

2020 Europe Insurance Outlook

Balancing talent and
transformation priorities with
cost and regulatory pressures

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the letters is a yellow chevron shape pointing to the right.

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About the EY Insurance Outlooks

The annual EY Insurance Outlooks represent a preview of key issues shaping the industry in the near term (three years). They complement the NextWave series, which takes a longer-term perspective (five years and beyond).

This year's report was developed based on our collective sector know-how, virtual workshops with insurance leadership across the globe, a formal internal survey of EY insurance professionals, and inputs from select clients and external analysts. We are pleased to hear that so many clients and industry stakeholders value our reports. We'd be delighted to hear from you about other topics that are top of mind or of growing concern.



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Executive summary

Insurers in Europe are uniquely challenged to stimulate growth and drive innovation in the face of a near-recessionary economic environment, with extraordinarily low interest rates and negative yield curves.

Rising customer expectations, aging populations and workforces, intensifying competition (including from non-traditional players) and closer regulatory scrutiny add further complexity to the industry outlook for the next few years. In many ways, European insurers face a more difficult environment than their counterparts in other global regions, if only because future industry growth is highly dependent on broader economic growth in the region.

However, despite formidable challenges, there are many opportunities to improve near-term returns, identify profitable niches and position for future success. The top priorities include developing more compelling value propositions, transforming their workforces, creating new business models and upgrading technology and operations.

Many of these agenda items would be necessary and pressing even if the industry's recent financial results were stronger. In fact, many insurers have been working diligently and investing significantly on these fronts in recent years, but the economic contractions of the last year have placed further pressure on the industry.

Interest rates remain at historically low levels and are declining further. While low interest rates are the new normal, yield curves that are completely negative, such as those in Germany and Switzerland, are uncharted territory, even for central bankers. Many European insurers have already started to reduce their reliance on interest rate spreads for profitability. However, they need to remain focused and accelerate this transition. This mindset shift can facilitate bold investments in new capabilities, new products and new talent, which are necessary to increase efficiency, accelerate growth and enable transformation.

For profitable growth, insurers have relied on acquisitions and alliances in mature markets. That is particularly true in non-life lines. They have also been pursuing expansion opportunities in emerging markets in Eastern Europe and Asia. To streamline their post-M&A management burdens, they are reassessing their organizational structures, which helps to increase efficiency, realign business priorities and unlock greater shareholder value.

Other strategic moves include divesting from businesses in non-core and unprofitable markets, as well as selling back books of business – often to private equity players – at the right pricing levels. Many insurers are also looking to cloud technology to enable digital transformation and faster development of new digital products. Of course, as they transition to the cloud and more digitally-oriented portfolios, insurers must strengthen cyber security frameworks.

Many of the issues presented in this year's Insurance Outlook were also addressed in previous editions, which suggests that challenges aren't being addressed quickly enough or opportunities seized boldly enough. The sub-par payoff on past investments is further evidence that insurers must adjust their approach and reorient their priorities.

As this report details, the key steps and actions for European insurers include:

Non-life:



- 1 Digitize sales and distribution:** Customer insights, seamless experiences and digital tools are keys to success
- 2 Win the war for talent:** Reskilling workers and finding new talent are essential to add value
- 3 Achieve cost efficiency:** The focus on bottom-line objectives must include high-impact investments
- 4 Manage persistent regulatory pressures:** Multidimensional regulatory actions require a coordinated and cost-effective approach
- 5 Navigate sustainability and climate change:** Insurers have an opportunity to demonstrate leadership, prevent risk and provide comprehensive coverage

Life:



- 1 Manage persistent regulatory pressures:** Low-cost and short-term approaches are often more expensive in the long run
- 2 Digitize sales and distribution:** Revamping channels goes hand-in-hand with rethinking products
- 3 Achieve cost efficiency:** Reductions must be balanced with investments and forward-looking strategies
- 4 Leverage the Internet of Things (IoT) and connected insurance:** Future success will feature new data and greater analytical acumen
- 5 Promote financial wellbeing:** Insurers can seize the opportunity to meet evolving social needs and remain relevant

This report covers all of Europe. While individual countries have their own unique dynamics, which we reference throughout, the largest players operate across the region and many countries fall under the same EU jurisdiction.

This year's report also features snapshots of specific markets in the region. The contacts listed on the last page would be delighted to discuss your firm's particular outlook through 2022 and beyond.

A complex environment and challenging fundamentals

The European insurance industry remains stuck in low-growth mode. In major markets, growth rates have been negligible or negative and underlying economic fundamentals appear shaky.

Geopolitical uncertainty, especially relative to Brexit, further complicates strategic planning. On a more positive note, pricing has improved in most European commercial markets and in some motor markets, most notably France and Italy.

Against this challenging backdrop, there is still much insurers can do to improve financial results – such as enhancing the types of products they sell and engaging customers more effectively – even as they await better overall market conditions.

Real GDP growth, 2018

Europe	BRICS*
2.1%	5.8%
Western Europe	US
1.7%	2.9%

Source: Oxford Economics

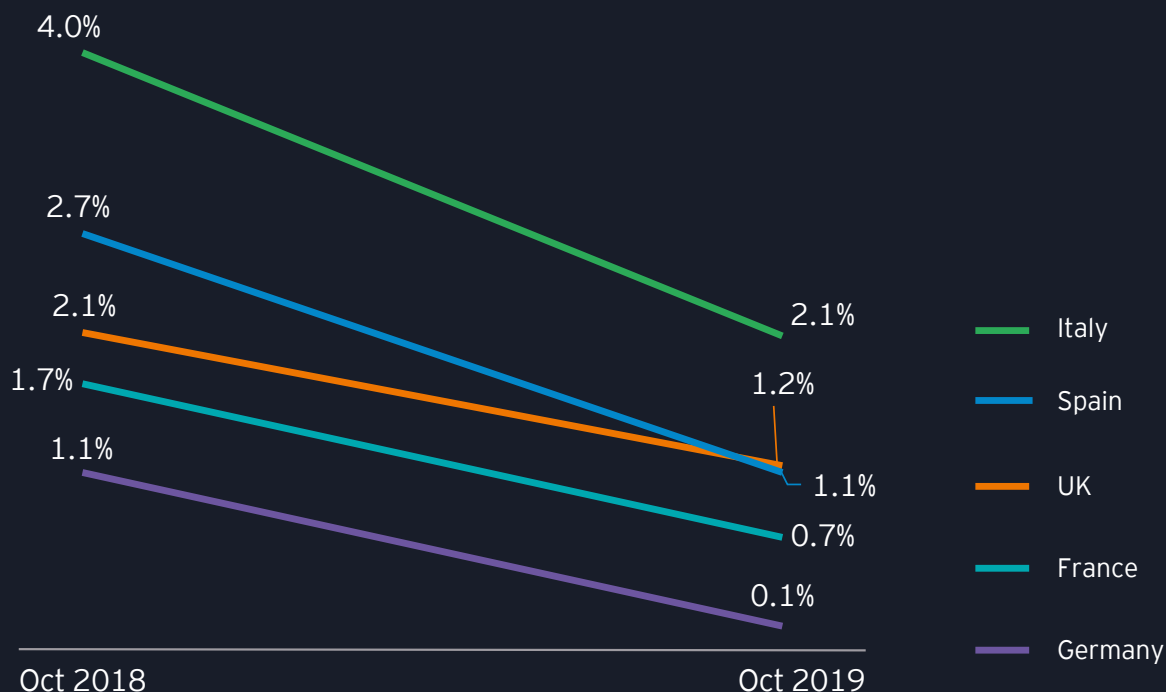
*Brazil, Russia, India, China, South Africa

One-year bond yields, as of 31 October 2019

UK	US
0.6%	1.5%
Germany	
-0.7%	

Source: S&P Global Market Intelligence

30-year bond rates, key European economies, October 2018-2019



Source: S&P Global Market Intelligence

Persistent barriers to growth: Low interest rates and weak economic growth are the biggest challenges to growth, especially for life insurers. European interest rates have been low for several years and now are near or below zero in several key markets. Flat productivity, low inflation and varying saving levels are other structural drags on the industry's long-term prospects in Europe.

Economic growth across Europe has been mostly anemic. Even the top-performing European countries, such as Germany, are now struggling. In such an environment, personal income and government/private spending are unlikely to grow. Thus, the societal need for insurance products is stronger than ever. That's why insurers need to develop new propositions, such as those related to financial wellbeing, while continuing to pivot toward fee-based products.

European Central Bank interest rates (deposit facility)

October 2008	October 2019
3.25%	-0.50%

Source: ECB

Propensity to save
(ratio of personal savings to personal disposable income)

UK	US
6%	8%
Germany	China
11%	39%
Italy	India
10%	22%
France	
12%	

Source: Oxford Economics

An imminent recession: With several markets on the brink of recession, there is a widespread lack of macroeconomic confidence. European insurance executives recognize that the industry is also vulnerable to a slowdown in other regions, including the US and China.

There is evidence to support these fears. The IHS Markit Eurozone Composite PMI, which tracks overall economic health, fell to 50.4 in September 2019. The drop from 51.9 in August indicated the weakest expansion of output across manufacturing and services in more than six years. A PMI below 50 represents economic contraction, which shows just how close Europe is to recession.

Along with the persistence of low interest rates, an overall economic slowdown would be a significant drag on results. Specifically, a recession will impact life insurers as return on investments dries up and consumers have less in savings. Non-life insurers will be impacted as government and private spending drops, affecting trade, consumption and overall economic activity. It's not surprising that many insurance executives are actively planning ahead.

Estimated GDP growth, 2019

Italy	Germany
0.0%	0.6%
UK	
1.3%	

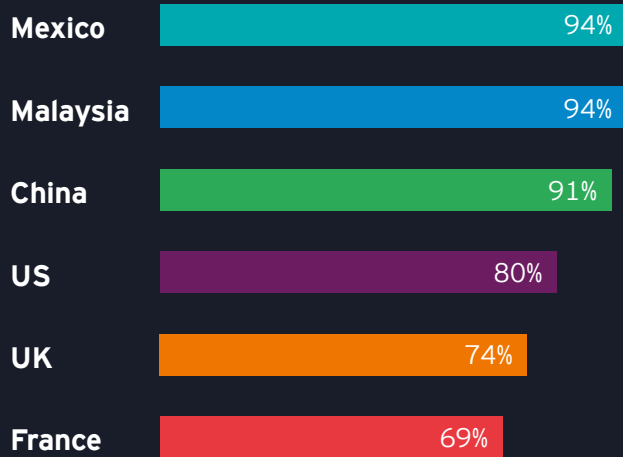
Source: Oxford Economics

A complex environment and challenging fundamentals

Shifting demographics: Europe's shrinking and aging population poses real challenges to both life and non-life insurers. Mass retirements and rising demand for healthcare place real pressure on social resources, as do high unemployment rates among younger generations. As governments pull back from providing pensions and trust in government falls among citizens, insurers have an opportunity to develop new products that can fill the gap and provide the security many consumers are looking for.

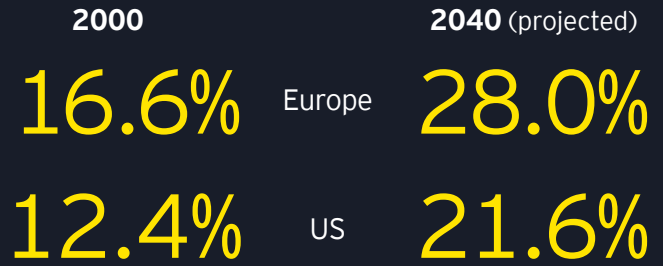
As millennials and younger generations delay marrying, buying homes and achieving other traditional milestones, their relationships with insurers will not follow the timing or trajectory of previous generations. Future generations may also naturally gravitate to new players in the industry, whether digital-only players or tech giants.

Millennials intending to buy a home in the next five years



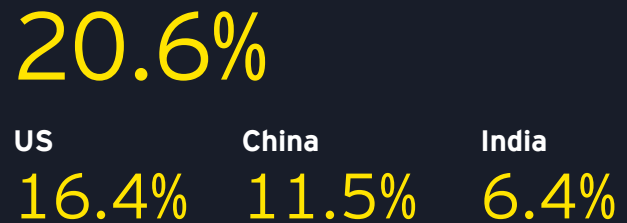
Source: HSBC

% of population 65+ years of age



2019 (estimated)

Average of top five European nations



Source: Oxford Economics

The inexorable rise in customer expectations:

Customer expectations are rising, and insurers in all European markets are conducting digital experiments to meet them. However, a material digital divide still exists between Northern and Southern Europe. Thus, transformation efforts and digital enhancements will deliver results at different rates across the region. Insurers need to recognize which expectations apply consistently across the region and which are specific to individual markets.

Some European insurers are improving the customer experience, using claims and policy data to enhance and tailor home insurance services. Others are openly sharing data, such as information on water damage and theft, so consumers can better assess their individual risks.

Such intuitive and personalized experiences, as well as seamlessly integrated sales and service channels (especially mobile), are now a baseline customer expectation. That better customer experiences have been at the top of the insurance agenda for several years running indicates that many insurers are still playing catch-up in this area. European insurers can start by capturing deeper customer insights into what their customers want and how they want to be served.

Scarce talent: Both life and non-life insurers need to rethink and transform their workforces. There is a need for both technical resources (like data scientists and data analysts) and more “digital thinking.” Ideally, insurers can attract workers who are comfortable with advanced technologies and capable of working faster and more flexibly, which will help drive necessary culture change.

Of course, labor regulations in some jurisdictions make it hard to turn over the workforce. The restrictions create an imperative for reskilling existing workers. Companies must ensure that new technology can generate the expected benefits even when the size of the workforce can't adapt quickly. Even more than their peers in other regions, European insurers must define the skills and talent they need for tomorrow and the longer-term, and then work to retrain current workers to help fulfill emerging needs.

Though unemployment is high, data scientists and analysts are scarce in Europe. Thus, the competition is fierce. Language differences can also be a challenge, because they limit opportunities to serve more expensive markets from cheaper locations.

Insurers must “play offense” – marketing more effectively and telling a better story about why the industry matters and why it's an appealing sector in which to develop a career. They can also demonstrate their ability to play a leadership role relative to climate change, the need for financial wellbeing and other pressing societal matters.

Insurers should also explore different ways to find the talent they need. They might, for instance, look to smaller cities with high-quality universities to find talent more cost-effectively. Smart-work arrangements and workplace virtualization will also help in this transition. Workforce transformation is not going to be an easy journey, but the time to start is now.

Intuitive and personalized experiences are a baseline customer expectation.

How insurers can move forward

Given recent results, European insurers have understandably focused on reducing costs and upgrading technology. These efforts have been underway for years, but have yet to deliver breakthrough returns.

The bottom-line pressures have forced insurers to explore creative options – from acquisitions of InsurTechs for ecosystem development to green-field deployments and “New Co” creation to cloud migrations. However, core legacy systems remain in place at many firms and in some cases prevent insurers from adopting new technology, including launching apps or moving to the cloud.

Compared to their peers in other regions, some European insurers are lagging in some innovation areas. Those firms that can apply lessons learned from leaders elsewhere can quicken the pace of their own transformations.

One of the most valuable insights is that a holistic, business-first approach to transformation generates more value than a technology-centric approach. In other words, technology is only one variable in the formula for long-term success for insurers. The key to delivering real results is focusing on specific business issues and performance improvement opportunities.

Europe’s future market leaders will have a clear purpose, empowered people and teams, strong technology and data capabilities, efficient operations and agile cultures. Thus, as they look to prioritize their investments and focus their finite resources, insurers must:

- ▶ Define their primary fields of play, including where they want to operate and how they will differentiate from competitors
- ▶ Identify specific business problems and performance improvements to address when deploying technologies
- ▶ Determine necessary skill sets and build the right talent base as part of a broad-based workforce transformation program
- ▶ Revise overall strategies based on a holistic assessment of customer needs and expectations

The need to master all of these dimensions of the enterprise reflects the complex matrix of issues facing the industry. For more detail on these trends, please see the [EY Global Insurance Outlook >](#)

Europe’s future market leaders will be more sophisticated in their use of technology and data, as well as more operationally efficient and culturally agile.

Key trends and imperatives

Non-life

The non-life and P&C business in Europe has been largely stagnant for the last five years.

Because executives understand just how challenging the fundamentals are, there's a pervasive sense of the need to try new and different approaches. It starts with gaining deeper customer understanding and embracing new ways to deliver value. The intense interest in ecosystems reflects that the innovation imperative has not been entirely subordinated to the need to reduce costs. The same is true of the drive toward new services and business models. Still, the balance between cost optimization and innovation investments will be a difficult one to strike.

Balancing present needs and future opportunities is also challenging. But there is considerable upside for those insurers that can undertake successful digital transformation programs and seize the opportunities offered by the cloud. The benefits will include enhanced experiences, stronger customer engagement and stronger competitive positioning relative to InsurTechs and other nontraditional players. Of course, digitization increases exposure to cyber risks, which means insurers must strengthen their cyber security frameworks.

However, insurers must adjust how they approach transformation initiatives, as past efforts have not moved the needle sufficiently. Consider that in 1990, a typical auto claims adjuster could handle four or five estimates per day; today, nearly three decades later, that number remains basically the same for much of the industry. Thus, insurers must define clearer business cases focused on specific business problems or performance improvement opportunities. Only then can they advance on the journey to growth and profitability in the digital age.

The European non-life sector at a glance

Gross written premium (GWP), USD

2018: **\$686 billion**

2013: **\$685 billion**

CAGR, 2013-2018: **0.0%**

Penetration (% of GDP)

2013		2018
2.8%	Penetration (% of GDP)	2.8%

Source: Swiss Re Sigma

66%	Loss ratio	67%
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29%	Expense ratio	29%
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95%	Combined ratio	95%
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Source: S&P Global Market Intelligence

The forces reshaping the non-life market through 2022

The following illustration is based on a survey of EY insurance professionals in Europe and follow-up collaborative workshops among the regional insurance leaders. It's important to note that the trends highlighted below are rated based on their likelihood and impact during the next three years.

Many of these trends will influence the industry on a longer time horizon or are not as likely to come to fruition. For instance, we believe both AI and blockchain will have a profound impact on the industry, though the full force of these technologies remains a few years out.

Others – such as the significant opportunities in commercial insurance, IoT-enabled products and services and on-demand or subscription models – will depend on the actions of insurers in the near and mid-terms. We also recognize that the impacts will be felt differently by different insurers.

For the EY perspective on these longer-term trends, please consult [EY NextWave Insurance: personal lines and small commercial report](#) > Note: NextWave reports on large commercial and reinsurance and life insurance will be released in the first half of 2020.

Top trends: Highest impact, greatest likelihood



Bubble size determined by number of responses

Other surveyed trends

- 6 Insurance for a sharing/gig economy
- 7 Risk prevention as a service
- 8 IoT and connected insurance
- 9 Rise of on-demand insurance
- 10 P&C M&A for scale and diversification
- 11 Emergence of subscription models
- 12 Emergence of new risk pools
- 13 New health risks and aging population
- 14 Partner/compete with InsurTechs
- 15 Preparing for next economic crisis
- 16 Migration to cloud
- 17 Open API/open insurance
- 18 Blockchain for transparency
- 19 Financial inclusion
- 20 Evolving ecosystems
- 21 Growing adoption of AI
- 22 Growing commercial insurance opportunity

1 Digitize sales and distribution: Customer insights, seamless experiences and digital tools are keys to success

In their relentless pursuit of growth, European insurers are exploring new business models, new products and services and new ways to deliver value to customers. Ecosystems are near the top of the list. By finding strong partners with complementary services, insurers can provide a holistic risk experience, with tools and data designed to both prevent and manage risk.

Through these new collaborations, insurers have moved past their fear of disruption and are focused on creating new customer value. For instance, some insurers are working with technology providers to install IoT devices to enable clients to better manage and even prevent risks.

Distribution patterns and practices are changing fundamentally. Brokers are seeking growth and market share through mergers and acquisitions (M&A) and expanded direct sales. So far, they have met with only limited success. At the same time, incumbent insurers are undertaking experiments with InsurTechs to ignite growth.

As they look to advance on their digitization journeys, insurers must start with deeper knowledge and clearer visibility into customer needs. These insights reflect the profound shift that is taking place in the industry – namely, the evolution from a product-centric to a customer-centric business. Put another way, insurers are more in the business of offering protection and managing customer relationships than they are in the business of selling and managing policies. Thus, they must start focusing on what their clients want and how they want it, both today and tomorrow.

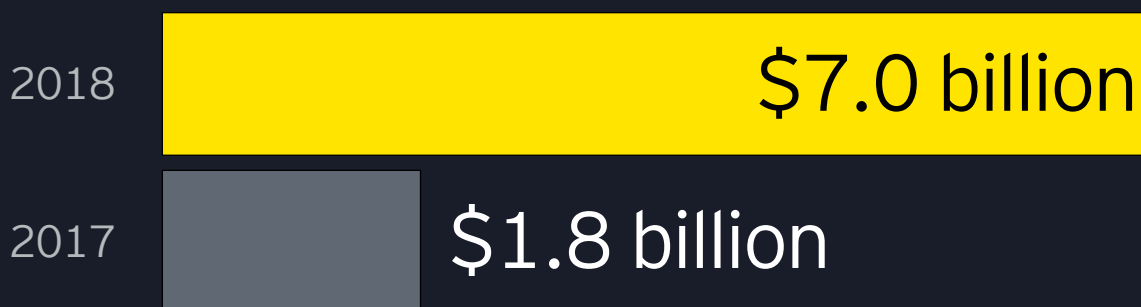
Within digital channels, that means mastering the ability to offer intuitive, streamlined and personalized experiences. For example, one leading European insurer has developed an algorithm that personalizes add-on policies in real time, with tangible improvements to policy uptake and premium gains.

To progress on their digital journeys, insurers must also enhance their cyber security frameworks. The recent past has demonstrated how insurers can be targeted. The number, frequency and sophistication of such attacks will only increase as the industry launches new digital offerings. Thus, the ability to validate and protect data, react quickly during a crisis, actively monitor happenings in internal operations and across the industry, and establish early warning systems will become increasingly important.

At the same time, insurers must ensure that digital channels offer integrated access to professional resources and specialists when consumers have questions or need guidance. Insurers will also need to make significant investments to retool, retrain and reskill their sales forces to make sure they maximize the returns on their digital investments.

No matter how many transactions are handled via digital channels, the future workforce must be prepared and equipped to meet the changing needs of customers. As the shift to digital is progressing gradually in many product lines, insurers need to increase the productivity and efficiency of the existing sales force with an eye toward reducing acquisition costs. That means investing in digital tools that enable their sales teams, rather than just creating channels for direct consumer interaction.

Aggregate deal value – insurance broking business, USD



Source: S&P Global Market Intelligence

2 Win the war for talent: Reskilling workers and finding new talent are essential to add value

As the European insurance industry changes quickly and profoundly, so too must the insurance workforce. Beyond the matter of an aging workforce and the prospect of large-scale retirements, the most pressing issue is filling large talent gaps, such as the need for more digitally savvy resources. Reskilling is critically important, because of tight labor regulations that make it harder to replace existing workers. Ultimately, insurers need to use multiple strategies to find the talent they need and create agile cultures capable of change.

The scarcity of skilled analytics professionals and data scientists is a particularly difficult problem, with especially large shortages in France and Germany. Insurance companies have had very limited success in attracting the top talent in these areas. They have launched innovation labs and then been forced to close them in several cases. In other cases, efforts to redo business models have been hampered by the lack of the right talent.

There are other talent gaps beyond technology. Tax, regulatory and digital marketing are all areas where insurers need specialized talent and new thinking. For some insurers, it may make sense to follow the example of the life sciences industry, which manages costs by hiring external consultants and suppliers to conduct research. Insurers could engage specialist partners to address specific gaps, such as managing and analyzing huge data sets. The emergence of the gig economy may be helpful in this regard. Shared services models will also become increasingly important.

Historically, insurers have been focused on managing the cost of headcount. Insurers must adopt a new mindset emphasizing the value their human resources can create. Indeed, the right talent and skills are necessary to realize the full value of technology and transformation investments.

Culture change is also necessary. Insurers need an infusion of data-driven mindsets, analytical thinking and digital-first perspectives into their cultures. To attract the right talent in this competitive environment, insurers must demonstrate a commitment to innovation and inclusive, digitally-friendly work. Additionally, they will need to instill a real sense of purpose that is well-aligned with the talent they are trying to target, especially around social, environmental and ethical concerns.

Data skills gap, Europe, in terms of unfilled positions

2020

769,000

2016

420,000

Source: European Commission

3 Achieve cost efficiency: The focus on bottom-line objectives must include high-impact investments

European insurers are highly focused on cost reduction. While weak financial performance and lack of growth make such a focus understandable, it also begs the question of how much more cost must be reduced and whether insurers are cutting the right costs.

For instance, medium-sized firms are reducing salaries, without necessarily addressing the opportunity to save significant amounts by optimizing the processes and activities performed by the employees whose jobs are being eliminated. Such firms may also seek to leverage potential tax advantages that come from increased efficiency. Another concern is whether the emphasis on cost reduction will distract insurers from the need to invest in technology upgrades and transformation. While there are encouraging signs that leading insurers are fully committed to their transformation investments, a potential recession might threaten at least some of these ambitions.

Insurers are exploring multiple strategies. They are entering partnerships for specific services, such as risk management. The modernization of core systems, transformation of IT operations and migration of some processes and data to the cloud are other common strategies. Of course, they require insurers to spend money before they can save money.

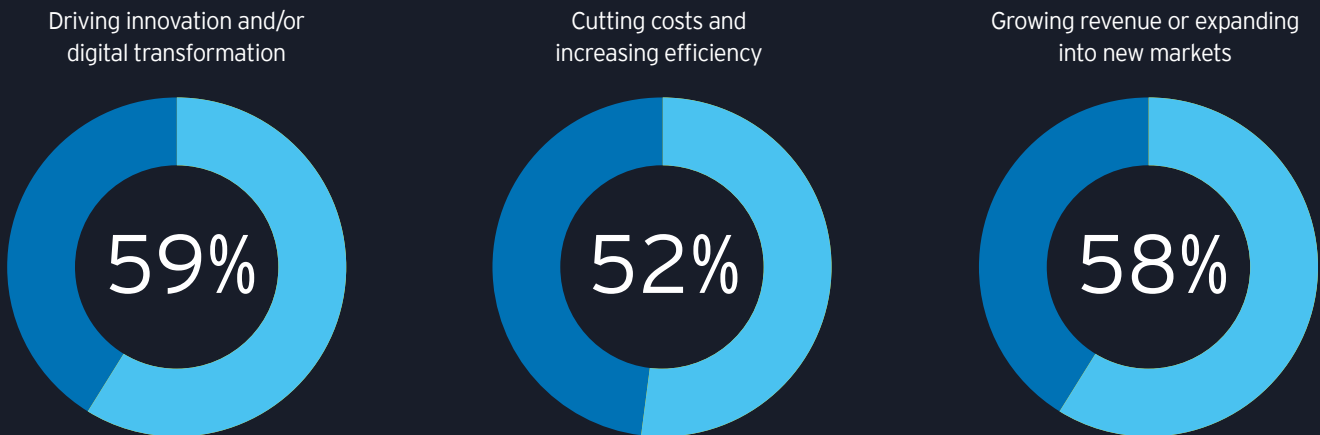
The cloud is an increasingly important area of investment. To lower their overall expenses and establish variable cost structures, many insurers are in the process of moving operations to integrated cloud infrastructures that support multiple geographies. Additionally, cloud migrations help enable digital transformation and better customer experiences. They also allow insurers to test new features and functionality much faster than in the past.

Some insurers have explored cost-sharing agreements to control the huge expenses associated with regulatory compliance. Other insurers are looking more closely at ways to monetize their huge data volumes. Some are applying robust fraud analytics to plug potential leaks in claims systems.

In this environment, small players must go beyond cost reduction to define clear strategies and find effective niches if they are to deliver positive results. Otherwise, they will struggle to thrive and may become M&A targets. In highly capital-intensive markets, mid-sized P&C insurers will seek partnerships or consolidation to survive this difficult era.

The bottom line is that all insurers will need to be highly efficient (both operationally and with their capital investments) and very creative in finding ways to control costs.

Share of Western European insurers that say moving enterprise applications to the cloud has exceeded expectations in



Source: IDC

4 Manage persistent regulatory pressures: Multidimensional regulatory actions require a coordinated and cost-effective approach

The regulatory agenda remains full for European insurers. Brexit, IFRS 17 and tax reforms in the US are among the high-impact shifts insurers must prepare for. The growing interest in data privacy and cyber security will raise the bar higher yet. With so many things happening at once, insurers are prioritizing their investments and efforts.

Privacy is a core concern for regulators. In light of the General Data Protection Regulation (GDPR), higher standards around data usage are likely. European regulators may follow a path similar to their counterparts in Singapore, where industry working groups are currently discussing the impacts of different types of data, what's technically possible and how to assess individual risks.

Insurers should look to GDPR standards as the building blocks for their core IT systems; in other words, they should use those standards to define their own data intake processes and procedures.

Many tax-related regulations also require attention. The digital services taxes implemented in France and being explored by the OECD are not likely to apply to insurers in the near-term. But insurers may lose their exemptions in the future, as they generate a greater volume of premiums and margins from digital channels.

Rapidly rising regulatory costs present an increasingly difficult challenge for P&C insurers. In an environment with low growth and low interest rates, higher compliance costs can be particularly damaging to the bottom line. Because they see little benefit beyond minimum levels of compliance, some insurers – especially mid-sized firms – are ignoring the opportunity to generate business value from the investments required by new or evolving regulations.

In an environment with low growth and low interest rates, higher compliance costs can be particularly damaging to the bottom line.

5 Navigate sustainability and climate change: Insurers have an opportunity to demonstrate leadership, prevent risk and provide comprehensive coverage

Climate change presents both great risks and opportunities to the European insurance industry. On the one hand, it's extraordinarily difficult to manage the aggregate risk in the portfolio, and a major climate event could have a devastating impact on individual insurers.

5x

Total economic losses caused by hurricanes in 2017, relative to the average of the previous 16 years

Source: Aon Benfield

On the other hand, the industry is uniquely positioned to help families, businesses and communities protect themselves and to capture considerable premiums for providing those protections. Of course, insurers must be able to accurately model and price the risk associated with climate change if they are to turn the potential upside into actual bottom-line value.

In addition to risk coverage, insurers can provide both preventive and recovery (or post-event) services. New products that deliver "risk prevention as a service" look to be fertile ground for innovation. Wildfire mitigation services are one recent example. In terms of recovery, insurers are increasingly using satellites and drones to review damages in inaccessible areas as a standard part of claims management. These advanced techniques will be even more important as more localities face more severe threats.

Insurers must also become more attentive to the "second-order" implications of climate change, such as wildfires, crop yield losses, shifting disease patterns and a growing risk of pandemics. Losses associated with such secondary perils have been increasing. For instance, they were a major contributor to the industry's record losses in 2017 (50%) and 2018 (62%), according to Swiss Re Sigma. More demand for shrinking water resources could exacerbate tensions between nations in global hot spots. Only the most forward-looking insurers are fully assessing the second-order effects and comprehensively modeling the full range of potential scenarios.

Insurers are also more conscious of their ESG (environmental, social, governance) positioning. There is an increasingly solid economic case to develop such policies. Both retail and institutional investors demonstrate a strong preference toward these asset classes. Multiple studies show that returns on ESG investments perform in line or above market averages and at lower levels of risks.

European insurers have taken the lead relative to ESG, divesting and limiting coverage more aggressively than their counterparts in the Americas. For instance, the largest European insurers and reinsurers are no longer providing coverage to coal-burning power plants because of their adverse environmental footprint.

A credible ESG position is also useful from a PR and talent recruitment angle. Rising generations of workers want to work for organizations that share their values and offer a clear sense of purpose, especially as they relate to ethical concerns and environmentally sound business practices. Showing leadership as society seeks to cope with climate change creates a strong selling point for insurers.

Average percentage of catastrophic losses covered by insurance, 2009-2018

29%

Source: Aon Benfield

Global protection gap for natural catastrophe risks, USD, 2018

\$221 billion

Source: Swiss Re Sigma

Proportion of insured global losses from secondary perils, 2018

62%

Source: Swiss Re Sigma

Insurers citing climate change as a key macro risk

2018: **23%** 2017: **6%**

Source: Blackrock

Imperatives for non-life/P&C insurers

- 1 Rethink the sales process and enable the agent of the future:** Identify the top human needs and best digital tools for each touchpoint and step; enable the agent of the future with training, support and digital toolsets; define where the intersections of human support and digital tools are most likely to occur.
- 2 Focus on the workforce:** Identify the specific skill sets and talent necessary for future success – both tomorrow and further into the future; reskill existing resources where possible; define clear career paths for the most important workers and determine which low-value tasks can be better handled via automation.
- 3 Find the intersection of compliance, cost efficiency and competitive advantage:** In assessing necessary investments to meet regulatory requirements, identify how the business can also benefit, such as the harmonization of finance, risk and actuarial systems.
- 4 Invest for cost efficiency and innovation:** Rethink the objectives relative to cost management and be prepared for significant investments if seeking deep structural cost reductions and breakthrough innovations.
- 5 Set the strategy for sustainability and climate change:** Determine the company's positioning relative to climate change at the highest levels of the organization; consider where to lead and advocate, and prepare for advanced modeling of risks and new premium generation.

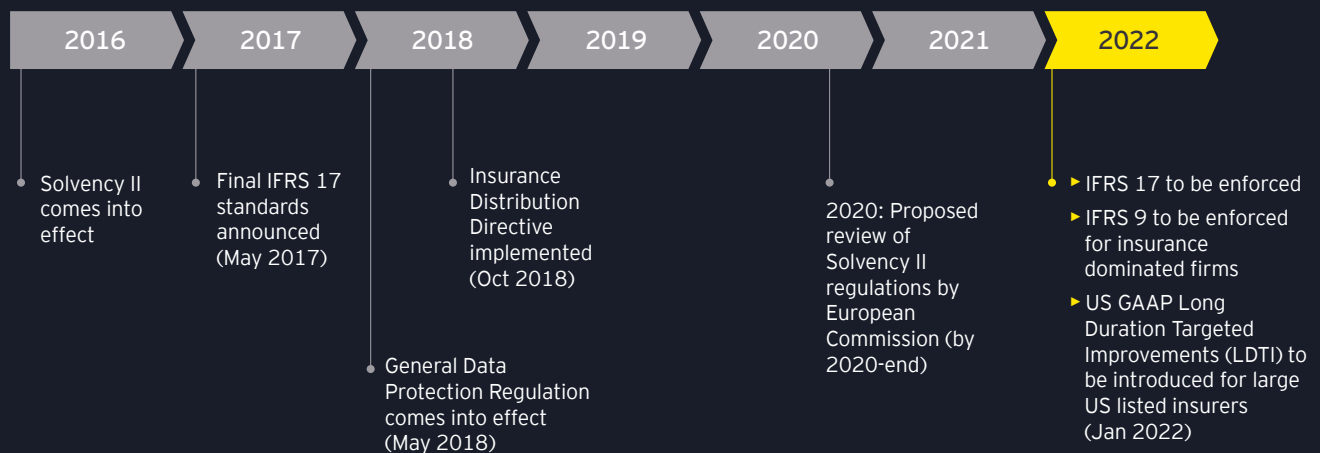
2019 vs. 2020: Last year's Insurance Outlook encouraged European P&C carriers to rigorously assess their value chains to determine which parts merited investment and which would be better offered through collaborations with partners. The growing interest in ecosystems suggests these efforts are well underway. Similarly, leading insurers in Europe are focused on building out their innovation cultures – another of our recommendations, and one that will take several years at minimum to realize.

For 2020, cost and margin pressures and tough market conditions necessitate strategic focus and rigor in prioritizing transformation investments. The targets include those moves that can pay dividends on the top and bottom lines, both now and in the future. It's both a daunting challenge and an achievable objective.

The regulatory outlook for Europe

European insurers face stricter regulatory scrutiny and increased requirements across multiple parts of the business. From financial reporting to consumer privacy, insurers must be prepared to invest more resources and energy in achieving compliance. The key is to look for ways in which these investments can drive tangible performance improvements.

Timeline of major European regulatory initiatives and changes



Life



Life insurers across Europe face extremely difficult fundamentals, starting with low interest rates and economic stagnation.

Many companies have already started hedging their interest rates as a result of Solvency II, which required adequate yield to meet capital and risk criteria.

A larger issue is that most life products are no longer very attractive to consumers, given the lack of returns. That reality means many life insurers must prioritize cost management strategies and the migration of clients to fee-based products. Collectively, these factors are forcing some insurers to ask if their present business models and product portfolios are fit for the future.

From 2013 to 2018, European life insurance premiums grew at a CAGR of just 0.5%, reaching US\$956b. Compared to 1.5% CAGR in the Americas, even insurers in emerging markets in Europe delivered flat or negative growth during the period. Low interest rates are a common problem across regions, but lower GDP growth is a unique challenge for European insurers.

The European life sector at a glance

Gross written premium (GWP), USD

2018: **\$956 billion**

2013: **\$934 billion**

CAGR, 2013-2018: **0.5%**

GWP, emerging markets* in Europe, USD

2018: **\$21.7 billion**

2013: **\$22.8 billion**

CAGR, 2013-2018: **-1.0%**

Source: Swiss Re Sigma

*Primarily Central and Eastern Europe

On account of falling interest rates, there has been a pronounced shift from savings-oriented products to protection products. Spain, the Netherlands, the UK, France and Germany witnessed a slump in 2018, due to weak sales of savings products. In addition, regulators are driving down the levels of allowed guarantees, further depressing demand for traditional savings business.

In fact, there hasn't been any guaranteed product in the market in the last six months. It's no surprise, then, that insurers are moving quickly to fee-based product offerings. Unit-linked contracts, which offer benefits similar to those of a mutual fund, are also gaining traction. They may, however, be less appealing in a recessionary environment.

Still it's worth noting that publicly listed companies, which typically have cost of capital as a key performance indicator, cannot afford to sell guaranteed products. However, numerous mutual insurers have enough capital to sell such products. The implication is that risk appetite and business structure play a key role in deciding the kind of products that insurers will sell.

This isn't the only way European insurers are tackling the challenges associated with low interest rates. They are also diversifying their investment portfolios by moving funds from traditional asset classes (e.g., government securities and equities) to alternative assets, demonstrating greater appetite for higher-yielding investments.

The overall profitability, or return on equity (ROE), of European life insurers was approximately 8.5% in 2018. However, in-force profitability will continue to suffer as interest rates remain low.

With pressure on both sides of the balance sheet, short-term business growth is extremely challenging for life insurers. Future success depends on their ability to develop innovative products and services, improve the customer experience and increase operational efficiency by using modern technology. However, new laws such as GDPR pose additional challenges, requiring costly upgrades to legacy IT systems to ensure compliance.

2013

3.9%

Penetration
(% of GDP)

Source: Swiss Re Sigma

2018

3.8%

12%

Operating
margin

11%

20%

Cost ratio

18%

Source: S&P Global Market Intelligence

Return on equity, life insurers, Europe, 2018

8.5%

Source: Swiss Re Sigma

The forces reshaping the life market through 2022

The following illustration is based on a survey of EY insurance professionals in Europe and follow-up collaborative workshops among the regional insurance leaders. It's important to note that the trends highlighted below are rated based on their likelihood and impact during the next three years.

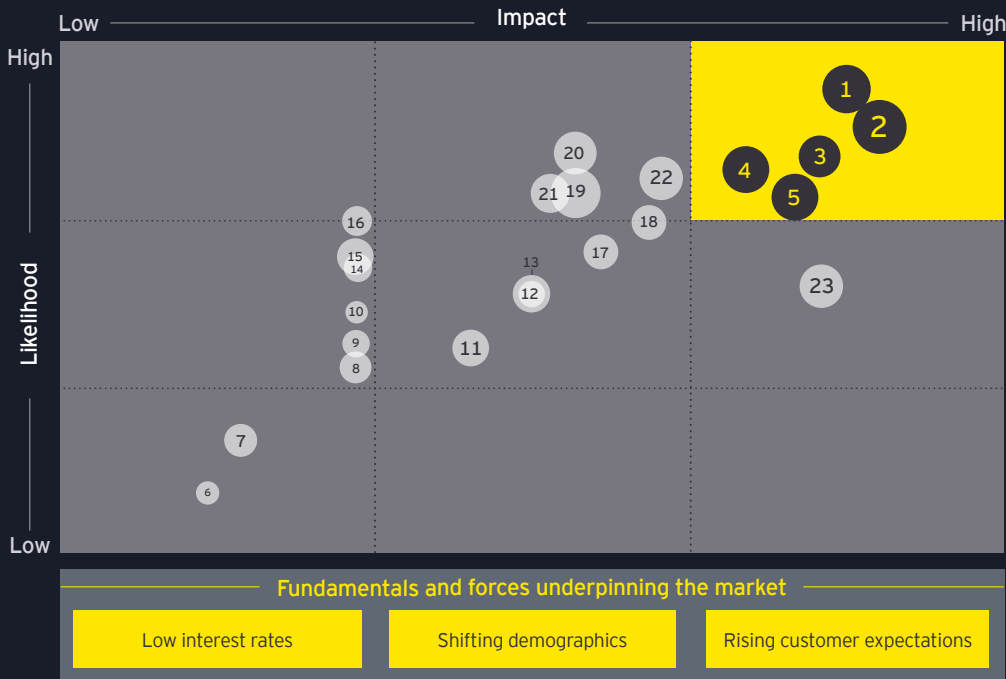
Many of these trends will influence the industry on a longer time horizon or are not as likely to come to fruition. For instance, we believe both AI and blockchain will have a profound impact on the industry, as will the continuing rise of InsurTechs, though the full force of these developments remains a few years out.

Others – such as the growth of on-demand or subscription models and the evolution of ecosystems – will depend on the actions of insurers in the near and mid-terms. We also recognize that the impacts will be felt differently by different insurers.

For the EY perspective on these longer-term trends, please consult **EY NextWave Insurance: personal lines and small commercial report** > Note: NextWave reports on large commercial and reinsurance and life insurance will be released in the first half of 2020.

Top trends: Highest impact, greatest likelihood

- 1 Manage persistent regulatory pressures 2 Digitize sales and distribution 3 Achieve cost efficiency 4 Leverage IoT and connected insurance 5 Promote financial wellbeing



Bubble size determined by number of responses

Other surveyed trends

- | | |
|---------------------------------------|--|
| 6 Financial inclusion | 16 Risk prevention as a service |
| 7 Blockchain for transparency | 17 Preparing for next economic crisis |
| 8 Open API/Open insurance | 18 War for talent and skills |
| 9 Insurance for a sharing/gig economy | 19 Sustainability and climate change |
| 10 Emergence of subscription models | 20 Partner/compete with InsurTechs |
| 11 Growing adoption of AI | 21 Growth and expansion of D2C |
| 12 Evolving ecosystems | 22 Migration to cloud |
| 13 Ethical considerations | 23 New health risks and aging population |
| 14 Rise of on-demand insurance | |
| 15 Emergence of new risk pools | |

1 Manage persistent regulatory pressures:

Low-cost and short-term approaches are often more expensive in the long run

Regulatory priorities will continue to shift away from prudential and financial reporting regulations and toward consumer protection, especially relative to data privacy and cyber security. Consistent with the industry's past approach, initial regulations are being managed primarily as a compliance exercise. However, forward-looking insurers will use new regulatory requirements to inform and influence product design and differentiation. Some insurers in the Nordic markets have already adopted this value-centric approach.

With regard to data privacy regulation, GDPR has raised the potential maximum fines up to €20m, or 4% of annual turnover for non-compliance. Insurers must take care to collect only the data that they need, and with explicit customer consent.

The risk of such fines, combined with the substantial cost of compliance with GDPR and other regulations, is forcing many insurers to rethink their footprint. Having many small entities operating in specific counties is no longer seen as a smart strategy. Regulatory pressures have a similar effect to legacy tech constraints, in that they drive some insurers to set up new companies right next to their old ones.

Financial regulation and reporting requirements are also increasingly stringent. The implementation deadlines for IFRS 17, while delayed, are still a concern for some insurers. The proposed global Insurance Capital Standard (ICS) will also have an impact, though it will be limited for most European insurers given the robustness of the Solvency II requirements already in place.

The impacts will be felt in multiple dimensions, including technology, data and reporting processes. There are even strategic implications. For instance, relative to IFRS 17, insurers will need to define new key performance indicators (KPIs) and other reporting metrics. These will require them to articulate new storylines for investors to better explain their performance. For firms that look beyond a "tick-the-box" approach to compliance, IFRS 17 can be a prompt for finance transformation.

A short-term and minimalist approach to achieving compliance might seem like a good idea in light of cost pressures, but it usually works out to be more expensive in the end. That's true because one workaround solution to meet requirements for one regulation almost invariably leads to a patchwork of many workarounds, which ultimately increases costs and risk. Thus, insurers should approach regulatory agendas with a broader and longer-term view, with the goal of finding opportunities to generate business value.

One compliance workaround invariably leads to a patchwork of multiple workarounds.

2 Digitize sales and distribution: Revamping channels goes hand-in-hand with rethinking products

Life insurers can and should be more digital in everything they do. That's true of both the products they sell and how they sell them. Current life insurance products are generally not digitally enabled or available through digital channels. As a result, customer needs are not yet reflected in the product pipeline or in product development processes.

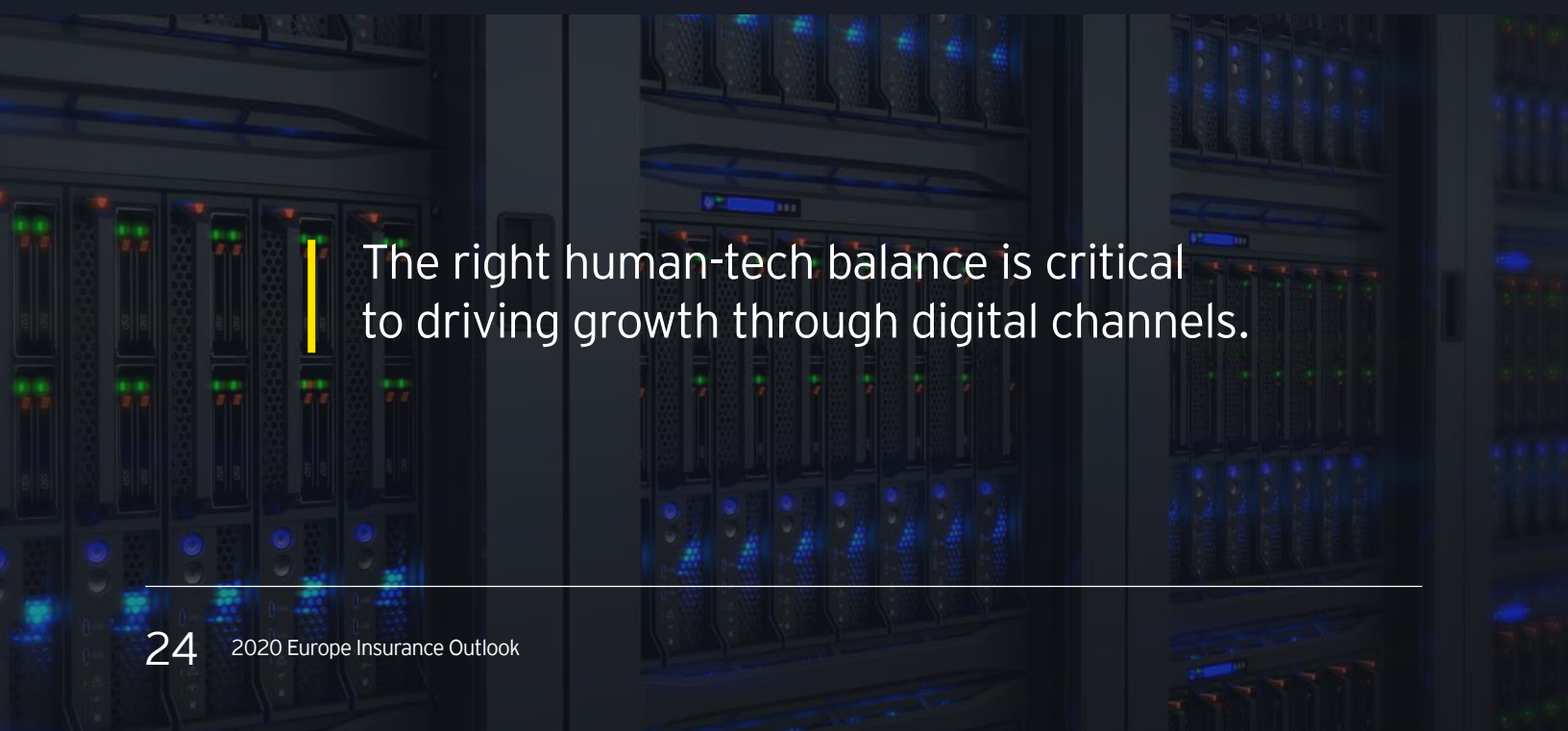
Furthermore, the value proposition for most products is too general and narrow. Most consumers are looking for a more holistic and personalized approach that is driven by their individual needs.

The digitization journey is inevitable, but some sort of face-to-face interaction will be necessary because of the complexity of life insurance products. The life industry needs to digitize the sales force to improve productivity.

An additional challenge is the tension between manufacturers and third-party distributors (including brokers) over ownership of the customer relationship, tensions that will only increase as omni-channel environments become more common.

At the same time, distribution dynamics are shifting in other ways. As life insurers simplify products, they can do more digitally, though they must simultaneously seek the right human-tech balance. In this transition, cyber security should always be front of mind for life insurers.

As digitization progresses, this focus should only increase as they hold large amounts of valuable personal information. Predictive analytics and advanced anomaly detection techniques are two ways insurers can strengthen their cyber security frameworks.



The right human-tech balance is critical to driving growth through digital channels.

3 Achieve cost efficiency: Reductions must be balanced with investments and forward-looking strategies

Nearly all major insurance groups in Europe are working toward cost targets they have set for themselves. Most insurers are on their second or third major cost reduction initiative. They are also taking a number of natural steps, such as divesting from underperforming businesses and moving to more sustainable business models. The continued maturation of consolidators and early signs of adoption among life insurers is another cost management trend worth watching.

Cost efficiency is a priority for several reasons. With no investment yields, life insurers are still paying 60% to 75% of their earnings as dividends, mainly to sustain the share price.

That leaves little funding to invest in modernizing legacy systems, which further delays insurers' readiness to develop new, future-ready business models. Reducing existing costs is one way insurers can free up money to invest in forward-looking programs.

Outsourcing is a common element in cost reduction strategies. Many companies have outsourced their policy and claims administration systems and process, though the results have generally been suboptimal. It's common for outsourcing partners to over-promise and under-deliver. They may also lack understanding of the business agenda.

There is consensus that outsourcing takes too much time and is not efficient in the end, despite costs that can be 1/10th or 1/5th as much as maintaining onshore operations. As a consequence, insurers are carefully deliberating their sourcing decisions, especially for business-critical processes.

A goal of cost reduction strategies must be to free money to invest in forward-looking programs.

4 Leverage the IoT and connected insurance: Future success will feature new data and greater analytical acumen

Life and health insurers recognize the need to adopt innovative technologies to get closer to their customers. IoT and connected sensors are among the top-priority technologies they'll use to do that.

Innovation in this space initially came on the non-life side, particularly with telematics, where Europe has been a pioneer. For example, Italy has the highest telematics adoption rates in the world. Leading brands and InsurTechs in protection and health have subsequently gained a significant presence across the continent.

IoT experiments and pilots are fairly advanced in many areas. Increasingly, they involve concepts from behavioral economics to help people reduce risks and make better decisions. Universities continue significant research into these areas, and insurers should look at incorporating relevant findings as they develop new value propositions and design new products.

This is an opportunity for insurers to boost customer engagement and deliver new benefits at a time in which their products are seen as increasingly uncompetitive.

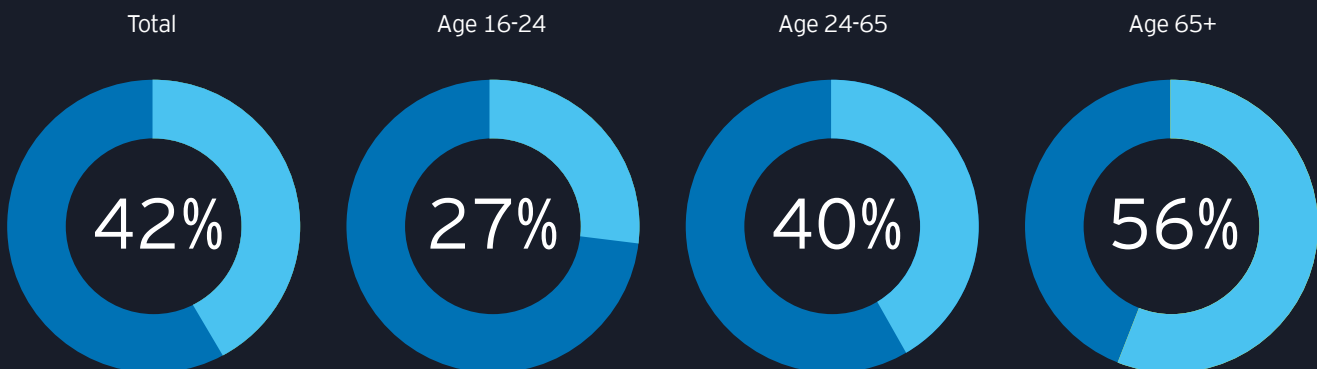
Ecosystems will be a way for insurers to realize the promise of connected insurance. Some will want to be at the center of their ecosystems, while others will want to provide niche services.

Data privacy regulations are one major barrier to insurers' adoption of IoT-based devices. GDPR, for example, may limit insurers' ability to collect data from these devices. Consumer reluctance to share data is another challenge.

With the changing definition of personal data (including location data), much of the sensor data insurers hold may fall within the scope of the new regulation. Usage of AI and other technology to create insights from these data might also be restricted, given the requirement to inform individuals about automated decision-making processes.

To resolve these challenges, insurers will need to evaluate new products and services relative to GDPR from the earliest phases of development. The goal must be to design privacy and trust requirements directly into their systems and data collection practices.

UK consumers who won't permit any company to use personal data



Source: Kantar

5 Promote financial wellbeing: Insurers can seize the opportunity to meet evolving social needs and remain relevant

As with other global regions, there is an increased focus on financial wellbeing in the European insurance industry, as well as other financial services sectors. However, insurers in Europe face a different set of expectations and opportunities. Consider how European consumers – especially on the continent – have shown much interest in digital aggregators and how they seem to prefer more direct product recommendations.

Additionally, European retirement planning programs are mostly state-sponsored, as in Italy and France. Others are compulsory, such as NEST in the UK. While private pensions are increasingly important due to the increasing pressure on public spending, financial wellbeing propositions will need to take into account the additional layer of complexity if they are to deliver a frictionless experience.

The bottom line is that changing customer needs require life insurers to modify their value propositions and develop products that meet those needs. Increased financial wellbeing is a great place for insurers to start. The big opportunity is to expand their offerings to fill the gap left as governments pull back from their commitments to provide pensions and other social services. More products for private health insurance and long-term care are promising areas.

Life insurers could also do more to deliver financial education and proper advice as part of solutions – potentially subscription-based – designed to promote financial wellbeing. Moving to outcome-based value propositions could provide significant differentiation.

European retirees who will be unable to maintain their pre-retirement standard of living

50%

Source: ING

Average number of years by which retirees in major global economies will outlive their retirement savings

Male		Female
10.3	UK	12.6
8.3	US	10.9
15.1	Japan	19.9

Source: World Economic Forum

Imperatives for life insurers

- 1 Rethink the value proposition in terms of new technologies:** Define how new technologies, such as IoT-connected sensors and devices, can contribute to increased financial wellbeing; identify specific life events and key moments where technology can facilitate better decision making and healthier financial behaviors.
- 2 Strategize on the optimal role and structure of finance and actuarial functions:** Consider process integration and data sharing to more efficiently and cost-effectively meet new regulatory requirements and improve visibility into financial performance and risk profiles.
- 3 Digitize distribution as part of a seamless omni-channel experience:** Identify key measures of success and ruthlessly measure against them; deploy the right tools and conduct the training necessary to improve sales force productivity; identify channels that are underperforming and consider closing them.
- 4 Take a holistic view of cost optimization:** Evaluate all the available levers to achieve increased cost efficiency; set clear targets and define what each lever can deliver in terms of savings; run scenario analysis on the impacts of an economic downturn on long-term plans and profits.

2019 vs. 2020: Last year's EY Insurance Outlook encouraged European life insurers to explore "new fields of play," including green-field approaches, and to consider outsourcing parts of the value chain. Agile, cloud-based platforms were yet another priority.

This year, the focus is on ensuring new technologies deliver value, including in the form of efficient distribution and improved omni-channel experiences. Given the regulatory agenda, it's no surprise that linking compliance investments to improved value has remained a priority from 2019 to 2020.

Country snapshots:

Key developments in top markets in Europe

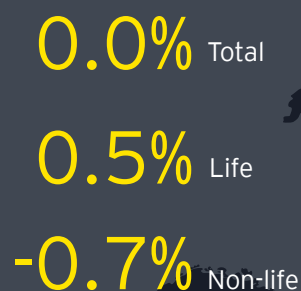


[Read full France report >](#)

France: Focus on digital transformation in a challenging environment

French insurers face a highly complex and highly regulated environment. Digital transformation is critical to creating new business models, enhancing customer experiences and satisfying the needs of increasingly demanding, informed and connected customers.

Compound annual growth in gross written premium, USD, France, 2013-2018



Source: Swiss Re Sigma

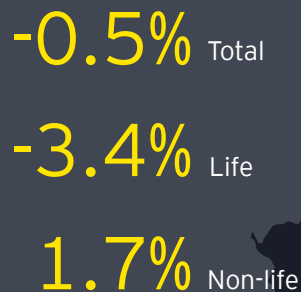


[Read full Germany report >](#)

Germany: Process digitization, cost optimization and workforce transformation

Digitization of key processes, cost optimization and workforce transformation are among the forces shaping the German insurance market, which has seen slow growth in non-life lines and negative growth in the life business. There has been significant consolidation in the market, and more is expected.

Compound annual growth in gross written premium, USD, Germany, 2013-2018



Source: Swiss Re Sigma



Italy: Rethinking strategies to navigate a complex environment

Italian insurers are grappling with macroeconomic and political uncertainty, low interest rates, rising competition, disruptive technology and regulatory shifts. In response, they are rethinking strategies, rationalizing their businesses and seeking to expand into new markets and products.

[Read full Italy report >](#)

Compound annual growth in gross written premium, USD, Italy, 2013-2018

0.2% Total

1.2% Life

-2.4% Non-life

Source: Swiss Re Sigma



UK: Transformation in a time of fundamental change

The UK insurance industry is fundamentally changing as macroeconomic, social and regulatory trends challenge both life and general insurers. Digital transformation and disruptive innovation have gone from being vague futuristic concepts to immediate-term action items on strategic agendas.

[Read full UK report >](#)

Compound annual growth in gross written premium, USD, UK, 2013-2018

0.7% Total

1.5% Life

-1.1% Non-life

Source: Swiss Re Sigma

Authors

Peter Manchester

EY Global Insurance Advisory Leader

EY EMEA Insurance Leader

pmanchester@uk.ey.com



Isabelle Santenac

EY Global Insurance Leader

isabelle.santenac@fr.ey.com



Luca Russignan

EY Global Insurance Knowledge Leader

luca.russignan@it.ey.com



Contributors

Stefano Battista

Franck Chevalier

Thomas Korte

Nilabh Kumar

James Maher

Louis Moran

Jeff Soar

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