mexico insurance outlook: Ongoing resiliency among uncertain prospects for growth

Mexico is a complex insurance market. It promises huge potential, given that it has one of the lowest insurance penetrations among markets in the Americas. *See figure 22* However, its real rate of growth in recent years has remained sluggish.

The growth of the life insurance sector has been reduced by inflationary pressure, and in the recent past management has spent considerable effort and resources on meeting solvency standards. *See figure 23* P&C growth was affected by a tough macroeconomic environment, in addition to a lack of compulsory insurance in several liability classes. For example, only recently have all drivers in Mexico been required to carry automotive insurance.

Despite potential economic and policy uncertainty associated with the recent change of administration, the insurance market is likely to show resilience. Sound capital and reserve metrics and a growing population of working-age citizens should help the life business. P&C lines will maintain stable growth in light of consistent purchasing behavior among middle-class consumers and increasing bancassurance penetration.

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### **Automotive: Expanding reach and plugging leakage**

The lack of a nationwide requirement to carry automotive insurance has constrained adoption rates historically. Only one out of three vehicles had insurance coverage in 2017. Besides low penetration, high volumes of accident claims, thefts and frauds are other significant difficulties. *See figure 24*

The first challenge has been addressed in phases leading up to the full launch of compulsory auto insurance in 2019. Further

expansion of adoption will require active efforts to market the value of insurance across the wider population, especially in smaller towns and non-urban areas.

Addressing claims leakage is the other part of the equation. Incorporating more stringent underwriting processes will be critical. Insurers will also have to find ways to provide allied services around tracking and security using the IoT, sensors and automation.

## **Distribution: Agents maintain lead, but digital gains relevance**

Led by a robust banking network, bancassurance will continue to play a key role in reaching out to all kinds of customers. Agencies will remain prominent in the near to medium term due to strong client access, expertise and well-established sales forces. At the same time, digital distribution has gained awareness with insurers considering it a key topic, though it is yet to kick off in a major way and direct digital sales have not increased notably in recent years. Focus of insurers is currently on supporting agents to become the new “Digital Agent.” However, the success of digital channels is dependent on their user centricity - both in terms of usability and relevance of solutions offered.

Insurers must perform a balancing act between the old and new channels. On the one hand, the customer relationships developed using traditional channels must be nurtured; on the other hand, insurers will have to identify new technology-enabled ways to engage customers.

## **Regulations and risk: Increasing maturity**

Insurers’ discipline concerning risk management and internal audits, as well as control and capital management, has improved significantly, largely due to pre-emptive Solvency II implementations that were completed a few years ago. Insurers are increasingly focused on accurate management of commercial, operational and accounting information. As a result, there has been intense activity around solving root problems of technological implementation in processes and profiles related to regulatory and market requirements.

Insurers must be more agile in resolving administrative issues quickly and focus on activities of greater value. At the same

time, the focus should also be on meeting IFRS 17 norms at the earliest date to avoid last-minute implementation blues.

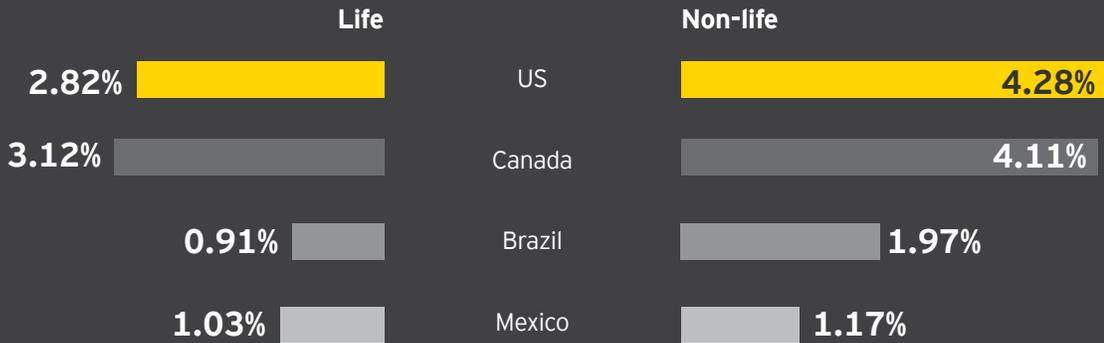
## **Cost management: Key differentiator in a crowded market**

With nearly 100 players, Mexico has more insurers than several other large global markets. In such a competitive environment, cost efficiency is paramount, both for sustainability and as a major margin lever. *See figure 25* Controls related to acquisition costs - including management of commissions, bonuses and other benefits - to the sales force will continue to be important, especially in lines of businesses with low margins.

At the same time, the focus must be on:

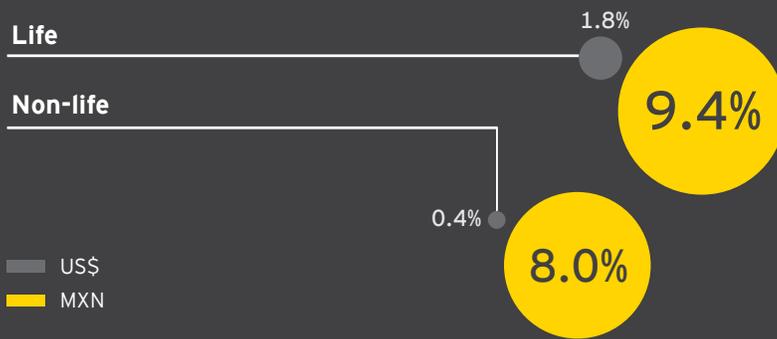
- ▶ Simplifying processes through greater digital transformation
- ▶ Automation of high-volume, low complexity activities
- ▶ Using analytics to enhance acquisition spend efficiency and check fraudulent claims

Figure 22: Insurance penetration in key Americas markets



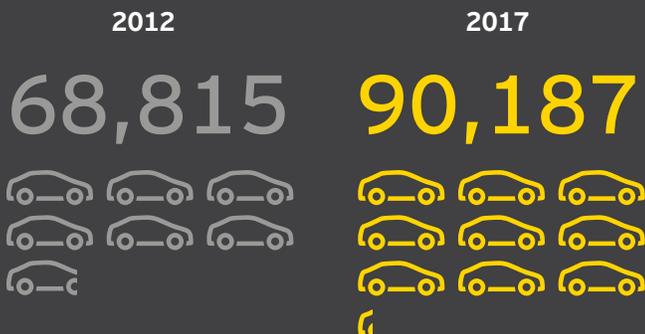
Source: Swiss Re

Figure 23: Growth in gross written premiums, Mexico, 2012-2017



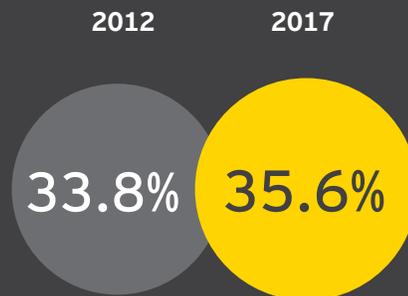
Source: Swiss Re

Figure 24: Number of car thefts, Mexico



Source: Asociación Mexicana de Instituciones de Seguros

Figure 25: P&C expense ratios



Source: GlobalData

## Imperatives for Mexican insurers

### 1.

#### **Upgrade core and data solutions:**

In a rapidly evolving environment, speed to market and ability to offer products relevant to emerging customer segments will be essential to drive growth.

### 2.

#### **Enhance distribution effectiveness and efficiency:**

To limit acquisition costs, the industry will have to work towards greater technology enablement of existing channels as digital channels gain critical mass.

### 3.

#### **Limit fraudulent claims to enhance cost efficiency:**

Claims remain a major area of concern, especially for auto insurance. Intelligent deployment of sensor-based technology and improved underwriting practices backed by robust analytics are much needed.

### 4.

#### **Focus on IFRS 17 adoption:**

Achieving compliance with the most significant accounting change in more than two decades requires the transformation of accounting systems and the redefinition of actuarial processes.

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