NextWave Insurance: large commercial and reinsurance

How insurers can redefine the possible on the journey to 2030
The time has come for one of the oldest industries on the planet to reinvent itself. The large commercial and reinsurance sector has struggled with sluggish growth and flat margins for too long.

In an era of technology transformation and data-driven disruption, our sector has been held back by operational inefficiencies and outdated systems. Though the industry is critical to the global economy, it must find new ways to fulfill its purpose if it is to remain relevant and profitable.

In addition to demonstrating their social purpose, large commercial insurers and reinsurers must realign their organizations and update their offerings so they can better meet the needs of 21st-century businesses. Stronger preventive services and more robust protections against new and evolving threats, including climate change and cyber crime, must be top priorities.

We believe – and illustrate on the pages that follow – that such steps can unlock dramatic growth and greatly enhance the financial performance of large commercial insurers and reinsurers around the world. The catch? They must be able to undertake profound change across the business – strategically, tactically, and organizationally.

A 350-year-old industry doesn’t have to be old-fashioned. Indeed, it can – and must – be made new again. If reinvention seems a daunting challenge, consider the industry’s history. From the Age of Exploration to the Space Age, insurers have risen to the unique business and economic challenges of different eras. Indeed, they have played an integral role in making the impossible possible – and it can do so again.

For all the challenges, we are bullish on the future of large commercial insurance and reinsurance, and look forward to seeing the exciting innovations to come.
About EY NextWave

The EY NextWave vision represents the EY perspective on the most powerful trends and forces shaping the industry’s future. The process brings together strategic EY thought leaders, industry and functional professionals and technologists, as well as outside experts and academics. In collaborative ideation workshops, these groups help clients envision a brighter future and map out the road ahead.
The large commercial and reinsurance industry finds itself simultaneously at serious risk of disruption and on the precipice of critical transformation. Because the market is hardening, the opportunities are especially compelling. However, a number of challenging fundamentals must be addressed if commercial insurers are to seize the opportunities:

▪ Current cost structures are not sustainable given extremely thin margins and ongoing profitability pressures.

▪ Customers want less friction in the buying process, more transparency, higher-value outcomes, and the kinds of streamlined and intuitive experiences that are the norm with other suppliers and sectors.

▪ Today, intangible assets – such as intellectual property (IP), patents, brands and reputations, networks and virtual operations – generate far more business value than tangible assets. This profound shift, which has occurred during the last 20 years, requires insurers to offer new products and protections.

▪ Younger workers think of insurance as dull and outdated, if they think of it at all. New types of employment and working relationships, including those in the “gig economy,” require insurers to rethink their approach.

The bottom line: the tech-driven disruption that has occurred in media, retail, transportation, and other sectors is coming to large commercial insurance – and coming soon.

If the situation sounds grim, there is reason to believe that the industry’s best days lie ahead. From our extensive global research into current market conditions and future trends, we conclude that an unprecedented growth and profitability spike is within reach.

By 2030, if the large commercial insurance and reinsurance market takes the necessary actions, it will experience:

$600 billion in revenue growth

25%–35% improvements in combined operating ratios

See “Market profile and projections,” page 7, for more details on these numbers and our methodology.

The large commercial and reinsurance industry is on the verge of an unprecedented growth and profitability spike.
There is a large caveat, however: these gains will only be realized if the industry, which has changed less than most other sectors, becomes much more dynamic and agile. The necessary changes and related market developments are described in the following sections of this report.

One major vector of change will be the emergence of a fully connected value exchange that replaces the traditional linear value chain. Core transactions and relationships will evolve as stakeholder roles become more specialized. Integrated technology and real-time data will enable direct interactions and fluid collaborations, without old constraints. The right stakeholders can play the right roles for the right deals. See “From value chain to value exchange,” page 16.

This evolution is contingent on pervasive technology enhancements and a commitment to use data more extensively and intelligently. Advanced connectivity – including standardized and transparent data flows and integrated technology – is critical. Such connections enable companies to deliver tailored services that customers want (e.g., loss prevention) and align incentives for all stakeholders.

Eliminating these unnecessary inefficiencies presents great innovation and growth opportunities. New business models will emerge to meet specific customer needs and serve distinct market niches. See “Seven future business models,” page 19.

Of course, firms that cling to existing models and the old ways of working will be at risk of being acquired or seeing their businesses shrink organically. Those that make the right bold decisions and change effectively will translate opportunity into results. See “10 high-impact market scenarios,” page 28.

The large commercial insurance and reinsurance sector is entering a time of turbulence. Whether it’s also a period of breakthrough innovation and sustained growth is a question very much in the hands of market participants.

Growth in the next decade is dependent on more pervasive connectivity between market participants and more intelligent use of data.
The large commercial insurance and reinsurance business market is complex and ever-evolving, which helps to explain the many external challenges and internal barriers that have kept it in low-growth mode for the last decade. The scope and impact of these challenges are highlighted on the following pages.

### Gross written premiums:

- **Approximate total:** $1 trillion
- **Insurance:** $750 billion
- **Reinsurance:** $200 billion
- **Retrocession:** $20 billion

~65% of the global non-life market

### Average five-year market ratios:

- **Combined:** 80%–130%
- **Loss:** 60%–70%
- **Acquisition:** 15%–35%
- **Administrative expense:** 5%–25%

Source: Industry databases, EY analysis

### Notes:

- GWP estimates for large commercial insurance and reinsurance include coverages for companies with at least $250 million in annual revenue/turnover or more than 5,000 employees, as well as specialty risks, delegated authority agreements (DAAs), reinsurance business, and self-insurance.
- Estimated ranges cover all large commercial industry participants.
- Estimated ranges reflect the typical ratios for insurance business, reinsurance business, and DAAs.
- The loss ratio includes incurred claims, reserves, and loss adjustment expenses. The acquisition ratio includes commissions, profit sharing, and contingency for independent agents/brokers. The administrative expense ratio includes all operating costs.

1 See page 38 for definition
External and market challenges

Mismatched product offerings:
Today, there are relatively few policy options for intangible assets (including intellectual property, brands, networks, data, and customer relationships), which comprise a large majority of company asset bases. Insurers offer limited coverage for what companies most need to protect, leading to unmet and underserved exposures.

| Share of average business value comprised of intangible assets: |
|------------------|------------------|
| 2019: >80%       | 1985: 32%        |
| Source: Swiss Re, Forbes |

The mainstreaming of alternative capital:
The oversupply and convergence of capital have led to shifts in capital sourcing. Alternative sources continue to expand and underpin more and different lines of business. As traditional and alternative sources converge, capital seeks the most efficient route to market and challenges the viability of traditional line-of-business and organizational structures.

| Alternative capital’s share of total reinsurance capital: |
|------------------|------------------|
| 2018: 17%        | 2014: 11%        |
| Source: Aon Benfield |

Competitive pressures and shifts:
Though the growth has been slow until very recently, the market has seen a marked rise of disruptive new entrants – such as DAAs, InsurTechs, and other startups. The intensifying battle for control of the value chain and increasing merger and acquisition (M&A) activity are also reshaping the competitive landscape.

Although InsurTechs have gained significant traction, tech giants loom on the sidelines, causing justifiable concern among industry executives. They have multiple options for entering the market (e.g., establishing platforms and exchanges, offering embedded products), though significant regulatory barriers remain. Tech giants are likely to adopt acquisition and partnership strategies, meaning that some incumbents will be intimately involved in future disruptions.

| CAGR in GWP underwritten by DAAs in Lloyd’s market, 2014–18: |
|------------------|------------------|
| 15%              | Source: EY analysis |

| Number and value of insurance deals ≥$1 billion, 2014–17: |
|------------------|------------------|
| 66               | Source: EY Insurance M&A Report |
External and market challenges

**Geopolitical uncertainty:**
From climate change and pandemics, to Brexit and turbulent domestic politics in nations around the world, to war and terrorism, to global trade tensions, commercial insurers must be ready for almost anything.

---

<table>
<thead>
<tr>
<th>Average number of annual events in US causing more than $1 billion in damages:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016–18: 15</td>
</tr>
<tr>
<td>1980–2015: 5</td>
</tr>
</tbody>
</table>

*Source: The Economist*

<table>
<thead>
<tr>
<th>Cyber insurance across global markets, 2016–19:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2\times) Increase in premiums</td>
</tr>
<tr>
<td>(4\times) Increase in claims volumes</td>
</tr>
</tbody>
</table>

*Source: AM Best*

<table>
<thead>
<tr>
<th>Combined global insurance losses from natural disasters, 2017–18:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$219 billion</td>
</tr>
</tbody>
</table>

*Source: Swiss Re*

---

**New risks — and the associated opportunities:**
Cyber catastrophes and more severe natural disasters may pose existential threats for some insurers. Nanotechnology, new energy sources (e.g., fracking), and pandemics are other new risks on insurers’ radars. Given the need for increased protection, insurers best able to quantify the risk have the best chance to seize the upside potential.

**Regulatory pressures:**
As regulators expand their oversight, insurers struggle to keep up and the cost of compliance rises. The regulatory focus is broad, incorporating the full value chain, including finance and good governance. New requirements for fair pricing and data security will necessitate technology upgrades and process changes. Fragmented and overlapping jurisdictions create additional costs and complexity.

In contrast, the US large commercial market is relatively deregulated and offers more flexibility in pricing and other matters. It is also worth noting that regulators themselves will evolve, and in some markets become equally or more digitally enabled than the insurers they oversee.
Internal barriers and constraints

There are internal challenges across the business, including legacy technology, manual processes and hierarchical cultures.

**Workforce and culture:**
A poorly articulated social purpose and an out-of-date image contribute to the industry’s struggles to attract and retain the right talent, including in-demand data science, analytics, and data modeling professionals. Insurers are also looking to hire digital-first strategists and workers experienced with Agile techniques, as well as to build more diverse and inclusive workforces.

**Technology:**
Limited investment, fragmented technology environments, and outdated systems stifle innovation, operational agility, data sharing, and process efficiency; lack of trading and placement platforms and tech integration generally cause higher costs. Although many believe core technology upgrades produce only limited return on investment, they are usually required for firms to deploy advanced digital capabilities. These are critical to new product offerings and programs. An alternative for some companies is to build new platforms beside legacy systems so they can launch new products more quickly and efficiently.

**Data:**
Historically, insurers have collected lots of data, but analyzed very little of it and struggled to generate valuable insights from it. They lag behind other sectors in this regard. The lack of connectivity and inability to use risk data more effectively inhibits the development of high-value services, a huge opportunity for many market participants.

---

<table>
<thead>
<tr>
<th>Millennials who see insurance as an appealing industry:</th>
<th>Average spend on application and solution development as percentage of total IT spend:</th>
<th>Proportion of corporate data currently used for analytics:</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>&lt;20%</td>
<td>27%</td>
</tr>
</tbody>
</table>

*Source: The Hartford, EY analysis, Forrester*
Despite the severity and extent of these challenges, large commercial insurers and reinsurers have realized approximately $200 billion in top-line growth during the last ten years. The scale of this growth should provide optimism for the 2020s, given that the 2010s were characterized by a soft cycle and limited innovation in products and technology.

We believe that top-line growth of up to $600 billion can be achieved by 2030 through new customers (particularly in fast-growth markets), a hardening market, well-targeted technology investments, strategic partnerships, and innovative new product offerings focused on intangible assets.

Gross written premiums:

- **Total:** $1.6 trillion
  - Insurance: $1.2 trillion
    - ▲ $500 billion
  - Reinsurance: $300 billion
    - ▲ $100 billion
  - Retrocession: $30 billion
    - ▲ $10 billion

Average ratios:

- **Combined:** 70%
  - Loss: 45%
    - ▼ 15%
  - Acquisition: 15%
    - ▼ 10%
  - Administrative: 10%
    - ▼ 10%

Annual opportunity by 2030:

- **GWP:** $600 billion
- **Profit:** $500 billion

Source: Industry databases, EY analysis
Growing the top line with advanced tech and product innovation

The opportunity is significant for the entire industry. By focusing on product innovation for intangible risks and targeting fast-growth markets, insurers and reinsurers can seize the huge potential upside. As for technology adoption, artificial intelligence (AI), machine learning, and big data will be critical to drive growth. That is especially true in pricing intangible products. It is the combination of technologies (e.g., AI, machine learning and sophisticated business rules engines, blockchain, and other enabling tools) that will make the difference for insurers.

Partnerships with local industry participants and the continued rise of GDP and insurance penetration in fast-growth markets will further accelerate the growth of large commercial business. Rate increases will form only a fraction of the market growth over the next decade.

Because they lack statistical histories, insurers will have to do the hard work of finding data to model the costs and impact of intangible risks – including brand impairment and disruptions to virtual supply chains – and develop a methodology to price it. The industry has been in this situation before. Only a few years ago, insurers created new models to price terrorism policies. In the early 20th century, the industry developed the ability to price natural catastrophes.

Boosting the bottom line by optimizing ratios

Significant ratio improvements are built into our projections. Better technology and increased automation will deliver massive gains in process efficiencies and, therefore, considerable cost reductions. More effective loss prevention will make a significant bottom-line contribution, thanks to more precise data-driven risk assessments and real-time risk visibility. Acquisition ratios will fall as direct and digital placement becomes more common. Cloud-based and blockchain-enabled platforms will connect customers and carriers more closely than before.

In terms of expense ratios, automation will eliminate many time-consuming manual activities. Distributed ledgers, cloud technologies and AI will enable straight-through processing for simpler and homogenous risks, as well as helping to lower headcounts in administrative roles across the front and back office.

Blockchain and the cloud are critical technologies to improving ratios and unleashing growth. By streamlining the matching of capital and risk, increasing visibility into changing risks, and enabling smart contracting and automated loss resolution, blockchain is already proving itself to be a transformative technology for insurance. Beyond releasing capital tied up in on-premise data centers, cloud environments simplify collaborations with external suppliers and can help streamline product development and launches.

Many things must go right for the industry to realize the potential growth, and not all companies will share in it equally or advance at the same pace. Indeed, in some regions, most notably Asia-Pacific, the most innovative insurers have already embraced many of these NextWave ideas. Consolidation and M&A may be necessary for some smaller firms to gain the scale they need to realize the full benefits of automation.

However, based on the sector's historical resiliency, we believe these numbers are attainable with the necessary bold leadership, well-informed investment decisions, cultural change and increased customer-centricity. A little luck and good timing will be useful, too. Perhaps the most important ingredient for success is a sense of urgency; the time is now for insurers and reinsurers seeking to win in the next wave.
Our framework: how we arrived at these projections

The estimates above are based on the domain knowledge of EY Insurance analysts and a proprietary model that factored in:

- The most recent available GWP numbers from insurance industry databases covering global regions and markets
- Organic top-line growth deriving from GDP gains and the resulting gains in insurance penetration, based on historical data
- Increased demand generated by new products and services, and other innovations
- Gains from process efficiency, including improvements from new technologies
- Unique predictive models for different global regions based on five key mature markets (US, Japan, UK, France, Germany), and five fast-growth markets (China, India, South Korea, Brazil, Mexico), as well as the likely impacts of rate movements on growth

We also accounted for the development of a new market “engine” as the traditional value chain becomes more dynamic and existing business models evolve toward greater specialization. The various scenarios throughout this paper highlight how individual market participants may refine their strategies and operations in pursuit of improved performance and growth.
The customer of the future

Clients already want something different. Soon, they will demand it.

Given how fast — and fundamentally — their customers are changing, large commercial insurers must develop new offerings. And without new products and new ways to serve customers, insurers will struggle to seize the top-line growth opportunity that sits before them.

EY NextWave research confirms that businesses of all shapes, sizes and sectors are aiming to be more platform-like by:

- Building highly sophisticated and fully integrated digital infrastructures
- Operating on and trading through the cloud
- Processing transactions frictionlessly
- Innovating continuously, largely via collaboration and co-creation with suppliers, partners, and even customers
- Generating scale and expanding their footprints to create diverse revenue streams
- Enhancing and personalizing customer experiences
- Relying on flexible sourcing and contingent workforce strategies
- Participating in emerging ecosystems to support risk protection and loss prevention needs

In these models, intangible assets — brands, IP, networks and experiences, virtual supply chains — comprise most of the value. In the past, the largest businesses were built on mostly tangible assets and insurers priced commercial risk based on the number of those assets, as well as a firm’s revenue and headcount. Pricing for intangible risks will be predicated on a fundamentally different set of assumptions than traditional pricing models.

Today’s lean and tech-fueled organizations place more value on preventing losses than on transferring risks. Thus, standard language and traditional policies may not fit the unique situations of individual companies.

Similarly, annual renewal cycles may not be frequent enough to reflect constantly evolving risk profiles, especially those related to virtualized supply chains or reliance on third parties. Increasingly widespread, more sophisticated and tailored collective policies\(^2\) that cover all the links in a supply chain would better reflect how many businesses actually operate today. Similarly, smart contracts\(^3\) that can be updated efficiently as risks change would be synchronized to the accelerated pace of many sectors.

\(^2\) See page 38 for definition
\(^3\) See page 38 for definition
Although not every company will be a unicorn, consider the implications of one of the bigger stories in commercial insurance in the last few years. The world's biggest peer-to-peer property rental company moved the largest-ever real estate portfolio into the commercial insurance market. The most astonishing fact was not necessarily the amount of premium, but that the customer doesn't own any property — its assets are almost entirely intangible, meaning risks have shifted from being primarily asset-based and first-party oriented to being third-party oriented and liability-based. Such anomalies will undoubtedly be more common in the mid-21st century global economy.

**Serving the customer of the future**

The traditional practice of pushing products into the market and seeking the right price point will no longer be sufficient to serve tomorrow's platform-driven companies. Consider what insurers can offer if they are willing to take on new roles:

- New products to cover intangible assets and virtual operations
- A wide range of advisory services related to risk management and loss prevention
- More choice, coordination, and personalization for insureds, including through the promotion and endorsement of specialized market players and partners
- Tailoring of coverages and services relative to sector, geography, operating model, and product and protection needs

**Insurers must also understand the increasing importance of environmental, social, and governance (ESG) factors.** Today, more firms articulate a clear purpose and a commitment to sustainability and other issues, partially because consumers expect them to do so. ESG, and the related area of corporate social responsibility (CSR), feature more prominently in investors' strategies.

Insurers can align to these expectations by showing leadership, as some have done on climate change in their refusal to offer coverages for coal-burning power plants. Some insurers may help companies as they seek to become greener and more sustainable in their operations.
Envisioning the next wave: from a linear value chain to a dynamic value exchange

For generations, the commercial insurance and reinsurance value chain has been highly linear, with dependent relationships among key stakeholders. As a result, many tasks and activities have become inefficient. And thanks to misaligned incentives, not all work directly supports the ultimate objective of adding value for the end customer.

In the next decade, this chain will be transformed into a more dynamic, efficient and data-driven value exchange that adds considerably more value for customers and contributes significantly to top-line growth and profitability gains for the industry.

Although this transformation may seem threatening to some vested interests, it will be quite liberating for many market participants. Stakeholders can transcend rigid roles and connect freely to add value in response to market signals and shifting customer needs. Consider how relationships might shift:

- Insurers can offer to take on customers’ risks in exchange for timely insights and value-adding loss prevention services.
- In working with insurers, brokers can provide real-time data feeds, collaborate on new services for specific customers, and reposition as trusted risk advisors.
- Self-insuring companies may engage DAAs, third-party administrators (TPAs), managing general agents (MGAs), managing general underwriters (MGUs)\(^4\) and brokers for help in particular areas, such as niche policy types and specific geographies.

This is not to say that all existing functions and processes will be eliminated. Capital and risk management, business support and enablement (including finance, HR, and IT functions), and loss resolution will all remain important. However, they will be handled in new ways (e.g., through automation or outsourcing). Greater transparency will lead to the elimination of rewards for simply having a legacy or gatekeeping role.

New services and tasks (such as loss prevention) will become more important. So-called ancillary services (such as risk advisory) will move to the heart of the value proposition and become primary products for certain market participants.

The value chain of the future is no longer a chain and it actually adds value.

\(^4\)See page 38 for definition
The value exchange of the future will work toward the end goal of customer value, in the form of increased prevention and smarter protection. The means to achieving that goal will change, as the intermediate goals of individual market participants become less important.
1. Product innovation and business origination: designed for differentiation
   - Customer- and industry-focused teams, including and often led by skilled underwriters, collaborate to design bespoke solutions and differentiating propositions
   - Incubators and lab environment foster product innovation
   - Marketing and business development fueled by data and actionable insights at product and industry level
   - Strategic partnerships for tailored offerings and unique go-to-market programs

2. Loss prevention: bespoke and timely advice for more customers
   - Harnessing customer, third-party, and Internet of Things (IoT) data and applying advanced analytics leads to high-value offerings that effectively prevent claims
   - Enhanced actuarial and underwriting science manages and proactively mitigates customer exposures and insurer accumulations
   - Loss prevention specialists offer tailored guidance to certain insureds

3. Risk transfer: data-driven and analytics-enabled
   - Most risks are placed through digital exchanges, with underwriting teams applying specialist expertise and analytical skills on high-value tasks
   - Risk appetites, risk selection, and modeling driven by enhanced data and analytics
   - Instantaneous placement for less complex risks drives shift toward real-time coverage and away from annual renewals
   - Expansion of facility-type structures and DAAs reflect portfolio management mindset

4. Ancillary services: closer to the heart of the value proposition
   - New services aligned to customer needs, including risk advisory, data sharing, actionable insights and other related offerings
   - Full ecosystem of validated and preferred suppliers gives customers access to legal, risk management, and other useful services

5. Loss resolution: end-to-end automation, with very rare exceptions
   - Advanced connectivity, direct data feeds from assets, and parametric triggers make automated settlement increasingly common – from notification through assessment to payment
   - In-house and by-exception handling for complex claims only, which are infrequent
   - AI, robotic process automation (RPA), and emerging tech remove human intervention and allow straight-through processing for less complex claims

6. Business support and enablement: smarter, leaner, higher-value
   - Sophisticated tech and straight-through processing for less complex risks characterize internal shared services and back-office functions, with targeted use of managed services and outsourcing via connected market ecosystems
   - Straight-through processing and enabling tech eliminates many remaining manual processes
   - Enhanced legal, tax, and regulatory units improve governance and reporting through real-time data and analytics

7. Capital and risk management: increased alignment and enhanced capabilities
   - Augmented investment management capabilities maximize returns across books of business, with capital flexibly deployed to drive profitability across underwriting portfolios
   - Risks are selected and traded separately, with risk moving off balance sheets and on to other instruments
   - Alternative and other forms of capital fuel product innovation and pricing competitiveness

5 See page 38 for definition
Seven future business models: large commercial insurance and reinsurance circa 2030

A range of forces — from technology advancements to a dynamic value exchange — will drive the creation of new, and evolution of existing, business models. There will be more specialization and increased focus on core competencies and differentiating capabilities.

Companies will play to their strengths, devising unique and defensible value propositions and specific points of differentiation. They will seek new ways to provision services where they don’t excel. Only the largest firms will seek to develop complete, end-to-end services and capabilities, which are the rule today.

Some companies will continue doing what they do today, though they will do it differently. Others will develop new offerings and services, while a few might seek complete reinvention. Whatever course their individual journeys take, the most successful firms will be those that:

- Can connect and collaborate with customers and partners more effectively and in ways they don’t today
- Align all of their operations, including their collaborations with other market participants, more directly to customer needs and the value that customers seek
- Are highly agile, data-driven and process-efficient in all they do
Global composites: market mainstays evolve by leveraging strong balance sheets, strategic capital investments and new expertise to ignite growth in both mature and emerging markets

Not content to rest on their considerable advantages— including the industry’s deepest expertise, most capital, broadest global footprints, and best balance sheets – the largest insurers and reinsurers will evolve significantly in the next decade. Modernized technology and retooled workforces and cultures will power the change.

In the past, these market mainstays positioned on breadth of product offerings, large scale, and capital capacity. In the future, they will have to compete on increased customer centricity, process efficiency, and operational agility. They will have to become much more data-driven and more reliant on productive partnerships and collaborations.

These capabilities are necessary because smaller players will more effectively compete for new business that previously defaulted to the largest carriers, thanks to their global footprint.

Strategic priorities, 2020 to 2030:

- Focus on top-priority growth areas and increase efficiency everywhere else
- Reduce administrative expense ratios
- Get leaner both in terms of tech and the workforce

How they’ll evolve: new capabilities and skills

- Need for new talent leads to massive reskilling — especially in underwriting, actuarial, and loss prevention
- The organization and culture are reset to be nimbler and agile (especially in product development)
- New offerings and ancillary services, such as risk advisory, data, and legal, deliver the insights and value customers are looking for
- Use of TPAs and automation increases in claims
- New products and customer relationships (including government and state agencies) are defined
- More holistic customer understanding leads to closer relationships — both competing and co-developing with brokers
- Data and technology usage becomes more sophisticated across the business, with strong emphasis on automation to reduce administrative expenses:
  - Digital exchanges, rules-based underwriting workstations, and rate-quote-bind (RQB) systems used to underwrite and place less complex risks with minimal human intervention
  - In loss prevention, firms can act on real-time risk insights due to data from sensors and other connected IoT devices
  - Tech architectures are leaned out, and effective APIs connect to ecosystems and third-party suppliers

Market mainstays must modernize their tech infrastructures and reorient their workforces to become more customer-centric and operationally agile.
**Specialty insurers:** boutiques protect their market share by applying niche expertise, and writing risks others won’t

In a highly specialized commercial insurance and reinsurance marketplace, some small to mid-sized players will navigate the competitive threats to remain relevant. They do so by targeting specific niches where they can operate profitably and few other firms are bold enough to tread. In fact, their ability to survive is contingent on developing specialist expertise and a willingness to write risks others generally decline.

However, by focusing on their strengths and leaning out other operations, boutiques will unlock significant growth. In a market that generally demands either specialization or scale, the most successful boutiques can expand their niches to become large specialists with global presence.

**How they’ll specialize and scale: new capabilities and skills**

- Teams of data scientists and underwriters use incubator approaches to test the market, target customers, and develop new products and services, with relationship specialists aligned by broker and industry
- Strong underwriting focus aligns specialists to classes of business, with presence in global hubs and use of DAAs or MGAs/MGUs for target niches
- Portfolio management mindset with diverse portfolio emphasizes high-value complex risks
- Data science and actuarial skills predominate, with existing underwriting, loss adjusting, and risk engineering teams reskilled to work with data insights and analytical tools
- Capital is sourced via both traditional and alternative providers and deployed fluidly across insurance and reinsurance opportunities
- Ancillary services — including data and analytics, legal offerings, and risk advisory services — are tied to specialist expertise and collaborations with third parties
- Simplified and modernized system architecture promotes automation and eliminates unnecessary manual processes, with digital exchanges, rules-based underwriting workstations, and RQB systems to underwrite and place homogenous risks
- Embedded IoT platform enables the business to automatically receive, analyze, and act on real-time data

**Strategic priorities, 2020 to 2030:**

- Expand and enhance business origination, loss prevention, and other high-value services
- Get smarter and leaner in risk transfer
- Master business partnering and supplier management
- Specialize in specific products and coverages

Boutiques will unlock significant growth by focusing on their strengths and leaning out other operations.
Global reinsurers: innovative traditionalists remix their talent base and upgrade their tech to provide compelling risk transfer solutions and access to secondary markets

Tomorrow’s global reinsurers, another type of market mainstay, will look different and have different capabilities. Their risk transfer solutions will be more innovative, though risk transfer teams will be smaller. Reinsurers will use partnerships with alternative capital providers to create innovative products and increase penetration across the market. They will diversify their offerings to include primary insurance products, and new loss prevention and ancillary services.

Advancements in technology and data mean reinsurers can be less traditional and more innovative. They will have more data scientists and fewer claims processors. Their ability to match different opportunities and new products for different risk appetites will help them provide access to secondary markets and engage with more stakeholders.

Strategic priorities, 2020 to 2030:
- Enhance business origination and capital risk management capabilities
- Partner with alternative capital providers on product innovation
- Advance access to big data and augmenting analytical capabilities
- Lean out risk transfer and business enablement teams
- Enhanced ability to link directly to the cedant and ultimate end customer

How they’ll innovate: new capabilities and skills
- Dedicated team of data scientists and business origination specialists scan the market, while underwriters and development teams work with investors and secondary markets to design innovative go-to-market products and solutions
- Large exposure management team reviews accumulations and models exposures against desired risk appetites
- Data scientists and actuaries use advanced data and analytics to manage cedant exposure and accumulations, with opportunities to update policies and provide insights to cedants in real time
- Portfolios are predominantly weighted toward traditional reinsurance classes, but greater penetration in primary insurance and participation in facility-based structures
- Reinsurance portfolios are weighted towards “non-traditional” products and experience growth through reinsurance of intangible products
- Risks are consumed through traditional mechanisms, but supported by highly sophisticated exposure management
- Value-adding new services for cedants include M&A transactions, risk advisory and big data-driven insights into industries, assets, and demographics
- AI and analytics harvest customer, risk, and third-party data to develop a suite of products for different investment appetites and package reinsurance solutions
- Use of hedge fund, banking, and asset management software expands to support alternative capital process and partnerships with investors

Advancements in technology and data mean reinsurers can be more innovative – as they must be if they are to thrive.
Underwriting agents: future MGAs build on current momentum and capitalize on market trends to create and capture profitable niches

Lean, agile, and dynamic, tomorrow’s MGAs will build thriving niche businesses and grow profits faster than the industry as a whole. Their sole focus: providing specialized underwriting services to portfolios and networks of investors and capital providers.

Although most MGAs currently operate in North America, with significant numbers in the UK and Western Europe, they will become more prominent in South America, Asia Pacific, the Middle East, and Africa. Leveraging defined products and targeted expertise, the subsegment may grow to $150 billion in revenue, doubling the current revenue base.

Though specialization is key to success, “mega MGAs” will emerge, reaching $1 billion in revenue through consolidation or by duplicating their success across multiple market segments. The largest may ultimately become insurers. Conversely, the largest insurers may target MGAs for acquisition, though they may run them separately as service companies – if only to secure favorable rates, resolve absent succession plans, maintain relationships, and provide expertise for specific product niches or markets.

Strategic priorities, 2020 to 2030:
- Identify the right products and exploit distinct and profitable niches
- Engage the right partners – including capital providers
- Duplicate success across multiple segments
- Strike the right balance between specialized growth and scale

How they’ll grow: new capabilities and skills
- A strong team of underwriters focuses on product development, acting within confines set by capital providers
- Holistic capital and portfolio management helps ensure viable profits and commissions
- Extensive outsourcing enables lean operations (including skeletal business support teams) and helps maintain a flexible cost base
- Strong supplier management capabilities drive collaboration with TPAs, loss prevention specialists, lawyers, and other providers
- Digital marketing, hyper-localization, and geographical access are critical for success in fast-growth markets
- Utilization of capital providers with analytical capabilities helps segment books of business and identify profitable growth areas
- Data sharing enables collaborative approaches to bring new products to market
- Automated compliance, fraud, and customer due diligence
- Significant investments are allocated to specialized underwriting rules, pricing algorithms, and enhanced data and analytics
- Connections to reinsurance solutions are automated and direct

Lean, agile, dynamic, and cost effective, the MGA model becomes increasingly popular with market entrants.
Capital providers: lean and agile portfolio managers drive capital returns by aggregating strong DAAs and MGAs/MGUs and finding profitable niches

By 2030, some carriers will shift their focus to become experts in capital deployment and management of third parties. These firms will operate with relatively few employees and exceptionally lean in-house models. They will hone in on well-defined market niches, customer segments and specific product types.

These portfolio managers will be the smartest sourcers and most rigorous relationship managers. Specifically, they will excel in managing arrangements with multiple DAAs for underwriting, claims handling, and other service providers, such as loss prevention specialists. These portfolio managers will expand their business by narrowing the field of play. Specialization and teamwork is how they win.

Strategic priorities, 2020 to 2030:
- Identify and engage the top-performing DAAs
- Achieve operational excellence through strategic sourcing relationships
- Deploy capital flexibly and efficiently
- Develop niche products for target customer segments

How they’ll focus: new capabilities and skills
- Strength and depth in capital and risk management is based on teams featuring many individuals with strong investment and trading backgrounds
- Capital is deployed to high-potential areas and collaboration with secondary markets to boost return
- The network of DAAs is designed around specific market segments; sophisticated underwriting rules solutions and pricing tools keep DAAs within risk appetite and authority thresholds
- A modern core system architecture and robust APIs enable instant data sharing with DAAs, partners, and suppliers
- Sophisticated data and analytics platforms ingest DAA customer data, track portfolio profitability, monitor underwriting and claims performance, and manage exposures
- White-labeled RQB systems for DAAs and brokers support placement of risks with straight-through processing and direct data feeds into capital providers’ core policy administration systems

Some carriers will win through sourcing excellence, smart specialization, and effective portfolio management.
Self-insurers: customers begin to compete with traditional insurers as “super-sized captives” develop in-house capabilities to self-insure more of their own risks

Lacking appropriate coverages for intangible and virtual assets, large multinationals deepen their commitment to self-insurance. They grow comfortable taking on more risk as they learn to generate superior insights and develop tools for stronger loss prevention. Deep and granular analysis of their considerable data resources, as well as knowledge of their own operations, are the keys to matching coverages to the risk appetite and eliminating the need to place business on the open market. They also develop the skills and knowledge to navigate the increasingly complex regulatory and tax environments.

Companies that formerly bought insurance are now more interested in selling risk, pushing traditional insurers into new roles and marginalizing some carriers. They may also contribute to the rise of industry associations or mutuals as they build out capabilities that can be sold on the open market.

Strategic priorities, 2020 to 2030:

- Risk prevention, rather than risk protection only
- Product innovation to map coverages to needs
- Development of new skill sets

How they’ll take on more risk: new capabilities and skills

- Expansive underwriting and pricing skills are developed in-house, along with knowledge for capital requirements analysis and investment management
- Internal data is used to understand, profile, and develop fit-for-purpose products directly aligned to company needs
- Reframed relationships with insurers enable the laying off of undesirable and unmanageable risks in ways similar to foreign currency hedging and provide access to licenses in specific jurisdictions
- Insurers and brokers compete to provide advisory and specialty services (e.g., loss prevention and risk management) needed by internal teams
- Sophisticated data and analytics platforms and tools drive risk modeling and pricing of internal exposures, as well as to support capital adequacy and investment decisions
- Big data, IoT sensor data feeds, and enabling tech (e.g., drones and satellites) augment pricing and exposure management, including real-time view of risks

Self-insurers that use their own data and analytics effectively to manage risk have less need for traditional insurance.
Global intermediary: the broker of the future repositions as underwriting and risk advisors, boosting revenue and strengthening customer relationships

Risk placement will always be important to commercial insurance brokers, but in the future it will no longer be their sole focus. And their placement teams will be notably smaller after extensive reskilling. The most successful firms will transform their models to expand and diversify their offerings to include underwriting and risk advisory services. By elevating their value propositions, global intermediaries will unlock significant growth. Compared with the largest insurers, these organizations will not be the biggest in terms of headcount, though they will be among the highest yielding.

Of course, it will take considerable effort and significant investment to execute this transition. Brokers must overcome market skepticism about their ability to add value in a primarily digital world. They will also need new skill sets, higher quality data and modernized technology. Those that transform successfully (and soon) will be well positioned to lead the creation of industry ecosystems that connect industry players – a traditional strength of brokers.

How they’ll transform: new capabilities and skills

• Industry-focused and customer-aligned teams cultivate broad distribution networks in local markets, with specialists by line of business in key hubs across the globe
• Only complex risks require face-to-face negotiation, with the majority of business placed via portfolio solutions and facilities
• In-house MGAs handle underwriting to diversify offerings, target niche lines and geographies in partnership with a select group of capital providers
• A network of TPAs, loss adjusters, and legal firms support claims handling
• Ancillary services become a big part of the business – especially risk advisory and loss prevention services based on analytical insights on customer data, consulting, and transactions
• Better technology platforms automate interfaces and service delivery – including online tools enabling customers to match risks to capital
• Greater connectivity is key – ensuring data flow with capital providers and real-time insight into end-customer risks (which supports loss prevention and other ancillary services)
• Straight-through processing becomes the norm, from RQB and placement to claims for homogenous risks, enabling faster turnaround times and streamlined customer interactions

Strategic priorities, 2020 to 2030:

• Bring in new skill sets to develop new offerings
• Utilize distribution network to launch and refine services
• Use data more effectively to identify opportunities to serve broader range of customer needs

Brokers will diversify their offerings and elevate their value propositions far beyond risk placement.
Operating model and workforce impact

The rise of the new value exchange and new business models will profoundly change how large commercial insurance and reinsurance stakeholders are organized, where they invest, and where their people and teams focus. The most dramatic shifts for each business model in terms of contraction and expansion of the employee base within specific functions are highlighted below:

Value exchange functions:

<table>
<thead>
<tr>
<th>Product innovation and business origination</th>
<th>Loss prevention</th>
<th>Risk transfer</th>
<th>Ancillary services</th>
<th>Loss resolution</th>
<th>Business support and enablement</th>
<th>Capital and risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greatest FTE contraction ▼ Change from 2020</td>
<td>Business model</td>
<td>Greatest FTE expansion ▲ Change from 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk transfer</td>
<td>Global composites</td>
<td>Product innovation and business origination</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% ▼ 30%</td>
<td>5% ▲ 20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk transfer</td>
<td>Specialty insurers</td>
<td>Ancillary services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% ▼ 30%</td>
<td>2% ▲ 10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk transfer</td>
<td>Global reinsurers</td>
<td>Capital and risk management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% ▼ 30%</td>
<td>10% ▲ 25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business support and enablement</td>
<td>Underwriting agents/MGAs</td>
<td>Product innovation and business origination</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% ▼ 5%</td>
<td>5% ▲ 30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk transfer</td>
<td>Capital providers</td>
<td>Product innovation and business origination</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% ▼ 15%</td>
<td>5% ▲ 15%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business support and enablement</td>
<td>Self-insurers</td>
<td>Loss prevention</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% ▼ 5%</td>
<td>5% ▲ 25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product innovation and business origination</td>
<td>Global intermediary</td>
<td>Ancillary services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35% ▼ 10%</td>
<td>5% ▲ 30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
A “cybergeddon” event causes mass insolvency and drives consolidation across the industry, causing a spike in demand for more coverage.

After a massive breach that knocks out power, communication, and financial systems, multiple insurers face insolvency. Forced mergers are necessary to prevent sector collapse. After a steady increase in premiums on the heels of many smaller incidents, cybergeddon causes a sudden and dramatic spike in demand for coverage, even as policy terms become narrower and more specific.

In the aftermath, a small cohort of global insurers and brokers emerges, a byproduct of consolidations. The market gains confidence about its coverages and premium pricing as incidents create precedents and provide useful historical data.

Potential market loss from a single major cyber attack: £40.7 billion
Source: Lloyd’s

Pan-governmental climate change consortia requires insurers and reinsurers to allocate 15% of reserves to losses stemming from natural catastrophes.

With more frequent and severe catastrophic events, climate change rises to the top of the agenda for all types of business and society as a whole. As the profitability of property and catastrophe-related products plummets, carriers pull out of the hardest-hit and most at-risk areas.

In response, a broad group of governments determines that intervention is necessary and establishes a new requirement that 15% of all insurance reserves be set aside to fund global catastrophic losses. Authorities in the areas most vulnerable to catastrophes mandate that insurers contribute to the consortia. In the meantime, the property catastrophe market expands dramatically due to new mandates designed to address underinsurance.

The growth is based on the need for greater protection and insurers’ ability to develop preventive capabilities and advise more entities on their unique vulnerabilities. Some insurers assert themselves and demonstrate badly needed leadership in the face of one of society’s greatest threats. Others can’t get past the looming threat of massive losses.

Natural catastrophes, 2018:
Damages: $165 billion
Insurance payouts: $85 billion
Source: Swiss Re Sigma

Average annual insured losses from catastrophic events, 2010–19:
$65 billion
Increase since the 1970s: 20x
Source: The Economist
Social inflation and a growth in the volume of claimants combines with new forms of casualty claims to create a $300 billion gap in insurer reserves.

Negative press for financial services firms – including headline reports of market misconduct – coupled with income inequality continue to push claims costs higher. The size and frequency of big payouts threaten the profitability of many insurers. Even as the volume of routine claims falls, litigious claims and different types of casualty claims proliferate. Aggressive attorneys seek “the next asbestos” among:

- Opioids and medication-related cases
- Sports concussions
- High-sugar, high-fat and high-caffeine products
- Vaping
- Herbicides
- Workplace noise

Thanks to a snowballing effect, commercial insurers face a significant gap between casualty claims and reserves. As a result, some carriers may exit the class and prices increase significantly.

Increase in number of verdicts of at least $10m for professional liability since 2016:

3X

Median cost of the top 50 bodily injury claims, US:

2018: $54 million
2014: $28 million

Source: Financial Times

Insurers capitalize on increased insurance penetration in fast-growth markets, unlocking $400 billion in revenue.

Strong GDP growth and rising penetration in fast-growing countries present huge upside opportunity. Thanks to readily accessible and easy-to-use digital platforms, millions of uninsured and underinsured companies purchase commercial policies for the first time.

Geographical barriers remain, but digital exchanges open doors in new markets, reshaping the competitive landscape. Insurers with operations and licenses in emerging markets aggressively compete for new premiums, while insurers lacking local market access partner with MGAs and distribution networks.

Contribution of seven-largest emerging markets to industry growth, 2020–30:

42%

Source: Insurance Journal

Non-life compound annual growth rate, 2010–19:

Emerging markets: 7.7%
Developed markets: 1.1%

Source: Swiss Re Sigma
Ten percent of current premiums are taken out of the market as a result of increased use of self-insurance by large multinational corporations.

Thanks to rich data and superior analytics, the world’s biggest and best-performing companies know their businesses better than any outside vendor ever could. Thus, more of them decide they can model and price risks (including cyber and climate risks) more accurately than traditional insurers. They gain confidence in taking on risk and realize huge savings as their ambitions and investments in loss prevention and risk mitigation pay off. The cost of capital falls thanks to a lower expense base.

They attract top talent where they need it (including experienced insurance pros drawn to dynamic cultures) and access specialty skills or niche advice when necessary. Brokers and carriers are forced into new – and in some cases reduced – roles. Depending on their risk appetite, captives turn to reinsurers to reduce portfolio volatility and diversify the risks they hold.

As more global corporations self-insure, insurers must find new ways to serve their needs.
Global insurers collaborate with industry mutuals and associations to create growth from new intangible asset products.

Market demand for products to cover intangible assets reaches a tipping point. At the same time, exploding data volumes – from both internal and third-party sources – make it possible for insurers and industry mutuals and associations to design effective coverages at viable price points.

The new products are packaged and marketed via subscription, usage-based, and on-demand services. Data-driven risk insights and AI-enabled loss prevention are innovative features that customers particularly like.

Share of large commercial claims comprised by business interruption:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>58%</td>
</tr>
<tr>
<td>2004</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Risk Management Solutions

Commercial insurers need a new approach to protect the value of intangible assets.
Unsustainably high overhead costs and manual processes prime the industry for disruption — and it starts with digital exchanges that package, trade, and process the majority of risks automatically. Bigger data and better data flows mean customers can purchase real-time, bespoke policies administered via “smart” insurance contracts that reduce the need for annual renewal cycles. The increased placement proficiency frees industry participants to offer more innovative services like loss prevention, supplier network management, and ecosystem management. Additionally, new platforms enable capital-to-risk matching to facilitate the creation of secondary markets for risk trading.

More than 75% of policies by volume are placed via digital platforms.

Estimated volume of all business tradable on new, digital risk exchanges:

40%

Source: Lloyd’s

A global commercial insurer turns to technology and new sourcing models to reduce workforce by 33%.

Personnel costs that now average more than 50% of the total insurer expense base are no longer sustainable. One global insurer marshals the resources to invest in blockchain, AI, RPA, IoT, and other tech to automate processes that had been handled manually for decades. Further, broad outsourcing of administrative work leads to significant reduction in personnel costs.

Digitization revamps underwriting, claims, middle and back-office processes. On the one hand, fewer employees are necessary to complete essential work. On the other hand, the human resources that remain increase their value contribution to the business by handling complex claims by exception, for example, and identifying actionable patterns in underwriting data. In traditional functions (e.g., underwriting and claims), the workforce contracts as it specializes on bespoke products and complex risks, even as it expands in next-generation areas (e.g., data science, analytics, cyber risk, third-party management).

By 2030, the successful transformation of one or more global composites will prove out the somewhat paradoxical notion that high rates of automation and leaner workforces actually make people and cultures more important to success.

Number of high-tech jobs to be added to US service sector by 2026:

4 million

Source: Bureau of Labor Statistics
Faced with a shrinking value chain, market marginalization and intense cost pressures from customers, a global broker goes all-in on transformation. Everything — from the organizational structure and operating model, to products and services, to systems and data — is aligned to customer needs. Revenue from core brokering services gradually declines, but revenue from new services more than replaces what’s lost.

The first step is to digitize the placement process for less complex risks, resulting in cost reductions that fuel investments in data science capabilities and stronger analytics tools. Culturally and strategically, the broker repositions as a professional services firm. Risk advisory and loss prevention solutions become flagship offerings. Engagement with effective MGAs provides underwriting capabilities, which leads to further product diversification.

The broker monetizes end-to-end control of customer data via enhanced services and gains credibility as an expert on performance metrics and risk benchmarks.

Loss prevention, risk advisory and underwriting services account for more than 50% of a global broker’s revenue.

Share of revenue generated by two top global brokers, 2018:
Consulting operations: 45%
Data and analytics: 10%
Source: EY analysis

Five percent of global insurance capital connects directly to large platform players that offer embedded insurance within existing commercial products.

The continuing convergence of capital, along with incessant growth in alternative capital and more sophisticated technology usage, disintermediates incumbents and traditional roles within the value chain. Recognizing that capital, agnostic of source, always seeks the most efficient path to market, large platform players sense an opportunity — and seize it.

Specifically, they develop bundled insurance products embedded within existing commercial product offerings (e.g., Web services and cyber policies), streamlining the flow of capital. The platforms provide distribution, while capital providers use internal expertise or outsourced capability to adjust claims and fulfill regulatory and legal obligations. Expense and acquisition ratios fall precipitously, enabling lower price points and, ultimately, more profitable returns.

Alternative capital deployed in commercial reinsurance:
2018: $99 billion
2006: $17 billion
Source: Company financial statements, Aon Business Intelligence, Aon Securities Inc., EY analysis
Leading the next wave: imperatives for large commercial insurers and reinsurers

Six steps to taking part in the trillion-dollar market opportunity

The enormous growth opportunity that lies ahead can only be captured if insurers, reinsurers, and brokers are ready to undertake enormous change. Their transformation investments will have to address nearly every part of the business.

Extensive strategic planning and business case development is necessary, especially for the largest investments. But those steps can’t delay action. Indeed, the firms that most successfully transform will be those that drive near-term change urgently, while simultaneously placing intelligent, long-term bets for what’s next and beyond.

1

Define your purpose to dramatically increase relevance

A case can be made that the world has never needed the insurance industry more than it does today. Cyber crime, climate change, and geopolitical uncertainty are all areas practically begging for leadership and new forms of collaboration among businesses, communities, and government. Thanks to their ability to assess risk and provide protection, insurers are uniquely positioned to provide such leadership.

However, the industry must change current perceptions. It must articulate its social purpose more clearly and forcefully. That will help differentiate the industry in the minds of customers and employees eager to engage with companies that share their values. Strategically, it can help insurers and distribution partners confirm their relevance to companies considering self-insurance or relationships with new market entrants.
Enhance customer value through bespoke products

New products and services should reflect how companies are structured and actually operate today. They should also be designed to address a shifting risk landscape. Flexible and bespoke products that cater to the unique risks, exposures and asset bases of individual customers will become the rule during the next decade. In this sense, product innovation starts with a clear understanding of customer needs. Appropriate coverages for intangible assets will be at the top of the priority list.

New services are also essential, especially as cost pressures intensify and customers demand to know what value they receive for their premiums. That value can be demonstrated by effective loss prevention and risk advisory services.

It’s important to note that the tailoring of products becomes practical and cost-effective only if insurers have lean back-office operations. Further, insurers need advanced data management and analytics capabilities if they are to successfully target offerings to the unique needs of individual customers.

Deploy technology to drive operational agility – especially in underwriting and claims

Although technology alone won’t drive the transformation required to seize the growth opportunity, there is no doubt that significant technology investments will be necessary. There are many technologies to evaluate, from AI, RPA, and blockchain, to CRM, rules-based underwriting workstations, and RQB. IoT-enabled sensors, the cloud, and big data are among the others that must be taken into account. All tech must be considered in terms of its ability to drive top-line growth, increase profitability, and reduce expenses.

The top-priority investments will be in platforms and toolsets that directly link to customers, partners, and other market participants. Such technology will pay off in the form of enhanced digital experiences, streamlined data sharing, and faster and more accurate interactions. This sort of pervasive connectivity across the industry forms the heart of the dynamic value exchange and evolving business models described earlier in this paper.

Initiate the shift from claims management to loss prevention

As long as there is insurance, there will be claims. However, in the future, the volume of claims will fall to a fraction of what it is today, thanks to continual loss prevention driven by timely insights. That’s an enormously positive development for the industry, because insurers and customers alike would rather prevent losses than submit claims.

To be clear, the shift to active loss prevention requires fundamental adjustments to operating models, technology, and talent. Enacting this transition will take a great deal of work that will pay off handsomely for insurers that get it right.

New technologies, new services, and new talent are all essential enablers of future success.
Get completely connected and fully digital

The future of large commercial insurance and reinsurance will be vastly more open, transparent, and collaborative than its present form. The digital exchanges and rich ecosystems that are now emerging will work in real time and connect buyers and sellers to products and services that transcend traditional boundaries.

In forming their own ecosystems or joining those developed by others, insurers must find a role that is unique, value-adding, and differentiating. Such strategic focus is critical because no one company will be able to be all things to its customers. Nor should it try to be.

Even as interactions across the industry shift to digital, human talent will be more important than ever. Acting based on insights, managing customer and supplier relationships, and envisioning new products and services – these are the areas where insurers, reinsurers and brokers need great talent, not just advanced technology and rich data.

Create the workforce of the future

Tomorrow's workforce will look radically different than today's. The skills and roles at the heart of operations will be reshuffled. The goal should be to create and nurture a diverse, inclusive workforce infused with digital skills and innovative thinking.

To compete in the war for scarce talent, insurers must provide an attractive work environment, appealing compensation, clear career paths, and a larger purpose. Culturally, employees must be empowered to embrace risk, try new ideas, and fail faster. That will require a mindset shift for many industry veterans.

No discussion of tomorrow's workforce is complete without mentioning technology and automation. Along with cloud technologies and managed services, these will help reduce the cost to serve within traditional business support services. They will also free human talent to focus on more valuable and more meaningful work.

Even as technology advances and the industry becomes more digital, talent will be critical to future success.
Conclusion

The next wave of commercial insurance and reinsurance is notable for a few meaningful paradoxes. Carriers will deliver more value to more customers, though there will be fewer losses. The frequency and depth of customer engagement will increase, even as claims interactions and annual renewals — historically the primary customer touchpoints — fall away. Though the workforce will be smaller and most processes automated, talent will be critical to overall success.

Perhaps the most important paradox is the way in which the greatest risks (e.g., cyber and climate change) are linked to important opportunities for the industry to demonstrate its social purpose and confirm its relevance and offer more prevention and stronger protections.

To navigate these paradoxes, industry executives must embrace creative thinking, bold action, and continuous innovation — especially when it comes to technology and data. As challenging (and cost-intensive) as the upcoming investments will be in the near term, they are necessary for long-term success. The upside for individual firms — as well as the entire industry and society as a whole — is well worth the effort. Those firms capable of profound change will be those that enjoy the biggest upside in terms of dramatic growth and sustainable profitability.

EY NextWave Diagnostic

Insurance executives are naturally curious about which business models of the future are best suited to their organizations — and how much transformation will be necessary to fulfill the vision. The first step is to understand where you are today. The EY Insurance team has developed a robust diagnostic tool to help commercial insurers, reinsurers, and brokers understand where they are today and which challenges they must navigate during the next wave. An interactive data-sharing and diagnostic session starts the process.

Please consult the list of contacts on page 39 if you would like to learn more.

NextWave Insurance: personal lines and small commercial

- Key trends and forces shaping the market
- Eight market scenarios defining the next wave
- Imperatives for leading the next wave

Read now >

“NextWave Insurance: life” coming soon
Key terms

Managing general authorities (MGAs), managing general underwriters (MGUs)
A specialized type of insurance agent or broker that has been granted authority by an insurance company to handle underwriting, pricing, coverage binding, claims settlement, and other activities often carried out by insurers on their own behalf. In some cases, MGAs focus on specific types of risks. In others, they manage a significant part or even all of the insurance business in a specific geography, product line, or book of business, acting as an agent or broker for the insurer and as a go-between among carriers, agents, and policyholders.

Delegated authority agreements (DAAs)
Contracts that enable one party to underwrite risks, handle claims, or handle other tasks on behalf of an insurance company. DAAs are an important distribution channel in the Lloyd’s market.

Smart contracts
A piece of code that verifies a digital transaction as part of a blockchain or distributed ledger. Within insurance, smart contracts are self-executing policies, with the terms and rules directly written into lines of code, eliminating the need for large volumes of paper-based contracts and manual processes. As part of a blockchain-enabled platform, smart contracts can be used to reconcile claims data and adjust premiums in real time, based on shifting risk dynamics. Beyond operational efficiencies, smart contracts fundamentally change the way transactions happen by executing end-to-end processes across multiple parties.

Collective policies
An insurance policy that covers risks for more than one insured party, such as all companies in a consortium. They may also refer to instances where multiple insurers cover a single risk.

Internet of Things (IoT)
Network of connected devices and sensors generating real-time data that can be captured and analyzed by insurers and their partners, to predict risk and prevent losses.
Authors and contributors

**Simon Burtwell**
UK Insurance Advisory Leader and EMEIA Insurance Advisory Partner

**Paul Biddiss**
Senior Manager

**Tim Ross**
Manager

NextWave Insurance leadership

**Global**

**Isabelle Santenac**
Global Insurance Leader

**Bernhard Schneider**
Global Insurance Strategy and Operations Leader

**Americas**

**Ed Majkowski**
Americas Insurance Advisory Leader

**John Vale**
Global Client Service Partner

**Nicole Michaels**
Insurance Business Transformation Leader

**Gail McGiffin**
Global Insurance Underwriting Leader

**Europe, Middle East, India and Africa (EMEIA)**

**Peter Manchester**
EMEIA Insurance Leader and Global Insurance Advisory Leader

**Stefano Battista**
EMEIA Financial Services Advisory Insurance Leader

**Philip Vermeulen**
Global Client Service Partner, Large Commercial and Reinsurance

**Asia-Pacific**

**Grant Peters**
Asia-Pacific Insurance Leader

**John Morley**
Partner, Advisory Services

**James Littlewood**
Client Service Partner
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

The views of third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

© 2020 EYGM Limited.
All Rights Reserved.
EYG no. 000926-20Gbl
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com/insurance