

# 2022 Global Insurance Outlook

Achieving growth through people, purpose and technology



**EY**

Building a better  
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## About the EY Global Insurance Outlook

The annual EY Insurance Outlook represents our point of view on key issues shaping the near-term future of the industry. This year's report was developed based upon the collective experiences and insights of our global insurance practice and inputs from selected clients and external analysts. We are pleased to hear that so many clients and industry stakeholders value these reports. Please reach out if you would like to discuss these or other EY views of the significant topics shaping the industry.

# A message from the EY Global Insurance leadership team

In a time of great uncertainty and keen societal need, the insurance industry is stepping up.

The 2022 edition of the annual EY Global Insurance Outlook series reflects the dynamic and purpose-driven moment for the industry. Our focus this year is on three of the biggest megatrends reshaping the industry:

1. Ecosystems and open insurance
2. Workforce transformation
3. Sustainability and the greening of the global economy

As senior leaders seek to address these critical issues, we believe urgency, creative thinking and bold action will be richly rewarded.

After the dramatic developments of the last few years, the industry is ready for unexpected developments and major changes. Certainly, insurers have shown they can undertake large-scale change at a faster pace than many industry veterans thought possible. Yes, macroeconomic and structural challenges – low interest rates and now inflation – remain daunting. Yes, competition is fierce, particularly from

nontraditional players and, potentially, big tech. And yes, significant disruptions – epic storms, pandemic outbreaks, geopolitical strife, social unrest – must be factored into both short- and long-term strategic plans.

But all of those factors demonstrate why the insurance industry is essential – not only to foster global economic health and increased financial wellness, but also to protect what people value most. They also highlight why there has never been a better or more interesting time to be in insurance. The risk-reward equation is uniquely compelling. The decisions and actions leaders take today can meaningfully influence the future of the industry – and the lives and livelihoods of billions of people around the globe.

As much as insurers have accomplished since early 2020, they must strive to live their purpose every day if they are to meet the demands of 2022 and beyond. We welcome the opportunity to discuss your perspective on these issues and your company's unique matrix of risks and opportunities.



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# Market overview 2022

For this year's Global Insurance Outlook, we chose to focus on three of the most powerful forces shaping the market. However, there are several other areas where insurers are encountering compelling opportunities and potentially severe threats.

We recognize that the following drivers are intricately related with ecosystems, workforce transformation and sustainability. For instance, there will be no building successful ecosystems without transforming the workforce with new skills and an enriched employee experience. Similarly, only by fully embracing and living their purpose and innovating their product offerings can insurers lead the way to a more sustainable economy. Gaining competitive advantage on any of these fronts requires insurers to optimize their cost structures and capital allocation strategies.

Strong technology and data capabilities are another unifying theme among the forces and trends we describe throughout this paper. Beyond enabling connectivity and scalability, digitizing the core of the business and migrating to the cloud are necessary to compete successfully with new product development or ecosystem business models (not to mention meet new reporting and accounting standards efficiently).

**Cost and capital allocation:** the combination of low interest rates, thin margins, mostly flat premium growth and the need to make big investments were pinching most insurers. However COVID-19 was clearly the biggest "protection event" in decades, and a chance for the industry to demonstrate its relevance and value.

Some large life carriers have made strategic divestments, exiting non-core businesses and geographies in seeking a tighter strategic focus. Such moves are often designed to free funds for necessary large investments in digital transformation programs and to boost growth in core businesses. In this sense, innovation and cost efficiency support each other.

In P&C lines, the perennial goal of cost optimization has fallen just behind growth on the C-suite agenda, thanks to a hardening market. Rising interest rates and inflation are a concern in some markets. But private equity and other capital providers continue to make big bets across the insurance business. Plenty of capital is available, but it will demand strong returns, meaning insurers' cost and capital objectives remain closely intertwined.

**Role of purpose:** the insurance industry's response to the COVID-19 pandemic demonstrated the power of purpose and the industry's capacity to live up to its most aspirational promises. Insurers had to be there for customers and undertook large-scale change quickly to make sure they could serve people in need.

Looking ahead, purpose can – and should – inspire insurers as they seek to lead the transition to a greener economy; promote financial wellness and inclusion; and protect society against cybercrime, the next pandemic or other threats we can barely conceive of today.

**New competitive realities:** As we highlight throughout this paper, the current competitive landscape is notable for its fragmentation, mix of nontraditional players and widespread collaboration. "Co-opetition" (i.e., competing and collaborating at the same time) will become a mainstay of insurers' strategies as they build ecosystems and deal with convergence with other sectors. Consolidation among incumbents, some of which are associated with new entrants, proliferating joint ventures, and private equity's large and ongoing investments are also reshaping the landscape.

Banks, asset managers and credit card companies will offer more protection products and seek to differentiate on holistic financial wellness value propositions, forcing insurers to choose between collaboration or competition. Top automotive brands, airlines, retailers and others are looking to enhance their customer relationships by embedding more insurance offerings, in multiple ways. For forward-looking insurers, there is no shortage of potential partnerships to explore.

Carriers will look to partner with or acquire the most promising InsurTechs, but some will grow too large too quickly; these "super apps" will become influential players in the ecosystem landscape now taking shape. The same is true of big tech platforms; even if they decide not to take on any risk, they will be embedding insurance products in more transactions and thus will need partners, either incumbents or InsurTechs.



# 1

## Open insurance and ecosystems: a new, customer-driven basis of competition

The rise of open finance, along with the ecosystems of financial solutions that it enables, has emerged as one of the defining financial services trends of the 2020s, primarily in response to changing customer needs and expectations. Insurers' value propositions are dramatically changing as they approach the day when most of today's products are commoditized and precious few offerings can be distributed at high margins.

Across all lines of business, there is increased demand for more affordable, transparent and customized insurance that better suits evolving conditions and can be easily adjusted as the needs change. Customers are increasingly willing to buy that insurance from other companies (e.g., retailers, other financial institutions, tech platforms) that offer intuitive personalized experiences.

As a consequence, the industry's main grounds for competition are being reoriented around a few primary capabilities:

- ▶ Offering seamless experiences with ready access to holistic and personalized solutions
- ▶ Reaching more customers and engaging them more meaningfully
- ▶ Acquiring, managing and using different data signals more effectively

### The ecosystem era

Ecosystems are made possible by the tech-driven structural shifts of the sharing economy. Within a fragmented value chain, there's less need for vertical integration within a single organization among underwriting, product development and distribution. Players that specialize in any one link in the value chain (e.g., digital distribution, claims) can serve multiple companies, which are also free to horizontally orchestrate new capabilities and partnerships.

It's all down to which firms can best meet customer needs through frictionless experiences. To make that happen, insurers must retool their platforms around microfunctions and microservices to enable secure and seamless connections among partners. There will also be opportunity for firms that can dominate one part of the value chain for multiple ecosystems.

Based upon current trends, we expect ecosystems will become a major business model in the relatively near future. Certainly, ecosystems have been a common topic of discussion among board directors and C-level executives in insurance for the past several years. As "open insurance" gains traction in markets around the world, with an assist from regulators motivated to bridge the protection gap and prompt more competition, ecosystem development will accelerate and expand dramatically.

## Defining our terms

We view **open insurance** as a subset of open finance. It generally refers to the sharing and management of insurance-related data and other types of personal information among different organizations through application programming interfaces (APIs) that connect disparate systems; open insurance would grant consumers “ownership” of their data and the ability to specify which businesses can use their information for which purposes (e.g., personalized experiences and other forms of value).

We define **ecosystems** as networks of companies that collaborate to serve a broad set of customer needs, typically by offering a rich service experience around a core offering or providing multiple financial products and services through one centralized hub.

## The overlapping regulatory and strategic agendas

It might be tempting to view open insurance as primarily a regulatory issue – that is, insurers will be required to make customer data portable. Regulators in the EU and UK have mandated such sharing for banks. But legislative and regulatory outcomes are still far from clear. The only certainty is that different markets will follow different paths. *See open insurance initiatives around the world.*

Most governments and regulators agree that the benefits of open finance are substantial. There is also widespread consensus regarding the end goal: an environment where consumers can share financial information seamlessly and securely, with any firm, to gain better visibility into their overall finances. The belief is that open insurance will thus help consumers access better products, pricing and rates, and transact more easily.

Implementation is very dependent upon a local context, however. Jurisdictions with relatively light consumer regulation in financial services have seen innovation and consumer engagement; however, many are now scrambling to retrofit strong consumer protections, ensure a level playing field and open up point-to-point data sharing between established players and new entrants. Markets with more stringent regulation may try to compel established players to share data while encouraging broader participation and innovation.

There’s little reason for insurers to wait for regulations to be fully decided and implemented. After all, banks have developed many APIs even though open banking standards are far from being finalized or widely adopted. Further, the principles behind open insurance speak directly to strategic priorities and opportunities that insurers have been wrestling with for years:

- ▶ Rising demand from consumers for more personalized solutions and experiences, which increases the need for rich and consistent customer data
- ▶ Expanded direct and digital sales channels, as COVID-19 made imperative, while still supporting agent and broker networks
- ▶ The need to create broader service propositions for commercial clients, including the addition of smart preventive services to enhance protection products
- ▶ Restoring and sustaining growth in the life and pension markets
- ▶ Increased product commoditization in personal lines
- ▶ Full digitization of the existing value chain and business models
- ▶ Increased collaboration with – and competition from – non-insurers

Ecosystem business models represent an important way for insurers to simultaneously navigate the challenges and seize the opportunities.

## At a glance: open insurance initiatives around the world

Interestingly, some emerging markets are taking a more aggressive approach in establishing open finance and open insurance standards, largely to bridge significant protection gaps by making it easier to buy insurance. Open insurance is primarily regulation-driven in some countries and market-driven in others.

**UK:** A standard-setter through its Open Banking regime, the UK's regulators are looking to expand across all financial services.

**US:** Though regulatory activity has been limited to date, the group insurance and workforce benefits market increasingly relies on APIs and open platforms. Insurers are also integrating with InsurTechs and, in some cases, investing in them.

**European Union:** Recent EU policy initiatives recognize the importance of data-driven innovation and data flows. The Commission will present a legislative proposal for a new open finance framework by mid-2022, building on and in full alignment with broader data access initiatives.

**China:** In 2020, the People's Bank of China issued security, design and other specifications for open banking APIs, but no specs have been released yet for open insurance. Financial authorities are planning new regulations and policies for open banking, while the private sector is pursuing the use of open APIs, including on insurance platforms.

**Mexico:** This was one of the first markets to expand open banking's data-sharing principles to all financial services companies.

**India:** An open finance platform has been established within a strong and supportive regulatory framework.

**Malaysia:** Public consultation papers on open data usage for financial institutions have been released, with API specifications for select products (e.g., credit cards, small business loans and motor insurance).

**Singapore:** The Monetary Authority of Singapore launched its open finance initiative in December 2020. The first phase included banks and government bodies, with insurers and wealth managers expected to be incorporated in a second phase.

## Spotlight on Brazil

The outlook for open insurance in Brazil illustrates the unique market dynamics involved in the shift to ecosystems. The insurance regulator SUSEP is working actively with top carriers and the insurance industry association on governance and data-sharing standards with the goal of a 2023 implementation. The efforts are focused on expanding insurance penetration and bridging the protection gap via increased digital access in a market long dominated by in-person sales and distribution. All stakeholders, including banks, are making investments in ecosystems.

According to Marcio Coriolano, President of CNSeg, the confederation of insurance companies in Brazil, ecosystem growth will depend on several factors, including innovative solutions, access to customers, and regulatory activity. “The market has a lot of potential in Brazil, and if we master

the products, there will be plenty of growth opportunities,” Coriolano said. “The regulator has been seeking to bring more innovation and competition to the market, which is positive, but companies are concerned about the indefinite scope, the potential speed of adoption, and size of the necessary investments.”

Another major insurance group in Brazil is experimenting with new strategies for revenue growth, in light of increased awareness of the need for insurance. These solutions allow customers to start purchases in digital channels, but receive consultation and complete transactions in bank branches (as is the norm in Brazil). In this way, they can prepare for increased competitiveness from fast digital players. Open insurance and ecosystems may allow it to attract a more sophisticated and digital-ready client first, with room remaining for human interaction.



## What customers (and CEOs) are looking for

Rising consumer interest in insurance coverage and more personalized solutions, especially relative to health and financial well-being, is a powerful catalyst for open insurance and ecosystems. The pandemic caused a significant spike in demand for life insurance and other protections, with strong life insurance premium growth in several markets worldwide. A full 75% of consumers worldwide intend to make changes to their finances in response to the pandemic, according to EY research. This is one of the clearest growth opportunities that insurers have witnessed in years, particularly among younger consumers.

### Global consumer interest in insurance products

**77%** products that pay for hospitalization expenses

**74%** life insurance features that allow access to funds in case of emergencies

**66%** income protection in case of job loss

**66%** customized rates in exchange for more personal health data

Source: Global EY Insurance Consumer Survey 2021<sup>1</sup>

But most insurers struggle to develop and launch products that new buyers can easily access and afford. Open insurance platforms can simplify product delivery and make it easier to source solutions from other partners, which will help insurers control distribution costs. Data sharing by consumers will give insurers an edge in tailoring their offerings to suit consumer needs and objectives at specific times in their lives.

However, insurers will face increased competition because consumers can more easily receive offers from multiple insurers. Agents and brokers can also enrich their value propositions if they are plugged into open insurance and ecosystem platforms, such as those that have emerged for group insurance enrollment platforms.

Rising customer interest certainly caught the notice of C-level leaders across the industry. Even pre-pandemic, CEOs saw rising customer expectations as the most impactful trend in the industry, just ahead of tech-driven innovation.

### Top trends impacting insurance CEOs

**62%** changing customer expectations and experiences

**57%** accelerating technology and digital innovation

Source: EY CEO Imperative Study, 2021<sup>2</sup>

### Mastering the necessary tech to drive value

More robust data sharing and analysis based on more extensive use of application programming interfaces (APIs) provide a foundation. Microfunctions enabled by microservices are key to delivering the functionality and personalization customers are looking for. The largest insurers have developed APIs in some parts of their businesses, following the lead of InsurTechs that use sophisticated APIs to get closer to their customers. Strategies for microservices and APIs (e.g., passive, active, opportunistic) are an important sub-component of ecosystem strategies because of the benefits they can produce.

<sup>1</sup> The study, conducted between May and August 2021, surveyed 4,200 consumers in both developed (US, Canada, Japan, the Netherlands) and emerging (Brazil, South Africa, the Philippines) markets.

<sup>2</sup> The study is based on a global survey of over 300 chief executives, including 21 insurance CEOs of Forbes Global 2000 companies to understand their perspectives on the DNA of the future enterprise.

For insurers, analytics and insights generated from their own data and drawn from their ecosystems can help transform the customer experience through:

- ▶ Personalized solutions based on clear visibility into customer needs
- ▶ Scaling usage-based insurance, product bundling and subscription models
- ▶ “Right-timing” offers to customers as their needs change over time
- ▶ Access to ancillary services from “certified” providers

Customer information is only one part of insurers’ huge inventory of potentially valuable data. With third-party data and transactional information, insurers can use machine learning and artificial intelligence (AI) to a much greater extent than they do today. Specifically, they can go beyond traditional underwriting and actuarial approaches to find new ways to understand data and generate value from it.

Whether insurers cultivate these capabilities in house or engage partners to provide them is a less important question than being able to perform them and having access to advanced architectures for data access and sharing. In some cases, external technology companies can enable an ecosystem by providing specific services tied to unique value chain links. By plugging into such platforms, insurers can turn to InsurTechs and startups to drive innovation in underwriting and other functions.

## How ecosystems create incremental value

Service fees from the provision of additional services linked to coverage:

- ▶ Upselling and cross-selling to expand share of wallets
- ▶ Incremental growth from attracting new customers
- ▶ Increased retention and loyalty
- ▶ Reduction of new business acquisition costs
- ▶ Enhanced conversion rate at maturity (e.g., with pension products)
- ▶ Loss ratio and claims reduction through increased prevention activities and proactive risk management (e.g., healthy life style incentives, worker safety programs)
- ▶ Improved pricing based on smarter individual risk assessment, enabled by AI models

## Prudential embraces ecosystems

Prudential Financial, a global financial services company and active global investment manager, has developed long-term strategies aimed at promoting financial well-being. One example is in North America, where Prudential developed a curated and unified digital financial wellness experience to provide consumers with access to information, tools and multiple products and services. InsurTechs plugged into the ecosystem offer complementary solutions.

Another example is in Brazil, where they launched the Prudential Vitality platform to stimulate health habits and adoption of regular medical care and physical activity, which are rewarded based on weekly goals reached over time. The goal is to reach millions of Latin American customers via the platform over the next two years.

Since launching, the Prudential Vitality platform has led to higher customer satisfaction as measured by the net promoter score and persistency. Prudential was able to establish distribution partnerships with health insurers and other former competitors that saw value in the Vitality platform.

In meeting the needs of both employers (the company’s main customer set) and employees, the ecosystem succeeded based on:

- ▶ A clear strategy to address the increased consumer interest in life insurance since the pandemic and maintain engagement over time
- ▶ A customer engagement approach that offers access to company financial advisors, as well as featuring financial education tools, “how-to” videos and other helpful content that promotes good outcomes
- ▶ Clearly defined metrics and KPIs around customer engagement, positive financial actions, incremental product sales and more
- ▶ A robust partner management strategy based on high standards for participation with clear value for all ecosystem participants - employers, employees, service providers that join the platform, and the company itself

“New customer preferences are quickly changing the life insurance distribution landscape and producing new business models. For incumbents, it is time to be more open-minded and learn what emerging players are doing,” says Federico Spagnoli, Regional President, Latin America, Head of Product & Ecosystems, Prudential International Insurance.

“The pandemic sensitized employers to the financial needs of employees and helped employees realize the risks they face. Through our financial wellness ecosystem, we aim to engage employees with services they need and create opportunities to fulfill other future needs,” says Vishal Jain, Head of Financial Wellness Strategy and Development, Prudential Financial.

## From open insurance to ecosystem innovation: addressing the big questions

We know from the first generation of insurance ecosystems that sharing data enables a better customer experience, and those insurers that deliver the right products and services and engage the right partners will achieve competitive advantage. Senior executives should apply the lessons learned from the experiences of their peers in banking, starting with the notion that they needn't wait for regulatory clarity to go to market with ecosystems.

Our market experience has found that successful ecosystem owners have been able to increase their products per customer from 1.5 to 2.5-3.0 within 24-36 months of ecosystem launch. That promising upside makes the hard effort of answering the following existential questions well worth the effort.

**What's the strategy and business case?** Well-designed and executed ecosystem strategies are already unlocking a range of revenue opportunities for insurers that monetize data streams, engage new customers and deploy new underwriting strategies. Among key players, a few distinct ecosystem strategies are most viable:

- ▶ **Ecosystem orchestrator:** a player with strong relationships with one or more customer segments that can credibly convene and orchestrate an ecosystem to serve them
- ▶ **Product provider:** a manufacturer capable of offering competitive products that can deliver sustainable margins even when distributed through an ecosystem led by others
- ▶ **Distribution integrator:** an organization that works closely with specific client segments to design and support tailored risk and service propositions

These approaches will evolve based on market activities and experiments. For example, a number of insurers and reinsurers are looking to create B2B2C models founded on a broader marketplace where InsurTechs and other players can provide products and services.

With a wide range of opportunities to engage, insurers will determine the right ecosystem strategy based on their current market position, brand value, business models, talent pool

and level of technology sophistication. Niche insurers and those with less brand recognition can certainly benefit from engaging with ecosystems led by higher-profile companies, either from insurance or outside the industry. Still, others will build their ecosystem business case on cost-efficient access to new customer segments or regions.

Despite the clear upside, most insurers are still working to develop the necessary tech and data capabilities, navigate distribution constraints and address organizational and cultural impacts. That is why there is urgency to define the right strategy and invest in initial pilots.

**What's the right model? Should we build our own ecosystem, join others or both?** These are the most common and important questions to ask. The orchestrators of ecosystems control the lion's share of the revenue. Further, EY market experience suggests that customer relationships represent up to 75% of the overall ecosystem value. But there is little point being an orchestrator unless you can access and attract a large enough pool of customers to make the ecosystem sustainable.



The upside is greatest for the firms that are bold enough to lead, and only the strongest policy manufacturers can succeed through participation alone. However, there are opportunities for insurers to develop IP-based wellness tools or niche experiences that would allow them to sustain profitable margins.

**Who will be the best partners?** In the ecosystem era, competition for partners may be nearly as intense as competition for customers. InsurTechs with effective solutions in any part of the value chain (e.g., claims, distribution) are being targeted for acquisition. Big tech firms will likely have their pick of partners, though their reluctance to add risk to their balance sheets will give insurers some leverage. Indeed, big tech may find insurance regulation very difficult to deal with, just as they did in their attempts to disrupt the banking, credit card and payments markets.

Many other firms will be involved. Retailers with access to open finance platforms can integrate insurance into their customer experiences, offering protection coverage and risk prevention at the point of sale; "embedded" insurance products offer these companies new sources of revenue. Automotive companies can take the pole position by blending insurance with financing within mobility-as-a-service and subscription models.

Finding the right ecosystem collaborators is critical. The key criteria for evaluation include the ability to fulfill specific business and customer needs, willingness to contribute innovative ideas and cultural fit. In assessing potential collaborators, insurers are also assessing potential competitors.

## Embedded insurance market value, US

US\$5 billion

2020

US\$70.7 billion (projected)

2025

Source: Lightyear Capital

**What are the tech and data requirements? How do we navigate the technology debt?** An efficient IT and data infrastructure is required for open insurance and ecosystem business models. By digitizing so many operations during the pandemic, insurers demonstrated that they can modernize their tech when forced to do so. But the technology challenge for insurers should not be underestimated. In some cases, insurers have developed strong APIs only to see underlying legacy systems fail to cope with new demands – ecosystems can't deliver process efficiency and intuitive experiences if batch processing windows remain necessary.

No matter which ecosystem model insurers adopt, they must be able to consume microfunctions via microservices, which may require some insurers to re-platform to achieve. Indeed, microfunction and microservice capabilities are a critical requirement for effective engagement whether carriers develop and lead their own ecosystems or participate in those led by others. Advanced technical architectures also enable smoother changes when necessary; new partners can be integrated more rapidly and those leaving the ecosystem can do so less disruptively.

Of course, every insurer will match its own tech infrastructure and toolset to its unique growth strategies, product portfolios and target market segments. Some insurers will have to buy or borrow tech and tools from their partners to strengthen digital engagement capabilities, securely integrate and move data, and achieve scale with AI, machine learning, robotics and cloud-based solutions.

**What are the talent and cultural implications?** Rethinking business models and reorienting the business on customer value require new talent and new ways of working. Among the skills insurers need are agile development, customer experience design, behavioral economics, data analytics and partner management. Nimble work styles, a test-and-learn mindset and focus on minimally viable products are among the key cultural attributes of ecosystem winners. Insurers that expand or enhance their business models through ecosystems create interesting problems for digital teams to solve, which can help attract and retain scarce talent.

As with sourcing technology, insurers must think creatively in getting access to the skills they need. Innovative workforce and sourcing strategies may include offshoring, outsourcing and managed services for more routine processes, as well as partnerships with InsurTechs and others. See *chapter 2, workforce transformation, for more details.*

## A platform for innovation

To satisfy ever-rising consumer needs and accelerate new product development, more insurers are turning to new development approaches and platforms.

**EY Nexus for Insurance** is a digital, cloud-native platform providing plug-and-play access to many of the most advanced technologies and InsurTechs on the market today, as well as the underlying infrastructure necessary to innovate across the insurance enterprise. Entire processes and microservices in key disciplines (e.g., underwriting, pricing) are ready to deploy.

**What are the impacts on distribution networks and channel strategies?** The trajectory of ecosystem growth will be determined to some extent by the influence of agents, brokers and other intermediaries. That's especially true in those markets where agents and brokers have a strong voice with regulators and legislators. Third-party distributors will not look kindly on carriers launching ecosystems that provide direct consumer access.

Of course, those same distributors may well be planning ecosystem moves of their own and looking for ways to leverage open insurance to boost their own businesses. Insurers will need to examine which relationships can be sustained, which might assume new forms of co-opetition and which will ultimately be lost. Insurers must also consider the right moment to trigger those shifts. Timing is everything.



## Imperative actions for open insurance and ecosystems

As is often the case, what feels innovative today will become a baseline tomorrow. That certainly will be the case with ecosystems, which are already a competitive imperative, in our view. The winners will be the firms that develop their strategies early, engage proactively with the regulatory agenda, and take tactical steps to execute on their ecosystem visions. As ecosystems transform the traditionally linear value chain, carriers that fail to act quickly or boldly enough face a real risk of being commoditized.

**1. Commit from the top:** successful ecosystems are driven by a consistent commitment at the highest levels in the organization. Leadership advocacy will help mitigate the risk that insurers have to play catch-up as their financial services peers and nontraditional competitors forge boldly ahead with ecosystems.

**2. Think big, start small:** once insurers identify the customers they want to serve via ecosystems, they can identify the use cases and products most suited to ecosystems. The experiences of first movers and early adopters can also provide valuable lessons about which initial steps to take and how. Once a strong ecosystem foundation is established, insurers can think bigger – expanding their offerings with more complementary services and features (e.g., financial planning, behavioral tools). They should also look to tighten operational integration across ecosystems.

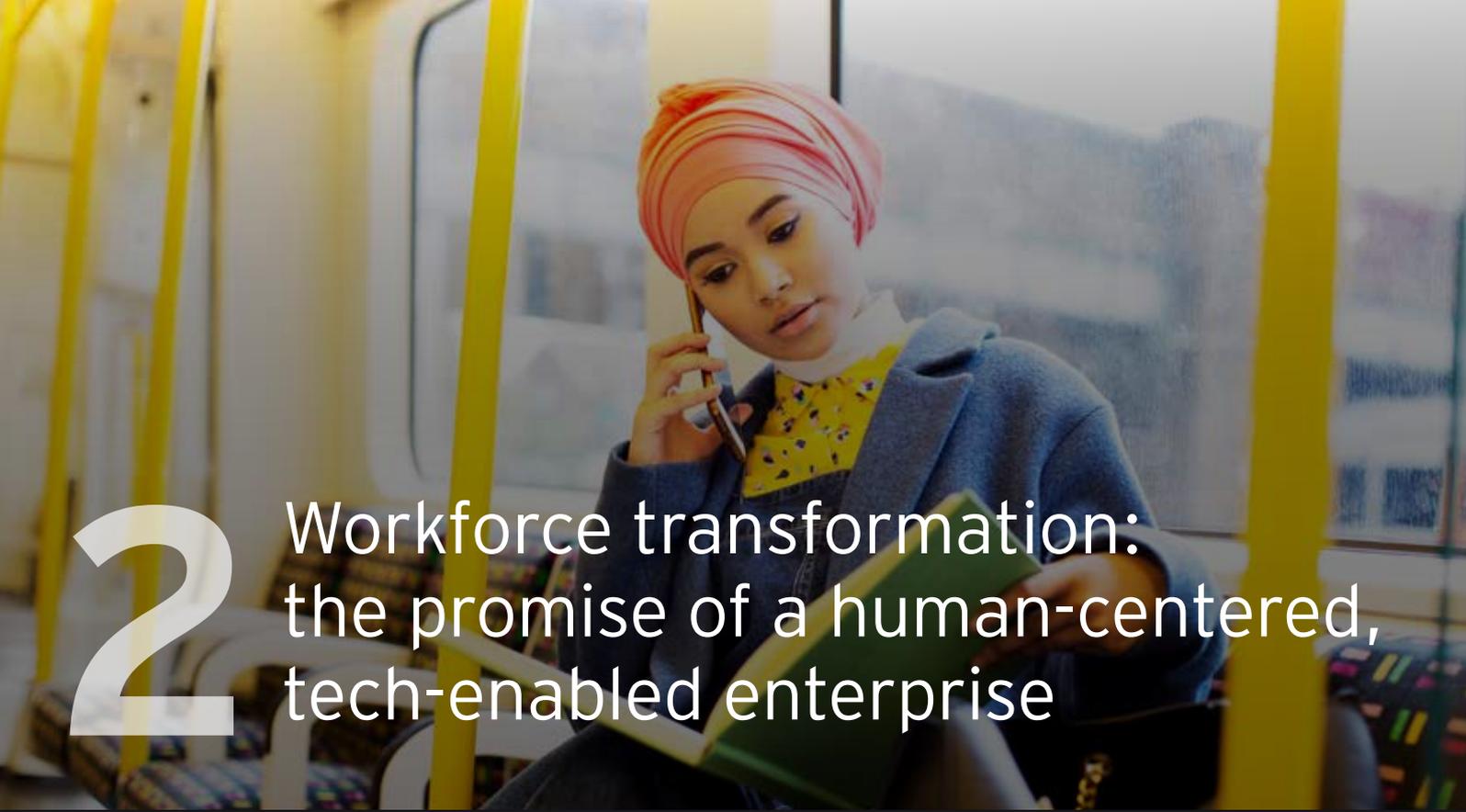
**3. Actively engage with regulators:** rather than waiting for regulators to define the rules, insurers should engage to achieve a level playing field. Further, they can see where and how regulatory priorities map to their own strategic

market opportunities. Given the nascent state of standards around the world and the openness of regulators to inputs, insurers have a unique opportunity to shape the dialogue and – ultimately – the rules of the game.

**4. Prepare for organizational impact:** new business models will struggle to succeed if legacy org charts, compensation models and metrics remain in place. Reporting lines, P&L structures and incentives will need restructuring to reflect that top-performing ecosystems are designed exclusively around creating value for customers, rather than aligned to traditional product lines or business units.

**5. Build the tech and data foundation:** in terms of ecosystem success, the importance of strong data management capabilities, consistent, high-quality data and integrated data infrastructures cannot be overstated. Seamless and secure data sharing is essential in everything from picking the right partners to personalizing customer offerings to performance reporting.





# 2 Workforce transformation: the promise of a human-centered, tech-enabled enterprise

A profound shift was underway before the COVID-19 pandemic, with business leaders working to address skill gaps, update their talent practices and instill more dynamic and agile ways of working. Since the pandemic, competition has intensified for the most talented workers, who are now more empowered to work when, where and how they want. Insurers quickly adjusted to remote working and online collaboration when they were forced to do so.

But now organizations face new challenges as they seek to strengthen their cultures and enhance the employee experience. Insurers are still negotiating a huge technology debt, which makes it more difficult to automate, integrate and optimize operations. Thus, they are adopting new strategies and tactics to make the most of their investments in both human talent and advanced technology.

## Solving for the complex tech-talent dynamic

Not that long ago, the conventional wisdom in insurance held that workers would lose their jobs as insurers adopted more technology and automated more processes. Direct digital sales would reduce the number of agents, and straight-through processing would eliminate most claims positions.

Today, that thinking has evolved significantly, reflecting the more nuanced and interdependent human-tech dynamic

that has emerged. The consensus among forward-looking executives is that human talent is every bit as important to future success as AI, machine learning and modernized processing platforms.

However, within insurance, workforce transformation is not necessarily atop the C-suite agenda. In the 2021 EY CEO Imperative study, 26% of all participants said people and talent were a top-three priority for change during the next three years, versus fewer than 5% of insurance CEOs.

Other factors are also causing the overhaul of talent strategies. The scarcity of key skills and the "Great Resignation" mean that insurers must address the traditional view of the industry as slow-moving and dull if they are to become employers of choice. They will have to take stronger positions on the social issues that matter most to rising generations of workers (e.g., diversity and inclusion, sustainability) and provide meaningful work, as well as enhance their benefits, performance recognition and compensation models. Developing innovative new products and solutions to protect against climate risks and leading the shift to a greener economy will also help elevate insurers' reputation among younger workers.

**69%** of US employers with at least 1,000 employees plan to offer more benefits in the next five years

Source: EY-LIMRA research, 2021<sup>3</sup>

<sup>3</sup>The study, conducted between June and September 2021, included surveys of employers and employees, as well as interviews with brokers, benefits administration companies and technology providers.

Remote working has globalized the labor market. Employee expectations have risen as fast and as high as consumer expectations. Thus, insurers must think through the workforce experience – including hybrid working models – as carefully and holistically as they do the customer experience.

But even if offices were still open and there were enough data scientists, beta underwriters, business analysts, cloud specialists, experience designers, customer acquisition pros and scrum masters to go around, other forces would necessitate significant investments in the workforce. Consider:

- ▶ Demographic shifts mean that the workforce now consists of five generations, with more contract, part-time and gig workers involved.
- ▶ Diversity and inclusion has become a prominent issue, not just in building the workforce but also in defining organizational purpose.
- ▶ Perennial cost pressures and constant tech advancement put a premium on productivity and generating optimal returns from every investment.

## The implications of automation

For most insurers, the talent agenda is closely intertwined with cost optimization, technology modernization, data management and other critical strategic initiatives. Consider the role and impact of process automation and cloud migrations. These steps are helping insurers manage costs and upgrade their tech. Some insurers are also using AI to complete administrative tasks and process transactions previously handled manually, which has the additional benefit of freeing resources for retraining.

Of course, to realize these benefits, insurers also need to find and hire AI, machine learning and technology experts who can re-engineer processes and connect data sources to enable intelligent automation at scale. Access to such talent is an increasingly important pillar in strategies for business model innovation (e.g., ecosystem development). The complicated interplay of these issues and opportunities is forcing insurance executives to think about them more systemically.

## Giving employees what they want

EY research shows that employees within the insurance sector are looking for flexibility and are willing to quit if their needs are not met. According to our Work Reimagined

Surveys conducted in 2020 and 2021, insurance industry employees expect to work remotely most of the time. Workers in insurance and banking expressed the highest preference for remote working compared with those in other industries.

Overwhelming majorities of insurance industry workers say it is important to have flexibility in where they work and when they work. Significant percentages of workers across generations would prefer to be fully remote after the pandemic restrictions are lifted.

Insurers that have had the most success to date in setting up a flexible workforce experience have taken a data-driven approach in defining their policies. Many have embraced parallel working structures, where specific teams of workers that benefit from in-person interactions are scheduled to be in the office at the same time.

Insurers that want to make “work from anywhere” a reality for as many employees as possible must be aware of associated risks and requirements relative to tax policy, social security schemes, immigration status and pay and compensation.

## Multiple paths for talent access

The biggest question for nearly every insurer remains: where to find the talent they need. There is no single answer. Most insurers will have to adopt combinations of:

- ▶ Internal development programs (especially for hybrid and remote working)
- ▶ External hiring
- ▶ Acquisitions for talent, so-called “acqui-hires”
- ▶ Partnerships, joint ventures and collaborations with InsurTechs, tech platforms and other groups
- ▶ Digital innovation and increased automation

Insurers are not alone in needing to upskill their workforce. But given that very few employees work in digital roles, they need to move more urgently than other types of firms.

External collaborations are certainly going to be part of the equation. EY market research has found that 44% of initiatives of the top 20 global insurers were focused on collaboration with technology firms, up by 2% from 2019.

## Among insurance workers

**90%** say flexibility in where they work is important

**89%** say flexibility in when they work is important

**54%** are likely to quit if their preferences for flexibility are not met

**2.9** average number of days per week they expect to work remotely

## Intensity of remote working preference (scale of 1 to 3)

**2.8**  
South America

**2.7**  
North America,  
Middle East,  
Europe, Africa,  
India

**2.6**  
Asia-Pacific

## Preference to be fully remote after pandemic limits are lifted

**45%** Generation Z

**39%** Generation X

**38%** Millennials

Source: EY Work Reimagined Survey<sup>4</sup>

## Instilling talent liquidity to address talent scarcity

No matter how insurers find the workers they need, we believe talent liquidity is the right vision for today's talent management challenges. Talent liquidity refers to the ability to move skills and resources around the organization as dictated by business needs and value creation opportunities. The goal is to enhance the agility of core skills (e.g., data science, user experience design, product development) that multiple business units or functional areas need.



<sup>4</sup> The two-part global study surveyed 4,000 employers and employees in 2020 and 16,000 employees in 2021.

## Markel transforms the workforce

Markel, a global specialty insurer headquartered in the US, was focused on profitable growth, expanding its global presence and reshaping its workforce for the future when the pandemic struck. The company has added many new capabilities to its global workforce, bringing on over 900 new employees in 2021, with plans to add more.

The company has traditionally prioritized technical skills (including data science and analytics) and cultural fit, with an emphasis on collaborative and collegial team players. The HR team is focused on developing and integrating capabilities. For instance, its “underwriter of the future” program is designed to build the necessary skills and provide the right experience for individuals to grow into these key roles. The company’s future vision for underwriting includes stronger portfolio management capabilities and more flexible roles that work across multiple lines of business.

Markel has also adjusted its organizational model for better access to talent; with data analysts embedded within the business groups. The company is also considering new sourcing strategies to access external talent, including relationships with InsurTechs.

Succession planning and leadership development are additional priorities, given Markel’s ambitions and the scope of change underway in the industry. The company takes a data-driven approach to HR, conducting engagement surveys and using metrics to determine the right model for hybrid working.

“We are dealing with an intense war for talent, and it can be challenging to attract people into insurance. However, we are using new approaches and finding very good people who fit the Markel culture and the kind of organization that we are,” says Sue Davies, Chief Human Resources Officer, Markel.

Interestingly, the traditional “build, buy or borrow” conundrum that has long applied to technology adoption is now highly germane to talent acquisition. Zurich Insurance Group has embraced a range of such strategies. Even before the pandemic, it had developed its own workforce planning methodology. It designed and implemented in-house talent marketplaces to address critical business requirements and prioritize in-house hiring and developed technical academies to support current and future skilling requirements for employees at all levels.

Sarah Kirby, Zurich Insurance Group Head of Organization Design and HR Strategy, says, “The future of work is already here. Zurich is supporting our people in their skills evolution and their development journeys, with transparency on the skills needed for different career opportunities.”

This skills-based approach to managing talent makes the right resources and capabilities more mobile and readily accessible across the organization. In this sense, it’s perfectly suited to remote and hybrid working models and should be a target outcome of workforce transformation efforts.

Maximizing talent liquidity requires accessing and exploring new talent pools. HR and business leaders must collaborate to navigate organizational barriers that limit visibility into opportunities or prevent agreement about where people can contribute the most value across the organization. Talent liquidity will also help insurers to establish and benefit fully from new business models, such as ecosystems.

**40%** workers across industries will need to be reskilled

Source: World Economic Forum

**8%** of full-time employees in insurance have digital roles

Source: Glassdoor

## Culture in the era of hybrid working

Since the onset of the pandemic, boards and C-suites across the industry have been increasingly focused on their cultures, and not just from a risk management perspective. Remote and hybrid working necessitate new behaviors, so it's a matter of sustaining the best of current cultures and thoughtfully identifying the practices and work styles that are needed for the changed environment and formally reinforcing those through compensation and incentive models.

Culture can no longer be considered fulfilled by simply stating values and doing an employee engagement survey. With a more distributed global workforce, keeping people and culture both front and center has never been more important for senior leaders and boards. After all, new talent working in new ways has an indelible impact on culture. Those firms that undergo the most transformation will see their cultures redefined.

New leadership approaches are required. Senior executives and middle management are critical to setting the right tone from the top and modeling the right behaviors (e.g., data-driven decision-making, cross-functional collaboration). Leaders must also demonstrate more innovative mindsets and a willingness to embrace change.

Leadership must establish and advocate for a clear sense of purpose in the organization. Consumers are looking to do business with firms that make clear their positions on social issues. Employees are, too, especially younger generations who seek meaning in their work, not just a paycheck from a job.

Given the importance of corporate culture and today's more distributed workforces, business leaders must pause to assess the current state of their cultures and deliberately evolve in ways that support business and customer objectives. Those who keep humans at the center of their efforts will find ample opportunity to align business goals with the needs of people through values and practical behaviors. With a deliberate blueprint in hand and a commitment to drive change, leaders can effectively shift culture, even in times of crisis.



# Imperative actions for workforce transformation

Workforce transformation will be a long-term journey, not a one- or two-year project. Nor is it something to be led or handled exclusively by HR. In the immediate term, leaders across the business must come together to reframe the talent strategy at the highest level and take specific actions to instill talent liquidity and enhance the value of people, which remain insurers' most valuable asset.

**1. Assess demand – both current talent and future needs:**

effective workforce transformation starts with the demand side. Leaders need clear and detailed understanding of the skills and competencies they have today. They must also define “must-have” skills and capabilities for reshaping product portfolios, launching new offerings and building new business models in the future. The end goal is to define the size, shape and cost of the workforce and the friction points between the current and future operating models.

**2. Master the supply side:** insurers will build the right future workforce by expanding internal capabilities in core areas, buying from external providers and borrowing via collaborations with partners (e.g., InsurTechs, managed services providers). Increased automation and more extensive use of AI will also be a source of “talent” – that is, the ability and capacity to perform necessary work – while human resources focus on the highest-value activities.

**3. Understand the impact of purpose on talent strategies:**

younger workers are looking for more purposeful work, which gives an advantage to insurers that can articulate a clear story about how their products and services benefit society as a whole. Helping address the worldwide

protection and retirement savings gaps, promoting diversity and protecting against climate change are all ways insurers can live their purpose – and attract socially minded workers at the same time.

**4. Identify opportunities to differentiate by combining the human touch with high tech:**

mixing human touch and advanced tech in key processes can produce superior customer experiences and business outcomes. Cross-functional innovation teams should design new offerings and experiences to take advantage of this powerful combination, especially relative to moments that matter (e.g., certain types of claims, key life events where expert advice is valuable).

**5. Rethink performance management and people metrics:**

performance measurement and compensation and incentive structures must account for increased emphasis on the customer experience, hybrid working models and more collaborative ways of working. Policies should encourage the sharing of skills and talent across the organizational chart. Leading practices and insights from customer-centric sectors (e.g., retail and consumer goods) can provide applicable lessons for insurers.





# 3

## Sustainability: a historic opportunity to lead, innovate and grow purposefully

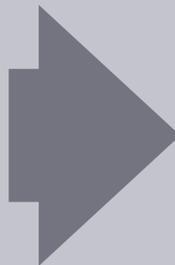
Climate change and sustainability have re-emerged atop board and C-suite agendas as the direct impacts of the COVID-19 pandemic have receded. Certainly, COP26 refocused the minds of insurance leaders and emphasized necessary steps for the transition to a lower-carbon economy. Leading insurers and reinsurers announced at COP26 the formation of the Net-Zero Insurance Alliance, with the goal of transitioning their underwriting portfolios to net-zero emissions by 2050.

Previous discussions about sustainability were largely theoretical and centered on making public pledges of support. Today, however, leading insurers are taking tangible steps and adopting hard metrics as they seek to address the full range of environmental, social and governance (ESG) issues and opportunities. These steps are necessary because sustainability will have significant impacts across all operations and the entire insurance value chain. EY market research in Germany demonstrates how rapidly those impacts will evolve.

### Sustainability and the value chain

#### Areas of sustainability's greatest impact today

- 1 Capital investments
- 2 Corporate infrastructure
- 3 Corporate communication
- 4 Human resources/leadership
- 5 Risk management



#### Areas to see the largest increases in impact during the next two years

- 1 Pricing
- 2 Customer service/sales
- 3 Passive reinsurance
- 4 Performance management
- 5 Claims processing
- 6 Product development

For most insurers, the focus is squarely on the “E” in ESG, as climate change will have the biggest and most immediate impact on the industry’s financial performance. But social issues – financial inclusion, the massive retirement savings, health and protection gaps, racial justice and gender equality – are now nearly as urgent.

Additionally, they are being pressed by employees who want to work for companies that share their values, demonstrate strong commitments to corporate social responsibility (CSR), and offer meaningful work, rather than simply providing a paycheck. As a result, many insurers have pledged to promote diversity, equity and inclusion (DEI) across their businesses, in addition to their environmental commitments. Hiring practices and workforce strategies are DEI priorities, but underwriting and pricing can also help foster financial inclusion. We expect boards and senior leaders to sustain this focus for years to come.



## Environmental impacts dominate the near-term agenda

Climate-related losses continue to mount for insurers, and the numbers will continue to get worse. Less than half of climate-related losses are typically insured. These figures are poised to grow as hurricanes, floods and wildfires seem to occur more frequently and do more damage every year. These drastic numbers have led forward-looking insurers to rethink the scope of the threats and to seek collaboration on long-term solutions with other companies and government authorities.

Climate risks are so great that no one industry can address them on its own. Conversely, the task of greening the global economy requires a huge degree of collaboration among the private and public sectors, as COP26 discussions confirmed. Insurers, with their huge capital reserves and unsurpassed ability to assess and model risks, are central to designing a more sustainable economy and investing in the infrastructure to create it.

**US\$354** billion

insured climate-related losses globally, 2017-20

Source: Swiss Re

**US\$93** billion

estimated natural catastrophe loss, 1H2021

Source: Aon Benfield

### Insured losses as a proportion of economic losses, 2020

**67%** North America

**34%** Europe

**12%** Asia

Source: Swiss Re

Beyond the massive societal threat posed by climate change, insurers have multiple reasons to act:

- ▶ Regulatory pressures
- ▶ Negative impacts on their own bottom lines and stock prices
- ▶ Restricted future access to capital

Sustainability strategies can be as much about purpose (protecting society from the most severe risks) as profits (growing both the top and bottom lines). The upside opportunities are particularly compelling for insurers that can demonstrate visionary thinking and strong leadership. ESG is no longer a feel-good initiative or branding exercise, but rather a market requirement and strategic imperative.

But whatever their primary motivations, insurers should act with urgency on several fronts.

- ▶ **Reporting regimes:** with reporting standards emerging from the Task Force on Climate-Related Financial Disclosures (TCFD), COP26 and other groups, insurers will soon be making more detailed disclosures. With both regulators and investors looking for deeper and more detailed metrics than insurers have reported to date, insurers face a high bar for compliance. At COP26, the IFRS Foundation launched the International Sustainability Standards Board with the aim to create a comprehensive global baseline for disclosures. The first draft set of standards is expected to be released for comment in Q1 2022, a major step forward in sustainability reporting.
- ▶ **Regulatory requirements:** increasing scrutiny by regulators on risk management approaches drives the need for quantitative analysis (e.g., long-term stress testing and scenario modeling). In fact, climate risk is now featured in Solvency II ORSA stress testing, while the New York Department of Financial Services has issued guidance for insurers on managing the financial risks from climate change. Further, the UK has mandated that large companies disclose climate-related risks, the first G20 nation to do so.
- ▶ **Political agendas:** COP26 is just the latest manifestation of the UN's expanding focus on climate issues. Governments are sensing more urgency to act, which pressures insurers to act to fulfill their commitments and meet the goals outlined by various initiatives.
- ▶ **Underwriting policies:** insurers must account for a wide range of risks, considerable uncertainty and indirect ESG implications as they determine what kinds of products and incentives they offer. Intelligent use of emerging tech and new risk modeling techniques will play a critical role going forward, given the lack of historical information for underwriting.

- ▶ **Investment strategies:** as large institutional investors with assets of more than US\$30 trillion, insurers can direct capital to accelerate the transition to a greener economy via innovation and behavioral change. It is difficult to overestimate the potential upside – opportunities extend across the entire global economy, from energy and transportation, to agriculture and construction, to consumer goods and packaging. Many insurers have already made a commitment to make their investment portfolios net zero, which will require a delicate balancing act, given the difficulty of cutting off funding and coverage for “brown” sectors.

## Source of high or significant stakeholder pressure regarding sustainability

48% legislators/regulators

27% investors

26% ratings agencies

Source: AM Best survey of senior insurance executives, 2020

## Challenges to ESG implementation

69% access to reliable, standardized data

51% availability of products aligned to investment objectives

Source: Goldman Sachs survey, 2020

## Where insurers are today

Today, insurers are at different stages of their ESG journeys, with most still working to define or refine their strategies. While a handful of insurers have gone “all-in” on ESG, the industry as a whole is lagging other sectors. Insurers must work to raise their ESG ratings and secure inclusion in rapidly growing index funds, despite their legitimate concerns about their proliferation and underlying methodologies.

Consider that, according to EY analysis:

- ▶ Fifty out of 66 insurers in the MSCI World are excluded from the MSCI World SRI due to low ESG ratings.
- ▶ Eight out of 23 insurers in the S&P 500 are excluded from the S&P 500 ESG due to an average ESG score of 18.
- ▶ In some markets (e.g., Europe), greater sensitivity toward ESG considerations has given insurers a head start in formulating and executing ESG strategies. EY analysis shows that European insurers have a greater proportion of leaders in the MSCI ESG index (40%) versus Asia-Pacific (27%) and Americas (12%).

It is still too early to assume a direct correlation between ESG ratings, inclusion in ESG indices and total shareholder return (TSR). But, historically, index participation has a profound impact on share price over time. Thus, boards and senior leaders must closely monitor institutional investors’ appetite for and attitude toward unrated companies. In some cases, companies with poor or no ESG ratings may find themselves on “banned” or “do not invest” lists.

The consumer and brand impacts of ESG should not be overlooked. Consumers are expressing their preference for doing business with greener companies, which helps outline how insurers can differentiate and gain competitive advantage by demonstrating leadership in sustainability. That perspective extends to the full range of ESG and corporate social responsibility (CSR) issues. EY research shows that consumers – and younger generations in particular – are increasingly aware of companies’ purpose and commitments relative to diversity and inclusion and income inequality, in addition to climate change. Thus, insurers have an opportunity to engage a socially active, energized audience by amplifying their CSR efforts. Ultimately, insurers can do well by doing good, standing behind great values and great products.

## CSR considerations from global insurance consumers

**79%** consider insurers’ commitments to environmental issues in purchasing decisions

**59%** know their insurers’ stance on CSR at least somewhat well

**56%** took some CSR-related action involving insurance or other financial products

**25%** have chosen one insurance brand over another due to its CSR reputation

Source: EY Global Insurance Consumer Survey, 2021

### Zurich designs and executes its sustainability strategy

Zurich Insurance Group has a bold agenda when it comes to sustainability. Beyond its goal to be one of the most responsible businesses in the world, its three corporate strategic priorities are climate change, work sustainability and confidence in a digital society. It reports detailed KPIs on each of these pillars annually. The company has also launched new offerings to help all types of customers adjust to climate-related risks and transition to net zero.

Zurich Resilience Solutions provides a range of climate-related services, alongside cyber and supply chain offerings. The data-driven solutions can predict threats and evaluate the vulnerability of different types of sites and facilities. They also bundle investment products for companies planning to “green” their operations. The company has updated its underwriting guidelines and added exclusions for certain types of high-carbon businesses. It also plans to grow its renewable energy business.

“There is no disconnect between our sustainability ambitions, our strategic priorities and the products and services we deliver,” says Linda Freiner, Group Head of Sustainability, Zurich Insurance Group. “Thus, there is opportunity for Zurich to modify existing solutions with features and incentives that help drive change and encourage sustainable behaviors.”

## Driving toward standardization of ratings and disclosures

Industry groups are working to address the widespread concerns about inconsistent taxonomies and frameworks for ESG ratings. During COP26, the G20 Sustainable Finance Working Group adopted the G20 sustainable finance road map to identify institutional and market barriers to green finance. The road map is designed to help mobilize private capital for green investment by improving the comparability, interpretability and consistency of sustainability disclosures and, ultimately, ESG ratings. Specifically, the road map proposes a set of common principles, voluntary use of a common taxonomy and collaboration between ESG rating providers.

Standardized disclosures will allow insurers to tell a clear and persuasive story to capital markets and the general public about how their actions and results align to their commitments. They can also help insurers avoid increasingly common charges of "greenwashing." But, while standard measures will be very helpful, insurers still have a long way to go in adopting them and gathering the data necessary to accurately report metrics and improve their ESG ratings.

## Insurers within the big picture of sustainability

Though many insurers are in the early stages of ESG strategy development, leaders are pivoting from the why to the how of execution. Those efforts are keyed to the huge potential upside of "the greatest commercial opportunity of our age," as Mark Carney, UN Special Envoy on Climate Action and Finance, has called the transition to a greener economy. Trillions of dollars will be invested to build the infrastructure for cleaner energy, transportation and agriculture. Companies across industries will need capital and support to reduce their carbon footprint and establish sustainable operations. Insurers can play a catalyzing role in engaging with regulators and businesses in other industries, both investing directly and protecting the investments of others.

**US\$3.1-\$5.8** trillion

estimated annual investment through 2050 for the energy industry to achieve net zero

Source: Bloomberg

**0.4%** annual increase to global GDP from investments in clean energy

**4%** growth in global GDP by 2030 under a net-zero pathway

Source: International Energy Agency, International Monetary Fund



The job starts with providing protections against the considerable physical risks of climate change, including second-order implications such as wildfires, flooding, crop yield losses and shifting disease patterns. Incentives to accelerate the transition to a lower-carbon economy are also critical. Premium discounts for reduced commuting, electric vehicles (EVs), solar panels and environmentally friendly construction are among the first steps.

Some insurers are adapting to the new world of mobility with incentives for reduced driving and unique EV protections. For instance, Zurich covers theft of and damage to high-voltage batteries and private charging stations, as well as the loss or unauthorized use of charging cards and apps.

Proactive insurers are seeking more creative and innovative solutions, such as parametric policies and those featuring carbon offsets. In these endeavors, they can build on the lessons learned from the development of catastrophe bonds in the 1990s. Consider how advanced analytics and sophisticated scenario modeling can lead to “risk-prevention-as-a-service” models and coverage for risks that are uninsurable today. As a first step, insurers must target the sustainability of core underlying asset classes both by:

- ▶ Improving pricing to accurately account for emerging risks
- ▶ Rewarding or aiding policyholders in enhancing the sustainability of their assets

More insurers are involved in the push for green infrastructure to replace existing damaged infrastructure. Differential coverage for green homes and commercial facilities has rapidly expanded and is now nearly ubiquitous. Support for renewable and alternative energy has also matured rapidly. Some industry observers worry about larger-than-expected losses in this space, partially due to the absence of reliable data. This area will remain a focus for P&C insurers and will likely see greater industry collaboration and the development of improved risk management frameworks.

Parametric insurance is turning mainstream, thanks to advanced, sensor-based solutions that can assess and manage climate-related claims in real time. A hardening commercial pricing market has made typical catastrophe coverage more complex for insurers, which makes parametric offerings even more compelling. Within a week of the Haitian earthquake in August 2021, a parametric insurance policy underwritten by Caribbean Catastrophe Risk Insurance Facility paid out US\$15 million to the Haitian government.

## Product innovation in action

**Innovative renewable energy products** cover business interruption, liability, technical failure, weather-related losses, construction defects and human errors. Additional features provide for replacement of equipment and offer contingent coverage for new purchases, locations or enhancements, as well as coverage for financial losses due to discrepancies between expected and actual energy output.

**Crop insurance** powered by smart contracts allows farmers to take out policies on small plots of land and set predefined conditions for coverage (e.g., amount of rainfall, wind speed) with claims automatically triggered when those thresholds are crossed.

Within commercial lines, insurers can help “brown” businesses and industries define pathways to reduced carbon usage – and provide a range of incentives as they transition. Both underwriting policy and investment strategies will play a role, often in reinforcing ways. On the underwriting side, some insurers are refusing to cover some types of businesses or provide homeowners policies in high-risk regions. Businesses will also need capital to upgrade machinery and equipment, retrofit property and facilities and adopt new technology.

But it’s not just a matter of addressing the increased risk and volatility from existing climate risks; some insurers and reinsurers are also acting to mitigate and underwrite certain immature risks in ways that will allow traditional capital providers to invest. Indeed, insurers’ unique ability to model, underwrite and cover new risks is key to unlocking capital flows. Forward-looking insurers are also planning to invest in capital-intensive projects, such as clean energy plants, carbon capture technology and other breakthrough green innovations.

Lastly, insurers are offering new services to help customers understand and manage their unique risk profiles and define transition strategies. Proactive risk prevention consulting can help affect smooth transitions for all types of businesses and drive growth in new market niches. Working with commercial customers to set realistic targets and timelines and identify necessary operational changes will also help insurers accurately scope the risks in their own portfolios and refine their investment plans.

## Imperative actions for sustainability

Insurers can take many meaningful steps in the near term to help advance the transition to a greener economy. While climate change is a strategic and regulatory risk, it cannot be managed solely by risk management or regulatory affairs teams. The agenda must be owned and executed operationally across the entire business.

- 1. Connect sustainability to overall purpose and business strategy:** insurers have leaned into their purpose during the last few years, and leading on sustainability is another way they deliver value beyond their own bottom lines. Mapping action plans to specific targets and establishing quantifiable performance metrics relative to sustainability are two ways insurers can live their purpose. Such alignment is essential in allowing companies to tell a consistent story about sustainability, whether they are speaking to capital markets, regulators or the general public.
- 2. Define a road map:** within a broader ESG strategy, insurers must identify priority focus areas, clarify why they are allocating resources to them, and determine what benefits they expect to achieve. A clear road map must include both short-term and mid-term milestones, and reflect the impacts on different parts of the business. Specifically, it should spell out how ESG strategies will be executed in terms of underwriting policies, investment and portfolio management strategies, and within internal operations.
- 3. Engage to be part of the solution:** insurers must work with their peers in other sectors, as well as regulators, to find holistic solutions for uninsurable risks and smooth the path to a greener economy. The greater the collaboration across industries and between businesses and regulators, the faster and smoother the transition to a greener economy will be.
- 4. Define the metrics, embrace transparency and benchmark continuously:** when it comes to ESG, what gets measured will be what gets managed. In tracking performance against sustainability targets, insurers should monitor risk exposures, value creation and progress toward specific goals. As reporting and disclosures become standardized, the most transparent companies will benefit from easier access to capital, increased customer loyalty and better share price performance. They should also monitor external developments and other sectors with an aim to adopt leading practices.
- 5. Improve ESG ratings and secure index inclusion:** senior leaders and boards must understand the criteria behind the ratings being developed by different agencies, as well as the requirements for inclusion in ESG funds. The criteria may be complex and inconsistent, but, given their critical impact on access to capital and stock prices, insurers must do what it takes to improve ratings and secure inclusion.
- 6. Embed ESG strategies within operations:** ESG strategies must be operationalized across the business. That means embedding sustainability principles into underwriting and pricing models, incorporating transition and portfolio risks into the overall risk framework, and retooling the investment portfolio by both reducing “brown” exposures and betting on green innovations.
- 7. Embrace product innovation to address the protection gap:** as with cybersecurity, climate change represents both a huge threat to insurers and a massive growth opportunity. Traditional policies that protect against flooding, wildfire and other natural disasters are being enhanced and replaced with more sophisticated offerings, such as risk prevention services, parametric policies, products that include carbon offsets and attractive incentives that drive behavioral change. With more consumers interested in insurance, insurers that can develop more affordable and accessible products will be best positioned to build relationships with a rising generation of consumers.



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