

2020 US and Americas Insurance Outlook

New talent, innovative products and
richer customer experiences top the
growth agenda



Building a better
working world



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

For insurers in the US and across the Americas, it's both a very challenging time and a most promising one.

Proactive insurers that boldly address their greatest threats and capture the transformative potential may finally accelerate their growth and escape the profitability pinch of recent years.

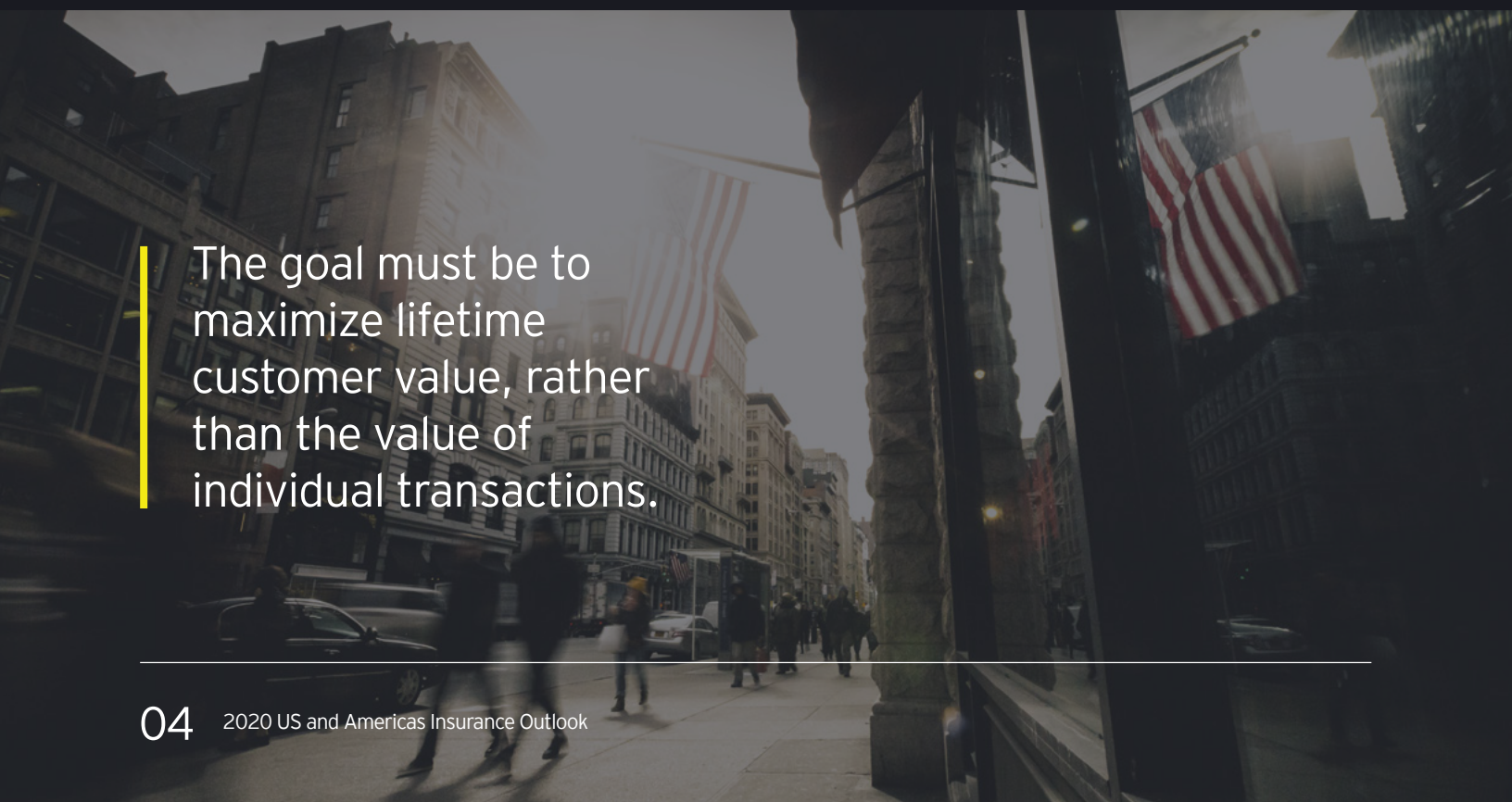
Interest rates remain at historically low levels and are declining further. This is simply the new normal to which insurers must adjust. At this time, they remain overly reliant on investment returns. Thus, the industry should prioritize underwriting discipline and innovation. Such a mindset shift will alleviate the constraints of sluggish growth and empower insurers to make big, bold investments in new capabilities, new products and new talent to satisfy rising customer expectations through enhanced experiences.

Many of the issues addressed in our 2020 Insurance Outlook were prevalent in previous editions, suggesting that challenges haven't been fully addressed or opportunities seized boldly enough. The sub-par payoff on previous

transformation and technology investments is further evidence that insurers must adjust their approach and reorient their priorities.

In developing their business strategies, insurers should focus on transforming operations, evolving their talent and cultures, and enhancing customer experiences. The goal must be to maximize lifetime customer value, rather than the value of individual transactions. That will require the rapid development and deployment of new product types that are more transparent, more customer-centric and offer better outcomes, such as more flexible auto and home policies and simpler and more transparent life products.

At the same time, insurers need to focus on operational efficiency to successfully manage costs. It's a fine balance to strike, but a necessary one for achieving success in the next three years and reigniting long-term growth.



The goal must be to maximize lifetime customer value, rather than the value of individual transactions.

This report details the actions insurers must take to move forward if they are to achieve their strategic and operational goals and unleash growth.

Non-life:



- 1 **Win the war for talent:** Right people and right skills enable more agile cultures and higher performance
- 2 **Digitize customer experience, sales and distribution:** Customers and agents expect a fine balance of high-tech and high-touch
- 3 **Collaborate and compete with “Big Tech,” InsurTechs and other third parties:** Platforms and ecosystems will accelerate product and service development
- 4 **Achieve operational excellence and cost efficiency:** The focus on bottom-line objectives will only intensify, but critical investments must be funded

Life:



- 1 **Deliver financial wellbeing:** Richer value propositions and world-class products will strengthen consumer relationships
- 2 **Win the war for talent:** Key roles must be reskilled and the employee experience redesigned
- 3 **Achieve operational excellence and cost efficiency:** Costs must come down and processes made more efficient to fund transformation and growth initiatives
- 4 **Manage persistent regulatory pressures and focus on customers’ best interests:** Compliance investments can promote capital efficiency, competitive advantage and customer satisfaction

This year’s report also features snapshots of specific markets in the region and reviews of last year’s imperatives. 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 insurance industry is still feeling the effects of a low-growth decade. Penetration across both life and non-life segments has weakened in the last 10 years, especially in the US. The number of policies sold has fallen, as products that were once attractive to consumers no longer meet their needs.

Social inflation is yet another challenge for insurers. The perception of economic inequality coupled with mistrust of institutions is driving more lawsuits, larger jury awards and broader definitions of tort and negligence. For insurers, social inflation translates to more claims, higher loss ratios and the need to raise premiums.

Insurance penetration rates, US

2008		2018
3.9%	Life	2.9%
4.5%	Non-life	4.3%

Source: Swiss Re Sigma

Absolute growth in life insurance policies sold in the US vs population growth, 2008-2018

Population growth:	Life policies sold:
+7.6%	-3.1%

Source: Oxford Economics, National Association of Insurance Commissioners

Rising expectations for better customer experiences:

As a baseline, consumers now expect highly intuitive and personalized customer experiences and seamlessly integrated sales and service channels (especially mobile). 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 and remain vulnerable to non-traditional players, especially those offering sophisticated customer interactions. Indeed, insurers can learn much by emulating the strategies and practices of Big Tech firms, InsurTechs and other experience leaders.

Differentiated and frictionless customer experiences will be critical to driving revenue growth and increasing profits in the coming years. In designing touchpoints and experiences, insurers must start with customer needs, rather than their own operational constraints, as they've often done in the past. Forward-looking insurers will develop full customer lifecycle journeys by incorporating better data and richer insights about needs and preferences to create experiences that delight customers and simplify interactions.

These interactions will reflect that insurers can deliver value not only through risk management, but also proactive risk prevention. From personal to commercial lines, the ability to nudge policyholders towards safer behaviors has the potential to increase engagement and reduce risk exposure.

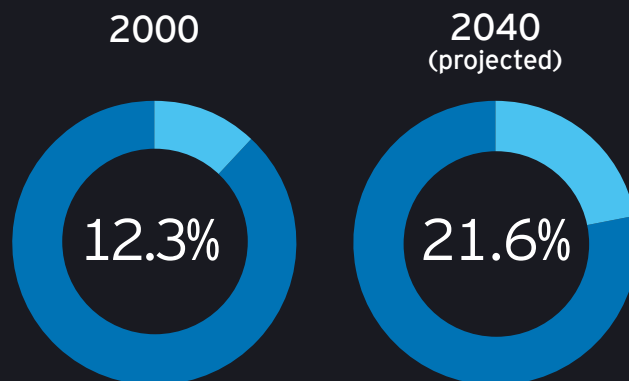
The Internet of Things (IoT) and connected devices will enable the formation of new ecosystems where consumers can find a range of services. Insurers must decide what role they want to play in these ecosystems. There is a broad spectrum of options, from owning the entire ecosystem, to offering specific products, to providing capital.

Shifting demographics: Populations in the largest insurance markets in the Americas are not shrinking or aging as dramatically as in other parts of the globe, largely due to immigration. However, insurers are still susceptible to large-scale socioeconomic change. Those shifts include the mass retirement of baby boomers, a large retirement savings gap and the delays among millennials and younger generations in marrying, buying homes and achieving other traditional milestones.

Insurers can't take for granted that future generations of consumers will continue to choose traditional insurance products, as previous ones did, or that they will prefer incumbents over new players in the industry.

At the same time, they must prepare for the day – not too far off – when the US population gets noticeably older. Those preparations should include studying the lessons of insurers in other regions where these trends are more advanced and developing world-class products that cater to the overall financial wellbeing of an aging population.

% of US population 65+ years of age



Source: Oxford Economics

Demographic shifts present an opportunity for insurers to develop products focused on financial wellbeing.

A complex environment and challenging fundamentals

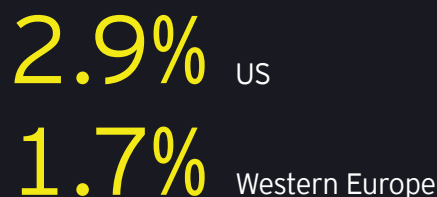
Persistent barriers to growth: Low interest rates remain a big challenge to growth, especially for life insurers. While US interest rates went up during 2017-2018, they have returned to 2016 lows and may fall further. Beyond interest rates, flat productivity, low inflation and low savings propensity are other structural drags on the industry's long-term prospects in the Americas. Fortunately, economic growth rates have been higher than in other developed markets. A combination of these forces is driving the development of new value propositions, such as those related to financial wellbeing, and facilitating a shift toward fee-based products.

Operational excellence should be the goal for several reasons. First, it's the primary way insurers can meet their bottom-line objectives for cost reduction in the near term. Second, it will help free badly needed funds for the transformation investments necessary to spark growth, improve product development and promote better customer experiences.

A looming recession: It's hard to overestimate the current fear of recession and lack of overall macroeconomic confidence, which threaten the industry's recent run of successful results. Many industry executives view a global economic slowdown as inevitable and are actively planning to prepare their companies. A slowdown will impact life insurers as return on investments dries up and consumers have less savings. Non-life insurers will be impacted as government and private spending drops, affecting trade, consumption and overall economic activity.

There is evidence to support these fears. The Institute of Supply Management's non-manufacturing index, which monitors overall economic activity in the US recently dropped to its lowest level since August 2016. Along with the persistence of low interest rates, an overall economic slowdown would be a significant drag on results.

Growth in gross domestic product, 2018



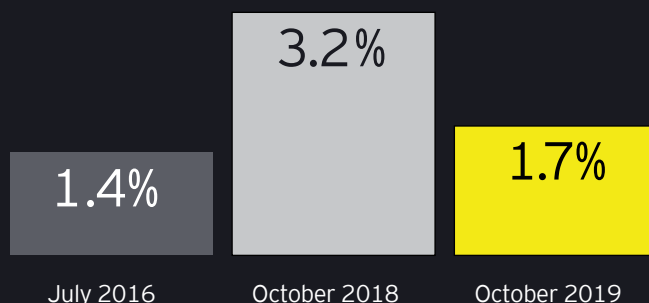
Source: Oxford Economics

US CFOs expecting a recession by the end of 2020



Source: Duke University survey, 2019

10-year yields on US Treasury Bonds



Source: S&P Global Market Intelligence

Scarce talent: A number of cultural and people issues bear special mention because they will matter more in the digital era, as reflected in the top trends survey results that inform this report (see pages 13 and 21). Both life and non-life insurers need more “digital people” – that is, those who are comfortable working with advanced technology, intuitively understand the need for personalization, and are capable of working in new ways. Such workers work faster and more flexibly, helping drive culture change through fresh thinking, more extensive collaboration and increased willingness to experiment.

Forward-looking executives recognize that the right talent and skills are necessary to realize the full value of technology and transformation investments. Thus, the need to reskill the organization is urgent; insurers can't wait for organic turnover as an aging workforce retires, though that will help to accelerate the shift to different skillsets.

Insurers must “play offense” – marketing more effectively and telling a better story about why the industry matters and why it's an appealing sector to develop a career. Some insurers may position themselves similarly to tech companies (especially relative to their work environments), while others may focus on the societal mission to protect individuals, families and businesses. Technology upgrades are also required, as new grads and the most skilled workers don't want to work with old tech. Here again, talent, technology and transformation are inextricably linked.

Ultimately, insurers need to use multiple levers to create a different culture which is innovative, agile and willing to take calculated risks. It is not going to be an easy journey, but the time to start is now.

Average age of insurance agents in US

56

Source: LIMRA

| Insurers must tell a better story about why the industry matters.

How insurers can move forward

In response, insurers have understandably focused on upgrading their technology, which is a tool to increase efficiencies in response to ongoing margin pressures. These efforts have been going on for a decade and have yet to deliver the hoped-for returns. That's why more firms are exploring creative options – from acquisitions of InsurTechs to greenfield deployments and “New Co” creation to cloud migrations. Core legacy systems are still in place at many insurers, however, and in some cases prevent insurers from adopting new technology, launching mobile apps, or moving to the cloud.

But while there is much technology work to do, insurers must adopt it with a more holistic approach.

Even the most powerful tools won't solve problems by themselves. That's why they shouldn't be deployed for their own sake or configured to replicate the same capabilities as older tech. Instead, new technology should produce substantial value by solving specific business problems (like increasing customer engagement) or meeting well-defined objectives (like shortening application processes). Indeed, technology is just one variable in the equation for successful long-term change.

Tomorrow's market leaders will be technology-enabled, data-driven and operationally efficient, but also people-powered and purpose-led, with strong cultures that are adaptive, engaged and capable of rapid change. 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
- ▶ Identify specific business problems and performance improvement opportunities to address when assessing and deploying technologies
- ▶ Determine necessary skillsets and build the right talent base as part of broad-based workforce transformation
- ▶ 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 our [**Global Insurance Outlook**](#) >

Tomorrow's market leaders will be technology-enabled, data-driven and operationally efficient, but also people-powered and purpose-led.

Non-life

The recent history and near-term prospects for P&C insurers can be characterized as a “good news, bad news” story.

Growth dynamics improved in 2018, with gross written premium increasing 5.1% after an average of 4.5% from 2015-2017, largely due to favorable economic conditions and the recently improved pricing landscape. But, over the longer term, growth is likely to remain sluggish.

Trade and political uncertainty are expected to limit P&C growth and profitability, particularly on the commercial side. While the current pricing environment is favorable to insurers – 15 out of 22 top players realized more than 20% growth in net income in the first half of 2019 – margin pressure remains intense on account of high claims payments and persistently high expenses.

Accelerating growth is a key priority. It was a central theme in the *2019 EY US & Americas Insurance Outlook* and remains a high priority this year. Insurers' ability to enhance customer experiences and rapidly design and launch new products and services holds the key.

The Americas non-life sector at a glance

Gross written premium (GWP)

2018: **\$1 trillion**

2013: **\$0.9 trillion**

CAGR, 2013-2018: **3.0%**

Penetration (% of GDP)

2018: **3.7%**

2013: **3.7%**

Source: Swiss Re Sigma

Non-life: Key trends and imperatives

As the velocity of market change increases, insurers must seek ways to “industrialize” product development so that they can deliver products faster and at larger scale than ever before. In designing products, they should seek a balance between hyper-personalization and simplified components to ensure a seamless customer experience. In launching them to market, they must set firm deadlines for pilots, establish clear metrics to assess performance, and thus gain quick insights into which offerings should be scaled.

Advanced data analytics, connected sensors and artificial intelligence (AI) will be critical in shortening the product development cycle. Some leading insurers are already experimenting in this space. In fact, innovators have been able to reduce launch timelines from years to months. Such industrialization will become a key determinant of success in the near future.

Growth is also likely in other areas. For example, both the small and the middle market commercial segments hold promise for insurers in the Americas. Cyber is another significant growth opportunity. But serious challenges must be navigated if insurers are to sustain the recent performance uptick.

Successful digital transformation programs are the key for insurers to maximize the upside (in the form of richer value propositions, more efficient operations and enhanced experiences) and minimize the downside (in the form of slim operating margins, rising competitive threats and fraying customer relationships).

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.

To avoid the disappointing returns on previous investments, insurers must define clearer business cases focused on specific business problems or performance improvement opportunities. That is the right way to set a course and then advance on the journey to growth and profitability.

	Loss ratio	Expense ratio	Combined ratio
2018:	67%	32%	99%
2013:	62%	32%	94%

Source: S&P Global Market Intelligence

To improve the fundamental numbers over time, insurers must adjust their approach to transformation initiatives.

The forces reshaping the non-life market through 2022

The following illustration is based on a survey of EY insurance professionals in the Americas and EY regional insurance leaders. It's important to note that the trends below are:

- ▶ Ranked based on their likelihood and impact during the next three years
- ▶ Underpinned by the fundamentals and forces defined above (e.g., macroeconomic challenges, rising customer expectations)

Many of these trends will shape the industry on a longer time horizon or are less 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 next few years. 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

- | | |
|---|---|
| 5 Ethical considerations | 16 IoT and connected insurance |
| 6 Blockchain for transparency | 17 Growing adoption of AI |
| 7 Emergence of subscription models | 18 Persistent regulatory focus |
| 8 Emergence of new risk pools | 19 Migration to cloud |
| 9 Risk prevention as a service | 20 Increasing importance of financial wellbeing |
| 10 Evolving ecosystems | 21 Preparing for next economic crisis |
| 11 Financial inclusion | 22 Growth and expansion of D2C |
| 12 P&C M&A for scale and diversification | 23 New health risks and aging population |
| 13 Insurance for a sharing/gig economy | 24 Sustainability and climate change |
| 14 Growing commercial insurance opportunity | 25 Open API/open insurance |
| 15 Rise of on-demand insurance | |

Source: EY Internal survey of 2,800 senior client-facing insurance professionals

1

Win the war for talent:

Right people and right skills enable agile cultures and higher performance

Though staff count has risen 17% in the last decade for the top 20 regional P&C insurers, according to S&P Global Market Intelligence, dramatic workforce reductions are expected in the coming decade. As most administrative tasks are automated and handled via bots, AI or machine learning, the remaining talent will need to be more highly skilled, more actively engaged and focused on higher-value analytical work.

Talent with the appropriate and most in-demand skills will be scarce, especially as traditional jobs fundamentally change. For P&C insurers, the focus will be on making sure the right talent is on the right teams. For instance:

- ▶ Within underwriting, human staff will examine emerging data sets including those from connected sensors and IoT devices, not just the information submitted within applications. This will enable deeper risk insights and more effective risk assessment and pricing. In addition, predictive models and more sophisticated rules will automate simple risk decisions and free human underwriters to focus on analyzing markets and identifying new sources of growth.

- ▶ Claims professionals will become problem solvers, as bots will handle most processing. This shift will help reduce fraud, improve customer satisfaction, reduce severity of loss and enhance future underwriting. Interestingly, the increasingly analytical work is likely to help attract and retain better talent in claims.

At the same time, expectations for external vendors and partners will change. Commodity firms that have relied mostly on low cost offshore centers may not fit well into the highly agile cultures of tomorrow. Insurers will have to reassess some of their sourcing relationships, prioritizing those partnerships that can advance cultural transition.

One of the key challenges to attracting new talent is that other sectors look more attractive and innovative to recent graduates in data science and other in-demand disciplines. And even when insurers are able to hire sought-after talent, they may lose them quickly if the culture feels inflexible and the hierarchies too entrenched. To attract and retain the talent they need, some insurers are tearing down the walls in cube farms, undoing hierarchical office designs and cancelling their dress codes. Others are updating working arrangements to feature gig and part-time workers and adopting remote and flexible working and other location strategies.

Insurers must address cultural factors if they are to become more attractive employers for the most in-demand talent.



2

Digitize customer experience, sales and distribution:

Customers and agents expect a fine balance of high-tech and high-touch

For years, insurers have sought to improve the customer experience, making it more engaging, frictionless and aligned to consumer preferences. For example, they have digitized the claims experiences to simplify submissions and accelerate payments. They have also invested materially in improving the customer and agent experience through dedicated agent portals and mobile claims apps.

Success has been mixed; too often, direct-to-consumer (D2C) digital channels have been primarily about price competition – always a dangerous strategy. Insurers that have succeeded have used digital to streamline and personalize the customer experience, while offering empathy throughout the whole process, including access to human help when necessary.

The right mix of human and digital sales channels is a delicate balance insurers have been trying to strike for years. The industry certainly recognizes that distribution is not an either/or proposition, but rather a matter of combining the best of digital capabilities with the unique benefits of the human touch.

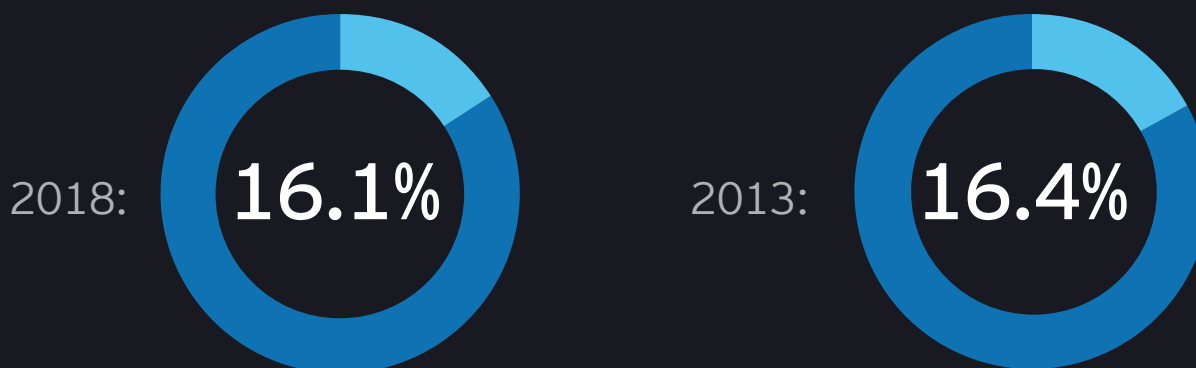
This balancing act will continue in the future through improved coordination and synchronization so that customers can access the information and guidance they need in whatever form or channel they prefer.

The human touch must be ready when needed, even if consumers continue to flock to digital channels for most interactions. At the same time, the required digital investments on the front end should be prioritized to generate better and more measurable returns when compared to other transformation investments.

Improved costs should be part of the business case for digitizing distribution. That's true because policy acquisition costs, which include commissions and management and administrative expenses related to new sales and policy renewals, have improved very little in recent years. The shift towards omni-channel is well underway and the emergence of platforms and ecosystems is accelerating – both of which are putting pressure on agent commissions and compensation.

Insurers must figure out where their core competencies and value creation opportunities lie. Some are viewing distribution and marketing separately and may seek partners with stronger platforms and wider customer reach to drive growth. Similarly, in analyzing developments with relevant InsurTechs, insurers can prioritize areas within the distribution landscape where they should invest or forge partnerships in order to strengthen their competitive positioning.

Average policy acquisition costs (as a % of net premiums earned), top 10 US P&C insurers



Source: S&P Global Market Intelligence

3 Collaborate and compete with “Big Tech,” InsurTechs and other third parties: Platforms and ecosystems will accelerate product and service development

Incumbent insurers have made considerable investments in InsurTechs to date, often to gain first-mover advantage. However, in most cases, the returns are yet to materialize. Now, more insurers are exploring strategies to partner or ally with InsurTechs, as well as Big Tech. The goal is often to build a minimum viable product to be tested in the market. Insurers can also learn from these collaborators how to be relentless in improving customer experiences across all touchpoints.

Much of the InsurTech activity is related to platforms. Specifically, InsurTechs are serving as a bridge to new capabilities related to AI, machine learning and robotics within the context of broader platforms. Companies that just focus on technologies rather than underlying business problems may struggle to derive tangible benefits. In this sense, some of these technology efforts function more like marketing or PR rather than solving fundamental business problems. To advance the business and create value from their collaborations with InsurTechs, insurers must start with core issues and clear objectives. With that insight, they can scan the technology landscape and identify the tools and capabilities they need.

However, InsurTechs are not the only potential partners and competitors for insurers to consider as other ecosystem opportunities come into focus. In the automotive and consumer durables space, for example, more insurance will be sold directly at the point of sale – often through embedded application programming interfaces (APIs) – by product manufacturers or distributors. Insurers that fail to engage with these companies risk being shut out of an important growth channel.

Further, it is inevitable that some large tech players enter the insurance industry. They have the customers, high levels of trust and skillsets to become formidable competitors. Their ability to ingest, manage, analyze and monetize consumer data and insights provides a potential edge when they enter the market. The insurance industry's traditional defensive moat of complex regulation, capital requirements and risk management capabilities has deterred technology firms to date. But it's only a matter of time before tech giants enter the game.

In thinking about both competing and collaborating with tech giants, InsurTechs and other external players, insurers must engage and decide their optimal strategies. Well-known brands might want to be visible front-end partners (e.g., sales and distribution), while others may be better served by taking on a back-end role (e.g., underwriting).

Increase in number of InsurTech investments by incumbents, 2014-2018

4x from 29 to 118

Source: WTW-CB Insights

Level of consumer trust

78% Technology companies

58% Insurers

Source: Edelman Trust Barometer, 2019

4

Achieve operational excellence and cost efficiency:

The focus on bottom-line objectives will only intensify, but critical investments must be funded

Cost management is a perennial concern, indicating insurers' struggles with cost pressures, low margins, low interest rates and the intense fight for market share. Recent gains in pricing may improve cost ratios briefly but are not viable over the longer term. It's also clear that insurers have barely moved the needle on expense ratios in the last five years. The good news is that all of the actions and steps described above – from upgrading the talent base to deploying the right technology to engaging the right partners – ultimately help insurers manage their costs.

The ultimate goal should be to achieve operational excellence, while establishing a lean and flexible cost base. Realizing this goal requires core system transformation, digitization of the workplace, as well as deployment of AI, the cloud and increased automation. All these measures combined will improve back-office automation and help in establishing sustainable operational excellence.

Insurers should also learn from previous cost optimization and operational excellence programs. Many past measures largely focused on expense ratios. Today, insurers should emphasize loss ratios, a more valuable and important indicator.

The evergreen objective to reduce costs must be viewed also in terms of the unceasing pressure to deliver strong bottom-line results and position for future success. During the last few years, this has become increasingly difficult due to the rise of casualty losses driven by social inflation and a general increase in loss severity. Consequently, premium rates have been on the rise in recent quarters. To navigate this environment, companies must veer away from competing on price alone and maintain underwriting discipline.

Expense ratios, top 10 US P&C insurers

30.6% 2018
30.9% 2013

Source: S&P Global Market Intelligence

Average award for personal injury lawsuits, US

\$1.85 million 2017
\$1.01 million 2013

Source: Insurance Information Institute

Cost reduction strategies must be designed to free up funds for forward-looking investments.

Imperatives for non-life/P&C insurers

- 1 **Model the workforce journey:** Attract and retain the right talent that is a good fit with the future target culture of the organization and define clear career paths for the most important workers, while considering both existing skills and new skills required in the future.
- 2 **Design the human-digital mix for sales and service:** Identify and develop the digital capabilities that agents and brokers need at key touchpoints in the sales and service cycle; define where the intersections of human support and digital tools are most likely to occur within the sales funnel or customer lifecycle and model the hand-offs between them.
- 3 **Map the universe of collaborators:** Find the most relevant players – including InsurTechs and other firms, too – for collaboration and ecosystem development, based on high-priority initiatives and an overall ecosystem strategy.
- 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.

2019 vs. 2020: Last year's insurance outlook encouraged P&C carriers to “go faster” in launching new products and adopting digital and D2C distribution. Some insurers cast wide nets in seeking growth and innovation without necessarily achieving desired results. The industry also saw notable partnerships and acquisitions where incumbents sought to expand their innovation portfolios and enhance key capabilities, such as Agile development and experience design.

For 2020, acceleration is still a good idea, but strategic focus must be a higher priority to ensure that transformation investments pay real dividends. The value may come in multiple forms but it has to be focused on measurable and material financial gains, including:

- ▶ Innovations that can be monetized and scaled quickly
- ▶ Demonstrable improvements in operational efficiency

Key trends and imperatives

Life



During the last two decades, growth in the life insurance business in the Americas has been sluggish at best.

For the last five years, the CAGR in premium growth has been 1.7%. In terms of assets under management (AUM), life insurers have not attracted the level of inflows that retirement accounts and mutual funds have. Still, there is broad industry consensus that large market segments are currently neglected or underserved. Multiple studies have found that there is a considerable life insurance coverage gap for Americans.

While a significant portion of middle-class customers have not saved enough for retirement, the industry has fallen short in communicating the importance and value of its products. A return to profitable growth has to be at the top of the strategic agenda for life insurance executives for both the near and longer terms.

Premium growth has not outpaced inflation for the last two decades. In practical terms, this means the industry is shrinking, thanks to rising salaries, higher technology costs and increasing operational expenses. From the perspectives of CIOs and CFOs, it's necessary to trim one or two percent of costs just to tread water. Better financial performance requires either bringing in material cost improvements or stronger top-line growth.

The Americas life sector at a glance

Gross written premium (GWP)

2018: **\$718 billion**

2013: **\$661 billion**

CAGR, 2013-2018: **1.7%**

Penetration (% of GDP)

2018: **2.6%**

2013: **2.7%**

Source: Swiss Re Sigma

More bad news: the life insurance sector doesn't appear to be the default choice for retirement savings. This development has caused industry stakeholders to ask how they can compete more effectively with providers of other retirement savings products that have substantially reduced costs over the last few years. Can life insurers figure out how to make their products significantly less expensive?

The transformation opportunity is huge for life insurers and promises significant upside. Yes, there are hard choices and significant technology investments to make, but firms that get the talent and toolsets right will be able to gain market share at sustainable margins. They will also free themselves to design and launch holistic value propositions keyed to financial wellbeing and major events in the lives of consumers.

The ultimate goal is to accelerate growth for the industry and return life products to the forefront of customer awareness. To fulfill that goal, insurers must move away from complex products that are difficult to understand and require time-consuming applications. Simpler products that offer the outcomes customers want must be the priority. To be clear, simpler doesn't mean "narrow." In fact, the greatest success will come to companies that shape their products around the holistic financial wellbeing of customers.

In parallel to organic growth, companies should explore inorganic options. Size will matter as insurers look to scale revenues and reduce their expense ratios. More revenue and lower costs are the way to free funds for transformation and growth investments.

Now's the time for life insurance executives to be focused and pragmatic in their problem solving, but also creative and optimistic in looking to future innovations. As they seek to ignite growth, they need to focus on improving specific processes in the value chain, even as they raise big-picture strategic questions about what consumers want.

As we heard from one industry leader this year, "there's never been a better time to be in insurance;" data and technology enable us to fulfill our fundamental mission – assessing risk and pricing protection – with vastly more precision and, thus, add more value, than ever before.

Operating margin

2018: **26%** 2013: **29%**

Cost ratio

2018: **28%** 2013: **34%**

Source: S&P Global Market Intelligence

Inflation rate, Americas, 2000-2018

3.4%

Source: Oxford Economics

Life insurance premium growth, Americas, 2000-2018

2.2%

Source: Swiss Re Sigma

Aggregate mortality gap, a common measure of the life insurance gap

>\$25 trillion

Source: Swiss Re Institute

Share of individual retirement account (IRA) assets in life insurance

2018: **4.5%** 2000: **8.0%**

Share of IRA assets in mutual funds

2018: **45%**

Source: Investment Company Factbook 2019

The forces reshaping the life market through 2022

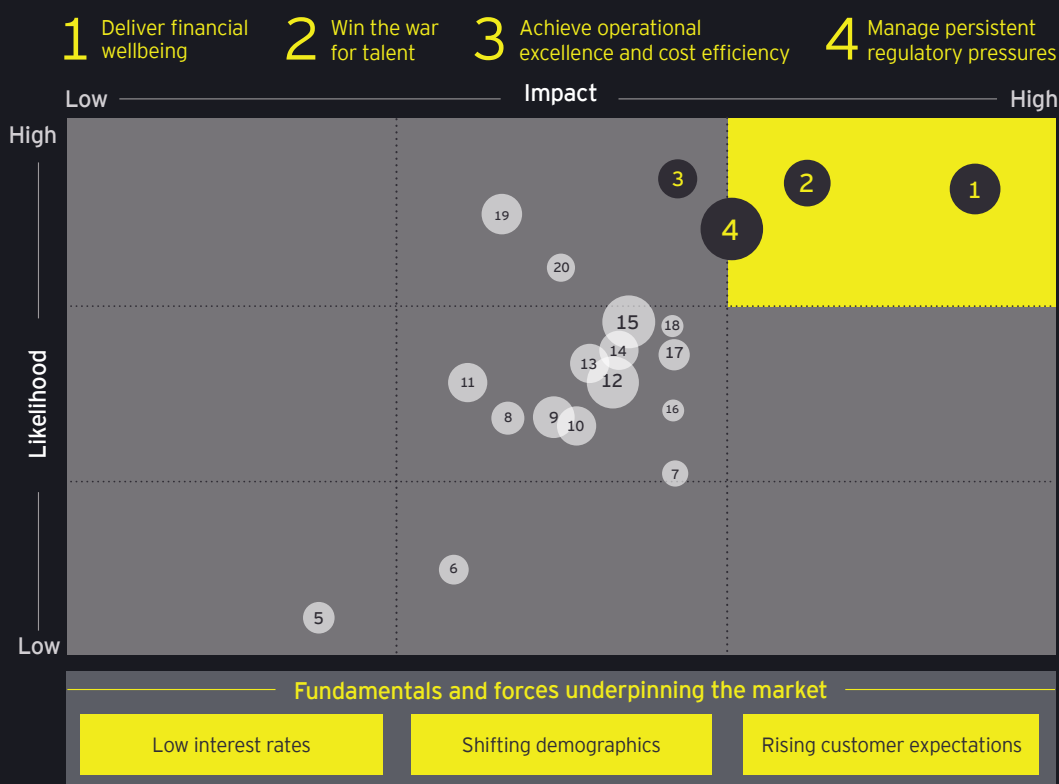
The following chart is based on a survey of EY insurance professionals in the Americas among EY regional insurance leaders. It's important to note that the trends highlighted below are rated based on their likelihood and impact during the next three years.

All of these trends are important to the industry, but many of these trends will influence the industry only on a longer time horizon or are less likely to come to fruition. For instance, we believe both AI and the IoT will have profound impact on the life sector, though the full force of these technologies won't be felt for a few more years.

Others – such as the significant opportunities related to “connected insurance” products, especially in health and 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

- | | |
|--------------------------------------|--|
| 5 Financial inclusion | 13 IoT and connected insurance |
| 6 Open API/open insurance | 14 Digitization of the sales force |
| 7 Evolving ecosystems | 15 New health risks and aging population |
| 8 Blockchain for transparency | 16 Emergence of new risk pools |
| 9 Preparing for next economic crisis | 17 Growth and expansion of D2C |
| 10 Emergence of subscription models | 18 Insurance for a sharing/gig economy |
| 11 Partner/compete with InsurTechs | 19 Migration to cloud |
| 12 Growing adoption of AI | 20 Rise of on-demand insurance |

Source: EY Internal survey of 2,800 client-facing senior insurance professionals

1

Deliver financial wellbeing:

Richer value propositions and world-class products will strengthen consumer relationships

With the US facing a serious retirement savings gap, many financial services firms (including life insurers) are positioning their brands around financial wellbeing. Employer interest is growing because financial stress hurts employee productivity and health. Financial wellbeing is a hot topic in boardrooms and with the C-suite, too.

However, few firms have clearly defined it in terms of product offerings or full value propositions. The idea is that more consumers need help in creating a financial plan, sticking to their goals and making good decisions. Low consumer trust in the industry and complex product sets are barriers to life insurers helping consumers achieve financial wellbeing.

For life insurers, whose products have always been about financial security, there is a clear opportunity. The first step is to understand the financial stressors that worry consumers and then deliver products, services and tools that can help alleviate that stress. Obviously, no one life insurer (or bank or brokerage) can meet every consumer financial need across their lifetime. That's why collaboration, as well as multi-partner ecosystems, are likely to grow in importance. Individual firms will seek the right niche in a broader value chain and slate of offerings; insurers can play a lead or contributing role in developing such platforms.

The focus must be on trust and transparency in both marketing new offerings and developing services. Consumers must easily grasp why they need a certain product, what the value is and how much it costs. Such information may be best communicated relative to specific life events (e.g., buying a home, starting a family, retiring) where consumers need guidance.

In this sort of relationship, product sales will fluctuate; advisory services and fee-based models are likely to grow, while commission-driven product sales are likely to shrink. Subscription models are likely to gain traction, as well, with consumers paying for access to advisors and more flexible product features that they can turn on and off as their needs dictate. This evolution reflects the need for insurers to shift from product-centric business models to value propositions founded on customer-centricity.

Here again, the right mix of technology and talent holds the key to success. A mix of advisory services and robust digital tools are necessary to engage consumers how and when they prefer. Digital channels will be necessary for research, education and some transactions. But the ability to speak to a highly skilled professional and dedicated specialists at the right time will be very appealing to customers, even digitally-oriented millennials.

The EY perspective on financial wellbeing



NextWave Consumer Financial Services >



Financial wellbeing: Insurers' biggest opportunity? >

2

Win the war for talent:

Key roles must be reskilled and the employee experience redesigned

Life insurers are focused on revamping their workforce and talent base for a number of reasons:

- ▶ Significant numbers of workers, including agents, will retire in the near future
- ▶ More administrative and back-office tasks will be handled by bots, AI and machine learning
- ▶ Life insurers are losing talent to banks and asset managers, primarily due to compensation

The aging workforce provides an opportunity to reskill, hire younger and more diverse workers and bring on more technology and digital skills. Leading insurers are now seeking “STEM” (science, technology, engineering and math) skills and experience. The main focus for life insurers should be to ensure that jobs and skills are well matched.

Consider the impacts in different parts of the organization:

- ▶ Underwriters will examine more data and more diverse types of data, as traditional forms of number crunching are handled by AI. Underwriters will also take on new roles, like supporting sales teams.

Estimated premiums underwritten by AI

2024: **\$20 billion**

2019: **\$1.3 billion**

Source: Juniper Research

- ▶ Agents and brokers in the future must develop a diverse set of skills, from using digital tools, to relating to customers, to articulating the value of products and services, especially relative to life events. Life insurers must find ways to help their distribution partners become more innovative in using technology, and stay focused on growth by accessing a diverse set of customer segments.

21%

Advisors who are “growth-focused” (i.e., aggressively focused on adding new clients)

11%

Advisors who are innovative in leveraging technology

Source: Broadridge

But, beyond the need for new job descriptions and more tech-savvy workers, life insurers must take other steps to attract and retain talent. Changing the culture and enhancing the work environment are priorities. Dress codes are being loosened or eliminated. Yoga pants are acceptable in some offices on days without client meetings. More teams now combine suits and sneakers.

Culture change at this scale requires careful planning, including employee experience design, journey mapping and segmentation of employees. Senior leaders may also consider how the corporate mission translates to millennial, Gen Y and Gen Z workers, who are looking for a clear sense of purpose from their employers.

3

Achieve operational excellence and cost efficiency:

Costs must come down and processes be made more efficient to fund transformation and growth initiatives

Operational excellence and cost optimization are critical not just to improving near-term results, but also to meet longer-term goals related to transformation and innovation. Indeed, operational excellence can help free funds that can be invested in customer-centric innovations.

A first step is transcending the significant constraints of outdated and inflexible legacy systems. For many life insurers, the age of core processing platforms prevents them from achieving operational excellence by limiting the adoption of digital toolsets, restricting process automation, complicating the collection and analysis of data, and blocking cloud migrations.

Insurers will need to develop a clear plan to achieve operational excellence across the organization, with direct links to tangible benefits and the broader business strategy. As operational excellence is a complex undertaking, business and tech leaders must work together in identifying the processes that need optimization and automation. They can also map technology plans to future business needs, such as new products and specific capabilities.

Insurers must also develop plans to simplify and reduce the costs of managing legacy systems on an ongoing basis as those aren't going to be fully replaced any time soon. Spending 70-80% of the IT budget on just "keeping the lights on," as some insurers do, is not sustainable.

The business case for updating the core should include tangible efficiency measures and cost improvement metrics, given that many executives are frustrated by the limited returns on investments in upgraded technology. But new investments must also directly link to innovation initiatives. The good news is that most significant cost savings and performance improvements are likely to come from bigger and bolder innovations.

For many insurers, migrating to the cloud should be a priority. Cloud-based environments make it easier to integrate sales and service channels. They also promote greater flexibility, efficiency and data sharing across the value chain. As more insurers recognize these benefits, the industry is experiencing record levels of cloud adoption.

New technology isn't the only way life insurers can transform the core. Some are selling closed books of business that are too burdensome to manage. Others are engaging third-party administrators (TPAs) and spinning off businesses. Indeed, life insurers would do well to consider the full range of sourcing options as they seek both lower costs and more innovation.

Executives should apply the lessons learned from past investments without losing their taste for bold action. Indeed, they must move past "modular" thinking and the widespread fear of platform overhauls. That reluctance is one reason these outdated platforms remain in place after so many years.

Insurers with cloud computing in their tech infrastructure

2018: **70%**
2016: **20%**

Source: Novarica

\$150 million

Annual savings for a digital-only US life insurer that implemented a lean, cloud-first and agile operating model working with the EY US Insurance practice

4

Manage persistent regulatory pressures and focus on customers' best interests: Compliance investments can promote capital efficiency, competitive advantage and customer satisfaction

Regulatory issues are still very much on the radar. The overall environment and requirements are as complex as ever. Regulators are focused on multiple issues, from data security and privacy, to financial regulation and reporting, to fair sales practices and ensuring companies operate in the best interest of customers.

The California Consumer Privacy Act (CCPA) should be viewed as a harbinger of things to come. Beyond the strict concerns of compliance, insurers that demonstrate a commitment and ability to protect personal data and other sensitive information may strengthen consumer trust.

Financial regulation and reporting requirements are also increasingly stringent. The implementation deadline for IFRS 17, while delayed, is still a concern for some insurers. Global Capital Insurance Standards (ICS), if implemented in the version currently being proposed, will also have a major impact on variable annuity and complementary pension products for US life insurers in particular.

Similar to what is happening in other regions, recent regulatory actions and proposals indicate that customers' best interest will remain a major focus area, one that will require considerable management attention for insurers and intermediaries. Insurers' commitment to maintain their fiduciary duty is also under increasing scrutiny.

Various states are publishing new regulations:

- ▶ Broker-dealers selling annuity products in New York now need to comply not only with suitability principles, but also to be in the "best interest" of customers, following an amendment to Insurance Regulation 187. They must also meet new documentation, disclosure and training requirements.
- ▶ Regulators in Massachusetts introduced provisions to prevent inappropriate denials for medically necessary services.
- ▶ Texas authorities mandated that the loss liability will be incident on agents assisting with sales of unauthorized insurance contracts.

At the same time, life insurers also need to prepare for accounting changes relative to Targeted Improvements to the Accounting for Long Duration Contracts (LTDI). While LTDI has now been delayed to 2022-2024 these changes are likely to impact core systems and processes. Insurers don't have much time to lose in preparing for these changes.

Intense cost pressures, thin margins and low growth mean that many insurers naturally try to hold compliance investments to a minimum. A better approach is to define where investments to meet regulatory requirements can also generate meaningful performance improvements. For example, linking various financial, risk and actuarial systems will help streamline financial reporting and enhance business decision making. The most forward-looking insurers will use this as an opportunity to transform their finance function and unleash hidden value, bringing their processes up to date and gaining unprecedented visibility into their business.

An effective approach is to define where compliance investments can also help generate meaningful performance improvements.

Imperatives for life insurers

- 1 Start with customers:** Work back from the consumer perspective in defining how financial well-being translates to specific offerings across the customer lifecycle, including around key events, such as buying a home, starting a business, having children and saving for college.
 - 2 Focus on people, talent and culture:** Move people and culture-related issues and objectives to the top of the C-suite and board agendas.
 - 3 Find a path from regulatory compliance to competitive advantage:** Link compliance investments to those that create business value; find the overlaps between regulatory requirements and performance improvement opportunities, especially relative to technology upgrades.
 - 4 Plan to pay off the longstanding technology debt:** Start with core system modernization, including cloud migrations and new sourcing strategies, then follow the plan diligently and measure progress carefully.
-

2019 vs. 2020: Looking back to our 2019 Insurance Outlook, it's interesting to note that the EY recommendation that the industry "be proactive and doesn't panic" relative to ecosystem development and InsurTech collaborations largely came to pass; life insurers are better positioned and more thoughtfully assessing their options for partnerships, co-development and joint ventures.

On the other hand, most insurers still have work to do in automating key value chain functions and defining what financial wellbeing means to their customers and product lines. In 2020, life insurers recognize the need for both faster and broader change, given that most lag their non-life peers in driving innovation.

Country snapshots:

Key developments in top markets in the Americas



Brazil: Near-term challenges and long-term opportunities

Brazilian insurers are grappling with macroeconomic challenges, intensifying regulatory oversight and outdated legacy systems. But several factors – such as evolving product portfolios (including combined life and pensions products) and important shifts in distribution (including more digital and social media sales) – make Brazil a market to watch in coming years.

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

-2.5% Total

-2.2% Life

-2.9% Non-life

Source: Swiss Re Sigma

[Read full Brazil report >](#)



Canada: Innovation in a challenging environment

Canadian insurers are being forced to navigate a range of challenges, from rising customer expectations and cyber threats, to regulatory pressures and IFRS implementations, to InsurTech disruptions. Despite sluggish growth, they are showing resilience in a challenging market. They are fostering innovation through continued investment in AI, machine learning and tailored products, and an increase in market transactions.

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

0.0% Total

0.4% Life

-0.3% Non-life

Source: Swiss Re Sigma

[Read full Canada report >](#)

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