



2020 UK Insurance Outlook

Trends and imperatives shaping the
life and non-life markets



Building a better
working world

The UK insurance industry is fundamentally changing. Macroeconomic, social and regulatory trends continue to 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.

The UK life and pensions sector is experiencing profound change. There are many new savers, and contribution rates are on the rise. But large numbers of citizens still lack sufficient savings and financial protection. A regulator focused on driving better customer outcomes is closely monitoring the retirement market in particular. Insurers, asset managers and financial advisors all face real pressure to transform.

The UK general insurance market continues to be fiercely competitive, but is troubled by sustained low profitability fueled by the predominance of online distribution channels (aggregators, brokers and other direct distributors). The battle for repeat business is keeping downward pressure on pricing, while a changing regulatory agenda increases costs.

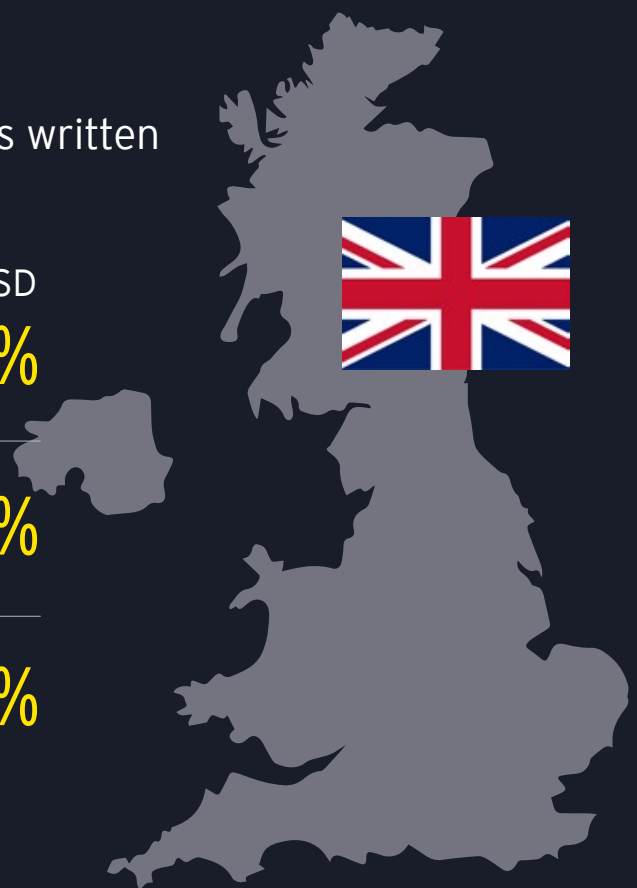
The specialty and commercial lines market is the world's largest, and truly global. Despite its traditional image, the pace of change is accelerating considerably, with increasing focus on new product development to address emerging risks, use of new technologies and evolving culture.

Against this backdrop, the UK insurance market is entering one of the most significant and intense periods of change in its history.

Compound annual growth rate, gross written premium, UK, 2013-2018

In GBP		In USD
3.9%	Total	0.7%
4.7%	Life	1.5%
2.1%	Non-life	-1.1%

Source: Swiss Re Sigma





Key trends

Life

The UK life and pensions market continues to undergo tremendous change. Automatic enrollment has brought more than 10 million new savers into the pension system, with the number still increasing, as contribution rates have risen to 8%. At the same time, the Pension Freedom reforms have given millions of over-55 consumers access to their retirement savings.

8.2%

UK life and pensions market growth, NWP, 2013-2018

20%

Millennials who think they are on track to save enough to retire, 2018

Source: Association of British Insurers (ABI), Pensions and Lifetime Savings Association (PLSA)

More change lies ahead. Despite the success of auto-enrollment, there is a growing mismatch between the amounts being saved for retirement and the expectations of future retirees; 9.5 million people remain outside the scope of auto-enrollment. The cost of long-term care as the population ages will only exacerbate the future gap. Growth in life insurance has been subdued, and most people still have less financial protection than they need.

Insurance providers, asset managers and financial advisors are transforming themselves to offer modernized digital platforms for customers and advisors. However, regulators remain concerned about whether customers are making good investment choices, along with the number who are swapping the right to a salary-based occupational pension for a lump sum investment.

Tackling these challenges will not only require an innovative industry mindset but also long-term, nonpartisan policy setting and a genuine focus across providers, employers, advisors and policymakers on improving customers' financial well-being.

Focus on retirement

The UK's baby boomers make up the richest generation ever to retire, having benefited from final salary pensions, the housing boom and a long bull run in financial markets. They are healthier and will live longer than the generations before them, though that requires them to make their money last through a long retirement.

To help boomers, advisors and insurers offer online wealth platforms that are shifting from a focus on accumulation to support for pension utilization. They are adding new tools and investment options and responding to the regulatory view of best practices. However, the focus remains on financial investments, which are a relatively small part of customers' total wealth, as roughly two-thirds is held in cash and property.

42%

Proportion of uninsured UK respondents surveyed by EY professionals in 2019 who "don't see a need for life insurance"

Source: EY Protection Research

Engaging consumers in protection

The Mortgage Market Review, instituted in the wake of the financial crisis, established much more stringent processes and qualifications for mortgage advisors. It also had the side effect of making it harder to advise on life protection alongside a mortgage sale, which had long been a key distribution channel.

Providers are now looking for new ways to engage consumers and encourage them to take out more protection. There is a greater focus on simpler direct products and the use of innovative technologies to streamline the underwriting process. Despite these steps, growth in the market remains limited, perhaps held back by the economic uncertainty resulting from Brexit.

Employee benefits as a key channel

One of the fastest-growing areas of protection is group life, critical illness and income protection offered as part of employee benefits packages, with a 9% rise in lives covered in 2017 alone. Providers and employee benefits consultants are responding to increasing demand from employers who are keen to promote financial well-being and offer comprehensive and flexible benefits packages.

The major employee benefits consultants, diversifying from their traditional role as advisors to pension schemes, have acquired online benefits platforms to broaden their proposition to employers. They are also getting more involved in the administration and investment propositions of defined contribution pensions. This presents an opportunity to providers, but also a threat of disintermediation.

Pension scheme de-risking

The UK's final-salary-pension schemes are largely closed to new members but carry long-tail liabilities for paying retirement income to existing members. The burden of funding these liabilities is highly sensitive to uncertainty from increasing longevity and changes in asset yields. Employers are increasingly looking to financial services providers to take on some – or all – of the risk.

Many schemes are moving through a life cycle that begins with a longevity swap transaction or a buy-in from a provider to cover part of the risk and ends with a full buyout of the scheme and transfer of the risk to the provider. This trend is expected to play out over the next decade, with a steady stream of transactions each year, as per EY analysis.

\$180 billion

"Money in motion" moving between asset classes and in inheritance each year

Source: EY analysis

Imperatives for life insurers

1

Transform for agility and resilience, adapting to the increasingly online marketplace and building operational resilience and cyber risk management into processes.

2

Address the full spectrum of customers' financial requirements by helping them articulate their needs and supporting them in making sensible choices, through access to human and automated advisors from multiple domains via collaborative technology.

3

Embrace Open Finance, allowing customers to see all their financial products in one place, which will make trust and value key differentiators.

Key trends

Non-life

In 2018, gross written premium (GWP) for UK risks was £50.9 billion, up 13.0% since 2013, excluding most Lloyd's business, reinsurance and marine/aviation risks. Of this total, £28.4 billion is personal lines while £22.5 billion is commercial lines, with commercial lines growing faster since 2013, at 16.2% vs. 10.6% for personal lines. Motor is the largest line of business with £16.5 billion GWP, followed by home at £5.9 billion GWP in 2018.

-1.6% points

Improvement in combined ratios, 2013-2018

-3.9% points

Improvement in loss ratios, 2013-2018

2.3% points

Increase in expense ratios, 2013-2018

Source: EY analysis

Across these markets, the combined ratio was 96.2% in 2018. This figure was 97.8% five years ago and has been gradually falling ever since. Steadily falling loss ratios, down from 65.5% five years ago to 61.6% today, help explain the drop. On the other hand, expense ratios have been increasing, rising from 32.3% to 34.6% over the last five years. The expense ratio trend is driven by increasing commercial lines, where expense ratios have risen from 34.1% to 40.8% from 2013 to 2018. In a highly competitive market with low margins and an increasing cost base, insurers must continue to optimize the business of today and extend and transform the business of tomorrow to keep pace. Laggards will be left behind.

The changing nature of risk

The underlying nature of risk, both well-established and newly emerging, is rapidly shifting. The profile of insured assets, risk types and the way risk is assessed are also undergoing profound changes. In commercial lines, we are witnessing a shift from tangible to intangible risks, such as the increasing demand for cyber insurance. In all lines of business, the Internet of Things and connected insurers will mean that risk can be monitored in real time, increasing the ability for insurers and customers to prevent risk.

Increased insight may also increase the strain on expenses, with a potential redistribution of the combined ratio from losses to expenses. The explosion of data and the corresponding focus on analytics to drive insights across the value chain will continue, but is yet to generate sufficient value as insurers fail to adopt quickly and lag behind big technology leaders.

Continued search for competitive advantage across product innovation and distribution

Fierce competition in most core general insurance lines (led by motor and property) is placing relentless downward pressure on pricing. Insurers must continue to strive for competitive advantage across product innovation and distribution, which must be an increasingly significant organizational priority vs. demand for traditional annual policies.

The lack of product, process and customer proposition innovation among incumbents is opening the door for disruptive, creative FinTechs and InsurTechs, who are seeking partnerships with insurers and distributors as a way to successfully break into the sector and bring the modern solutions and service capabilities that customers expect. In the commercial lines market, innovation is being driven through the use of managing agents and managing general agents, which are increasing in number and influence and giving insurers access to particular markets.

Legacy system modernization and platform optimization have become “stay-in-the-game” requirements, allowing insurers to lower cost and experiment with new business models. Simplification, together with fast and intuitive engagement with customers driven by straight-through processing and no-touch underwriting, must become the norm. Direct, digital and embedded sales will become the dominant channels for growth, generating cost savings for insurers. Leaders in the market will aggressively automate to cut costs while also enhancing the customer experience.

Continued cost pressure and regulatory pressure

In a market that continues to be soft, particularly in light of Ogden changes and rising claims cost inflation, there is an increased focus on operating expenses. While insurers have increased their focus on the cost reduction agenda, indemnity costs for many are not reducing and the cost of technology investment means expense pressure continues to mount. Insurers must continue to optimize the business of today and extend to transform the business of tomorrow.

From a regulatory perspective, fairness and value are key topics for the FCA, particularly pricing models and the fair treatment of both existing and new customers, which will have impacts on the economic models of the retail players. Other areas of scrutiny include a continued focus on culture and governance in relation to conduct risk, operational resilience and implementation of IDD requirements, which cover both product design and distribution. In addition to these regulatory headwinds, insurers have had to invest time and effort in preparing for Brexit.

Re-platforming is only going so far

The majority of players in the market are investing or planning to invest in the replacement of core administration platforms, an area in which they've long underinvested. Alternately, some firms are consolidating the changes that they have delivered and have shifted their focus to achieving transformation business objectives.

There is an increasing prevalence of two-speed architectures, with a new modern core replacing multiple legacy systems and processes, but with the periphery still impacted by a lack of true decommissioning. Further opportunities to fully integrate the end-to-end systems architecture and the customer journey still exist.

Insurers realize that to generate benefits beyond systems cost savings, they must focus on customer experience, product and process innovation and friction-free, end-to-end journeys.

Imperatives for non-life insurers

1

Focus on customer preferences and identify key pain points through customer journey mapping, re-engineer legacy customer processes using modern agile methodologies, and invest to create innovative and satisfying end-to-end customer experiences.

2

Invest in optimizing technology, being data-driven and insight-enabled in everything they do, rapidly identifying and precisely measuring risk, and then using that insight to proactively meet customer needs and develop innovative solutions and growth.

3

Develop new operating models, seeking out alliances and strategic partnerships, potential new distribution partners, and acquisition targets to create a wider ecosystem with the goal of improved speed to market through access to wider capabilities, talent pools, and cutting-edge technology solutions leading to greater customer and market share.



Key trends

Specialty and commercial lines

The London Market is the largest global center for commercial and specialty risk, controlling more than USD77 billion of premium, employing 52,000 people and generating more than a quarter of the City of London's contribution toward UK gross domestic product.

The presence of the 333-year old Lloyd's marketplace has established London as a unique hub of global specialty insurance activity, writing more than half of the premium of the London Market through its syndicated model. London Market specialty firms are truly global in nature, with 80% of premium underwritten being international risks.

Gross written premium growth in USD, UK, 2013-2017

Converted to USD from source data at £1 = \$1.29

	Total (billion)	Lloyd's (billion)	Company (billion)
2017	\$77	\$43	\$34
2016	\$68	\$39	\$29
2015	\$62	\$34	\$28
2014	\$62	\$33	\$30
2013	\$65	\$34	\$31

Source: IUA London Company Market Statistics Report (2014-2018)

The London Market is at the forefront of developing new products to match changing commercial buyers' needs, such as cyber insurance. Yet, it remains behind the curve in technology. In recent years, the financial environment has been challenging, with squeezed rates, high operating costs and pressure on distribution margins – alongside the looming backdrop of Brexit uncertainty – all leading to a decreased share of the global specialty market.

As it looks to shed its antiquated image, the Market is evolving by adopting innovative technology, becoming more progressive and inclusive and increasing efficiency across the value chain.

London Market's global position among markets for commercial and specialty risk

#1

Source: *London Market Matters Report*

Proportion of property insurance of all business written in the London Market, 2013-2017

25%

Source: *IUA London Company Market Statistics Report*

Market consolidation

London Market carriers have seen a significant uptick in mergers and acquisitions (M&A) activity in the last 12 to 18 months. Smaller players have been looking to increase scale and maintain relevance through in-market consolidation or seeking new partners, including private equity firms, willing to support a growth agenda. Following the Lloyd's Decile 10 review and its focus on enhancing Market performance, several run off consolidators have sought to acquire a Lloyd's platform for expected run off opportunities. We anticipate further M&A activity in the foreseeable future linked to these drivers.

Consolidation among London Market brokers continues to increase, with valuation multiples as high as 15x EBITDA. With continuing pressure on rates and margins, greater scrutiny on inefficiency of distribution channels (e.g., in Lloyd's), and global brokers' focus on expansion, consolidation is expected to continue into late 2019 and beyond.

Market modernization

As the world continues to change at pace, the London Market needs to adapt to the changing needs of commercial consumers. In 2019, we saw London Market firms embracing technological change. This will increase even more in 2020 as firms seek to improve or replace internal platforms with agile, cloud-based capabilities that minimize legacy risk.

Investment in innovative InsurTechs such as the award-winning Insurwave are revolutionizing the marine insurance market, and possibly beyond. We have also seen a host of industry veterans launching PE-backed startups that offer strong industry experience coupled with leaner business models and systems that are free of legacy data issues.

In May 2019, Lloyd's unveiled a bold, new vision called "The Future at Lloyd's" that outlined a strategy to create better value for customers through cutting-edge risk management products and services, simplifying access to the Market, reducing the cost of doing business, and building an inclusive, innovative culture that attracts the best talent.

Diversity and inclusion

The growth of the #MeToo movement in 2018 and 2019 cast a spotlight on the insurance industry, urging it to shake off its archaic image and become a more progressive and inclusive environment where the brightest minds are proud to work. Lloyd's has put cultural change at the heart of its strategy to reform the Market, and in March 2019 launched a five-point plan to create a safe and inclusive working environment. Diversity and inclusion are fast becoming a key focus for the Market, along with addressing the skills gap as firms consider how they attract and retain the right talent to support their future business models.

Cost management

Most carriers are looking to make step-change reductions to their expense ratios as management and acquisition costs become unsustainably high. For many firms, this has included a reduction in global footprint. Coupled with a series of catastrophic events and mixed underwriting performance across the Market, this has created a challenging environment for the specialty market.

In 2019, Lloyd's responded by introducing performance reviews of unprofitable syndicates, along with its Decile 10 initiative to improve or remove those lines performing at the bottom 10% of business in each syndicate. This portfolio remediation, along with improved capitalization, led to S&P affirming Lloyd's financial strength rating of A+ and revising the insurer's outlook from negative to stable. Similarly, brokers continue to seek margin improvement, particularly in the mid-market through new technologies.

Imperatives for insurers

1

Consider opportunities to improve your diversity and inclusion and talent acquisition. This is a clear market imperative for specialty firms, and is essential to operate and compete successfully both now and in the future.

2

Align your Lloyd's platform to The Future at Lloyd's. Many specialty insurers have Lloyd's platforms, and almost every intermediary operates in the Lloyd's marketplace. The Future at Lloyd's strategy will therefore have a significant impact across the UK specialty insurance market. Firms should consider how the strategy will impact their organization, and allow them to reduce cost & grow their businesses.

3

Focus on total expense ratio reduction. Significant opportunities remain to restructure operations and processes to address high expenses for specialty firms- in particular within Underwriting and associated support functions (for insurers), and within placement and account management functions (for intermediaries).

Contacts

Rodney Bonnard

EY UK Insurance Leader
rbonnard@uk.ey.com

James Tufts

EY UK Insurance Life & Pensions Leader
jtufts@uk.ey.com

Benedict Reid

EY UK Specialty Insurance Leader
breid@uk.ey.com

Richard Reed

EY UK General Insurance Leader
rreed1@uk.ey.com

Simon Burtwell

EY UK Insurance Advisory Leader
sburtwell@uk.ey.com

For insights into regional trends and imperatives, please review the 2020 Europe Insurance Outlook.

[Read report >](#)



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.

© 2019 EYGM Limited.

All Rights Reserved.

EYG no. 005474-19Gbl

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