



# NextWave Insurance: commercial and reinsurance

Accelerating transformation  
on the journey to 2030



**EY**

Building a better  
working world

## About EY NextWave commercial and reinsurance

The EY NextWave vision represents our global perspective on the most powerful trends and forces shaping the future of the insurance industry. The views on the following pages reflect the diverse experience and forward thinking of more than 60 insurance professionals globally, from digital strategists and technologists, to actuaries and other functional specialists. In collaborative ideation workshops, the EY insurance team has envisioned a more purposeful and profitable future and defined what it will take to realize it. We encourage you to contact us to learn more about how we can help your organization meet the change imperative and seize the opportunities in this dynamic market.



**Isabelle Santenac**  
EY Global Insurance Leader

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# Executive summary

This NextWave report builds on our well-received 2019 paper, which explored emerging business models, highlighted likely scenarios for the commercial insurance industry, and outlined the dramatic growth and profitability opportunities for market participants that successfully transform.

Today, we remain optimistic about the industry's growth horizon, though there is ample room for insurers to accelerate and expand their strategic transformation efforts.

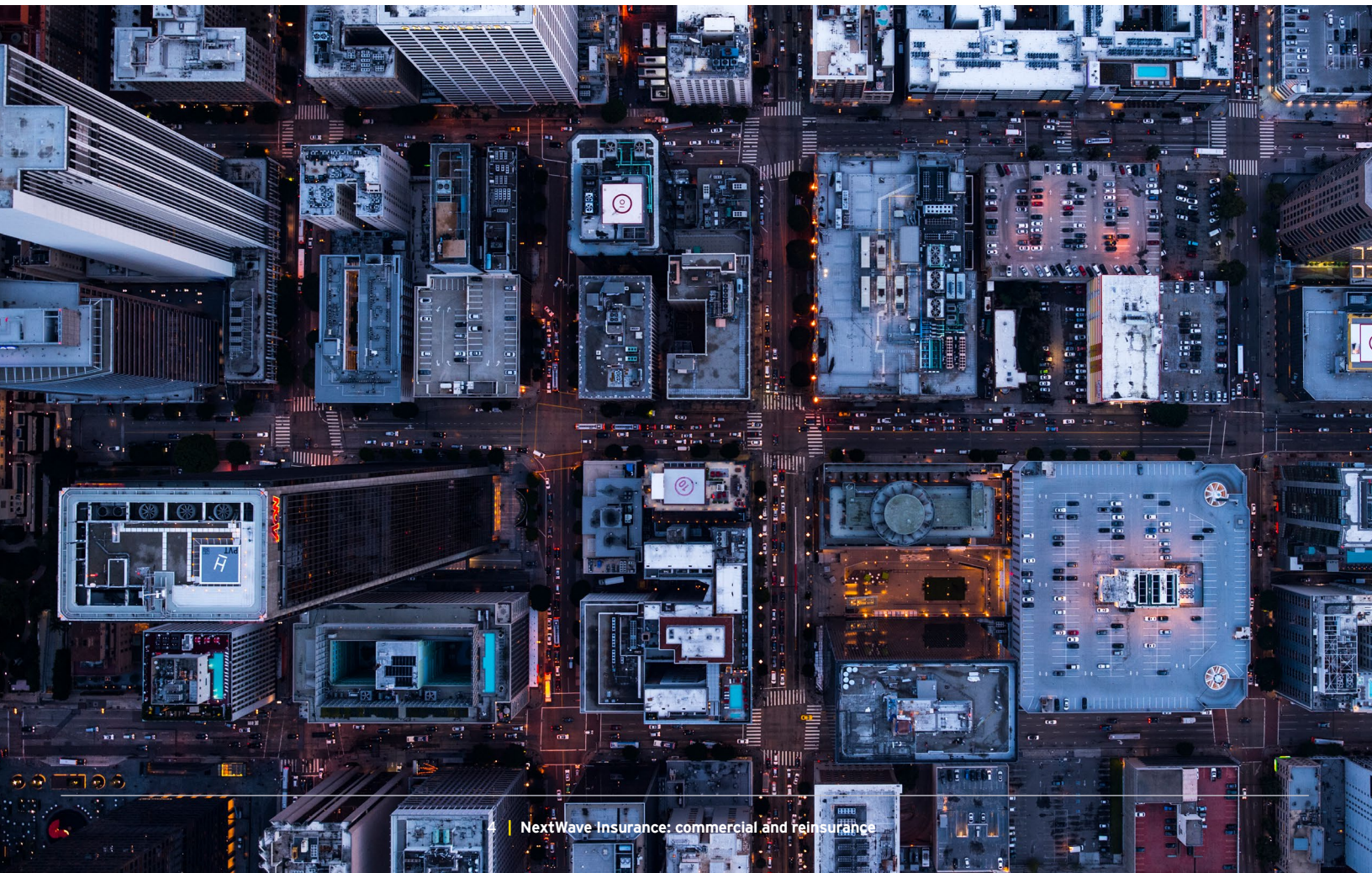
The shift from a linear value chain to a dynamic value exchange we envisioned in our 2019 report (see next page) is underway, albeit fitfully. Inefficient processes of the past have begun to give way to increased automation. Direct connections among partners are becoming more common, as are strategic alliances. Real-time data feeds and new services (e.g., loss prevention) are taking hold more gradually.

That insurers have made their largest-ever investments in transformational change is an encouraging sign that the industry can realize its future potential. Progress to date, however, has been largely foundational and has been set against a backdrop where evolving customer needs, heightened competition, macroeconomic conditions and technology advancements present new opportunities and imperatives for transformation.

## 65%

average increase in transformation spend by London Market insurers, 2019 to 2021

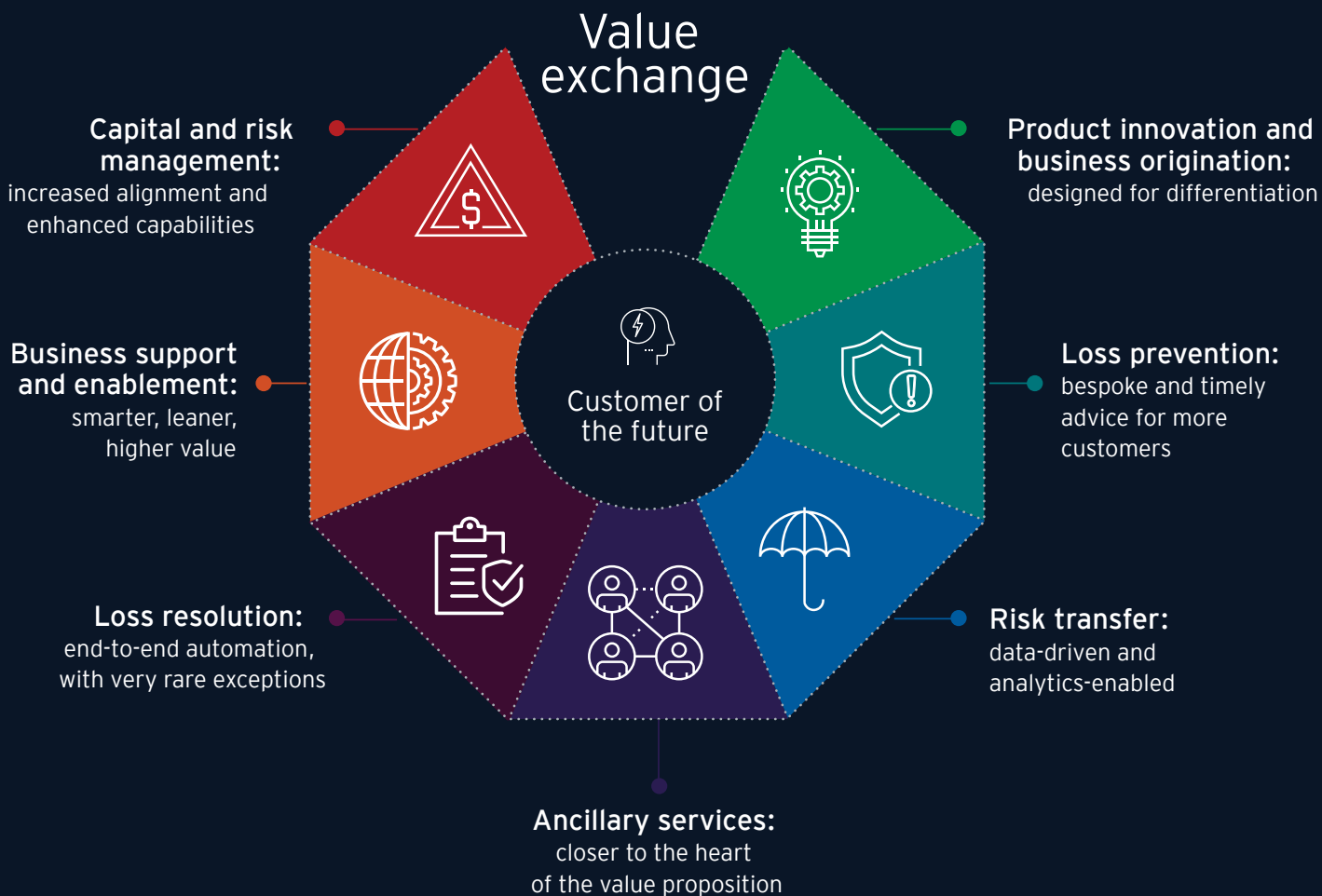
*Source: EY Specialty Cost Benchmarking Survey*



## Envisioning the next wave: from a linear value chain to dynamic value exchange

Traditionally, the commercial insurance and reinsurance value chain has been highly linear, with dependent relationships among key stakeholders and many manual and duplicative activities that didn't necessarily add value for end customers.

Today, however, the commercial insurance and reinsurance value chain is evolving into a more dynamic, efficient and data-driven value exchange that delivers greater benefits for customers and contributes to top-line growth and profitability gains for insurers. This transformation will liberate market participants to transcend rigid roles, collaborate more freely and deliver more value to customers.



These foundational transformation efforts have been undertaken in an increasingly hardening marketplace over the last few years, with asset value inflation and increased underwriting discipline helping some insurers post solid results. Macroeconomic headwinds, rising inflation and capacity constraints point to further hardening and top-line growth in the coming years, though the extent to which insurers and reinsurers will drive bottom-line profitability in certain classes will be determined by the prudence of risk selection and the impact of increasingly frequent catastrophe events.

# 5

## number of consecutive years of rate hardening for global property catastrophe insurance

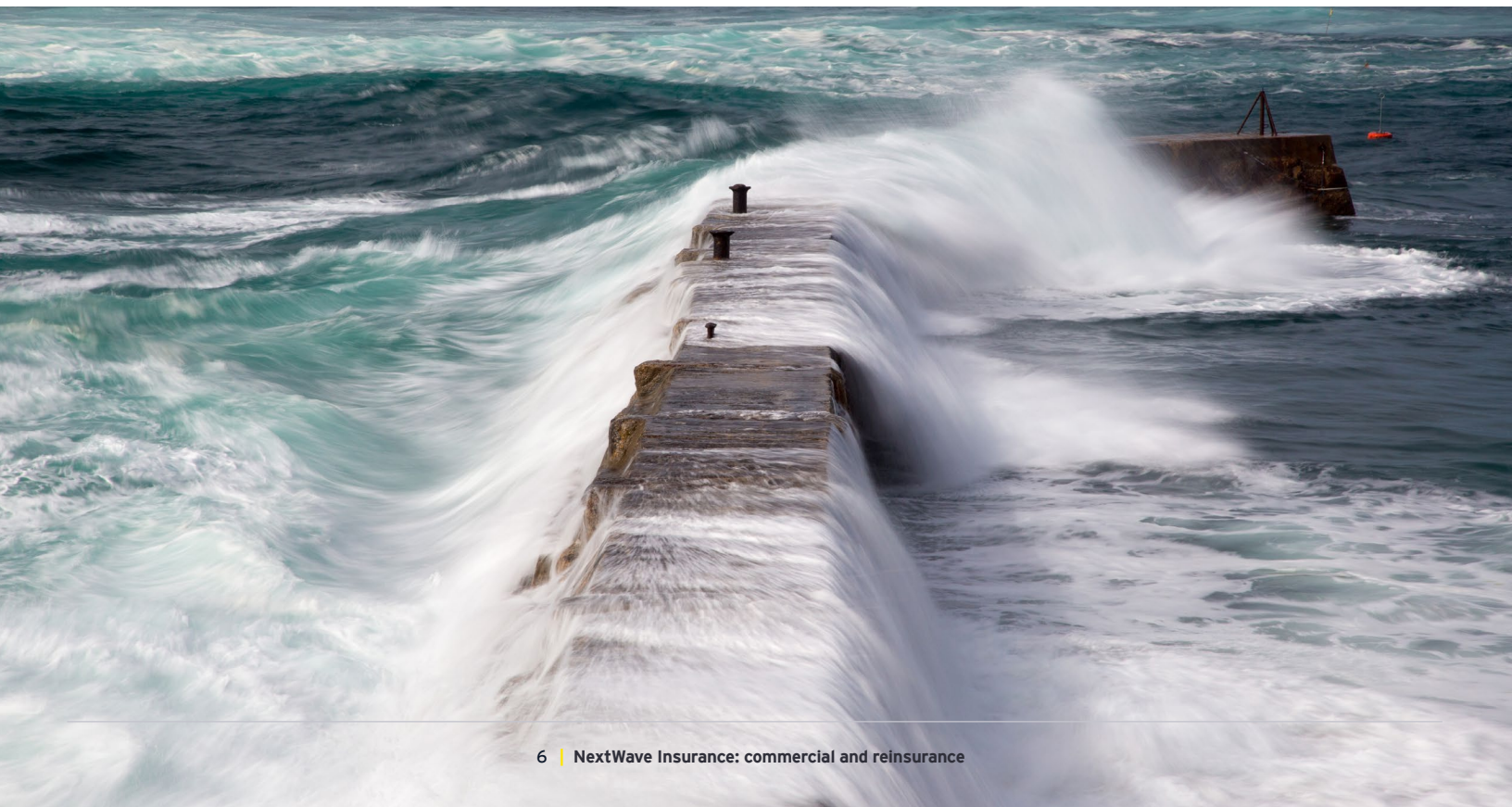
Source: EY analysis

The history of the market cycle suggests that insurers de-prioritize strategic transformation investments during hard markets in favor of full commitments and efforts to benefit from the rate environment. However, evolving and more-demanding customer expectations, intense competition, substantial regulatory changes and an economic downturn make transformation more urgent than ever.

As we highlight in Chapter 1, clients' expanding needs and rising expectations can frame the growth and innovation agendas. Incumbent insurers should also be inspired to action by the success of nontraditional competitors in meeting those needs, which is the focus of Chapter 2. Captive insurers, managing general agents (MGAs) and large brokers have all delivered impressive innovations in the last decade and seized considerable market share in the process. They have done so by taking advantage of the transition from a linear value exchange to a dynamic value exchange, thereby pressuring incumbents. The implication is that tomorrow's market leaders will have distinctly different business models than yesterday's winners.

In Chapter 3, we outline the most pressing priorities for incumbents, including:

- ▶ Innovating new products and services, using a renewed purpose and deeper insights to deliver the value and relevance customers are looking for
- ▶ Expanding digitization and automation, particularly around advanced analytics for decision support, both internally and to connect more productively with external stakeholders
- ▶ Investing in ecosystem development and collaboration with partners, recognizing that few, if any, insurers will be able to go it alone in tomorrow's dynamic market
- ▶ Infusing the workforce with new skills, talent and capabilities and energizing the culture with new ways of working and more inclusive work environments



## Rethinking transformation approaches

These priorities, which collectively comprise our concept of transformation, are not necessarily new nor are they easy to undertake. Insurers early in their transformation journeys must overcome both external and internal barriers to change, including reluctance to collaborate with perceived competitors, outdated legacy systems, risk-averse cultures and talent shortfalls.

Indeed, how insurers change may be just as important as what they change. We believe the best results come from putting humans at the center of the change agenda. Human-centered transformation strategies can help insurers overcome organizational resistance to change and drive adoption of new tools, processes and behaviors by the people and teams who are instrumental to long-term success.

# 2.5X

increase in likelihood of success for organizations that put humans at the center of their transformations

Source: EY, Oxford University

Many insurers have moved quickly to automate core operations in the immediate aftermath of the pandemic, but the extent to which they will realize the full return on these investments remains to be seen. Digitizing basic processes and modernizing back-end systems delivered much needed cost efficiency. Now, insurers must build on that foundation with insight-generating and analytics-enabled capabilities required for future growth. Those advancements will help them keep pace with new and nontraditional competitors – including MGAs, captive insurers and InsurTechs – that relentlessly challenge the status quo and raise the bar on innovation.

Of course, the biggest opportunities in this marketplace are intricately linked to the biggest threats faced by policyholders (e.g., multinational corporations, mid-market firms) and society as a whole. Those threats include climate change; environmental, social and governance (ESG) matters; and proliferating cyber risks. It's worth pointing out that the industry has faced huge challenges before and has shown itself more than capable of rapid and highly effective change. Consider how quickly, in the wake of the September 11 attacks, industry stakeholders came together to develop entirely new aggregation

models for corporates seeking protection from acts of terrorism. These models are now an industry standard. We believe this type of concerted, creative and collaborative action is just what the industry needs now. That's especially true in terms of helping bridge the huge protection gaps that exist for climate change, cyber crime and intangible assets. By working together and engaging directly with customers, we believe the industry can spark a new era of growth and innovation, with huge potential upside for first movers, early adopters and those insurers that are bold enough to provide leadership.

## Scoping the opportunity

Today, we believe companies can realize sustained, improved profitability and enhanced customer outcomes by embracing innovation and experimentation. Such an approach is necessary to seize the opportunity presented by new and emerging risks and changing customer preferences and to successfully navigate shifting regulatory requirements.

A first step is to develop and launch more relevant and attractive products and services directly aligned to customer needs. Beyond producing significant top-line growth, such offerings will also:

- ▶ Enable more informed and data-driven risk selection.
- ▶ Improve loss ratios and reduce volatility.
- ▶ Support more-effective loss prevention through enhanced data and analytics.
- ▶ Increase cost discipline and efficiency through greater automation.

By successfully investing in future capabilities, insurers can make profitable new business growth the norm rather than an anomaly. To realize these gains, senior executives must be attuned to potential future disruption and the prospect that the majority of the growth could go to alternative distributors, ambitious brokers, new entrants and other nontraditional players. These firms are thinking bigger and moving faster to create more value for customers and their own businesses.

We conclude this report with a vision of future market leadership and recommended actions for traditional insurers. Those imperatives – a rigorous focus on client needs, product and service innovation, a clear purpose, enhanced digital capabilities, operational agility, new talent – touch every part of the organization and reflect that now is the time for insurers to undertake a generational reorienting of their businesses. Again, it won't be easy. But we believe the hard work will be worth the huge effort and investment, primarily because the potential upside is so compelling.



# 1

## Framing the next wave: Changing customer expectations reshape a dynamic market

**The last three years of the insurance market have been unlike any other in our centuries-old sector.**

From a global pandemic – with its massive mortality, economic lockdowns and business interruption litigation – to more frequent and severe natural catastrophes, to political uncertainty and social divisions, the industry’s baseline assumptions have been fundamentally reordered. And the disruptions will slow only a little, if at all.

A stronger rating environment and increased underwriting discipline have given insurers increased pricing power, top-line growth and better bottom-line results in recent years. However, the impressive growth of captives and MGAs, along with relentless technological advancement, is a clear signal that insurers can’t expect to succeed in the future by doing what they’ve always done.

Even with the market continuing to harden, the need for transformation is clear: Insurers that innovate can convert underinsured risks into new revenue, future-proof the business against cyclical downturns and the threat from new entrants, and enhance overall profitability.

**Recent market developments show that the strategies of the past will not deliver success in the future.**



## Changing customer needs and expectations

We believe the greatest driver of growth to be the changing needs among all customer types in the commercial market, including the largest global businesses and the huge variety of mid-market organizations. In other words, disrupters and innovators – be they traditional carriers or not – that deliver what clients want will see the most impressive growth. Satisfying commercial customers is not an easy task, of course, and will be made more challenging by the complex dynamics that exist between carriers, brokers and customers in the commercial and reinsurance market. But doing so holds the key to future growth and market leadership.

**What corporate customers want:** Mainly, they are looking for insurance solutions that are tailored to their exact risk profiles, increasingly virtual asset base, and their operating models and geographic footprints. They are looking for reduced exposures through risk insights and access to real-time data where possible, with coverage that is fully relevant to the nature of their businesses today, not stuck in a past that was oriented around physical assets and simple supply chains. These needs are most pronounced among large multinational corporations with complex structures and geographical footprints. However, many midsize firms have grown to become cross-border, multiparty structures.

Despite benefiting from tailored and nonstandard programs (e.g., through negotiated wordings and difference-in-conditions and difference-in-limits extensions), many large corporations have enthusiastically embraced self-insurance for protections not currently available on the open market. Ultimately, customers will continue to seek alternative placement methods if and when insurers cannot meet specific coverage and capacity requirements.

<20%

corporate information assets  
covered by insurance

Source: EY analysis

**Solving for intangibles:** The lack of coverage options for intangible assets, which now comprise the majority of value on company balance sheets, is the biggest gap. But other factors have played a role in the reduced dependence on the traditional insurance market and the consequent growth of captives. By developing increasingly sophisticated solutions and analytical capabilities, captives are able to expand their value propositions for their corporate parents by providing capabilities beyond their original mandates.

Corporate customers also want insights and services that identify and reduce risk proactively, including exposures to high-impact events (e.g., pandemics, cyber breaches, climate events). Faster claims processing and reimbursement are universal desires among commercial insurance customers, no matter their sector, size or region. Indeed, there is every reason to believe that instantaneous settlement will become a baseline within a few years, thanks to a more connected industry and pervasive use of real-time data and advanced analytical tools.

Companies of all sizes and sectors are increasingly demanding:

- ▶ Risk advisory services that lead to more effective, efficient and resilient operations, particularly relative to cyber and climate risks
- ▶ Packaged solutions that feature ancillary services available via insurers' ecosystem partners (e.g., provision of risk engineering, coverage benchmarking, legal services, data and analytics services)
- ▶ Industry- and market-specific offerings, with customization for local laws, languages and cultural factors

It's increasingly clear that coverage for intangibles, along with more robust protections from cyber and climate threats, will require more extensive collaboration among different industry stakeholders. These problems are simply too large and complex for any carrier to solve on its own.

**What cedants want:** The reinsurance market has undergone extensive change over the past decade. A squeezing of profitability and tightening capacity for catastrophe risks have accelerated significantly in recent months. A scarcity of capital is driving substantial rate increases for reinsurance, which may fuel further rate increases for primary coverage. This trend is forcing carriers to reconsider retention strategies, look to alternative capital sources to plug supply gaps and, ultimately, create new ways of delivering profitable P&C-catastrophe-exposed business.

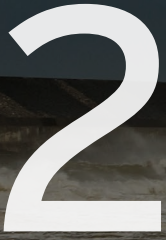
While the market adjusts to the changing capital environment, it is worth noting that cedants have many of the same expectations as corporate customers and are looking for more than traditional risk transfer solutions from their reinsurance partners. Specifically, cedants want:

- ▶ Access to technologies and tooling that enable automated placement with reinsurers and more efficient claims settlement
- ▶ Dynamic coverage options, with predictable pricing and the ability to make dynamic policy adjustments rather than waiting on annual purchasing cycles

- ▶ Flexibility and tailoring in coverage, including greater access to a broader suite of alternative products (e.g., parametric-based ILS coverage)
- ▶ Value-added services from their partners, such as analytical insight for more-informed reinsurance purchasing strategies and portfolio management
- ▶ The ability to access new – and potentially cheaper – means of capital through emerging ecosystems and secondary markets in the medium to long term

**The bottom line is that virtually every organization that purchases insurance is looking for more agile, data-driven and insight-led experiences. Many would embrace more strategic and value-adding relationships, too – and there's no guarantee that those relationships will only be with traditional insurers.**





# 2

## Navigating the next wave: Nontraditional competitors innovate for growth and market share

Some traditional carriers have made progress in meeting changing customer needs in recent years with targeted innovations (e.g., automated placement and real-time coverage for marine cargo and other selected classes).

However, when it comes to providing more holistic solutions to satisfy the full range of customer expectations, nontraditional players are gaining the most traction. To protect market share and restore growth, traditional insurers will need to expand and accelerate their innovation efforts.

Nontraditional players are increasingly squeezing the value chain and accelerating the transition to a dynamic value exchange by innovating with new products and services. The largest captive insurers are going beyond covering their own risks because they see an attractive path in commercializing their capabilities. MGAs and brokers have developed interesting solutions and technology-driven innovations, from algorithmic underwriting, to AI-driven risk prevention services. These firms are no longer content to stay in their lanes and have sufficient investment (often from private equity) to substantially expand their offerings.

**US\$250 billion**  
total gross written premium (GWP)  
for captives, 2022

**US\$100 billion**  
new revenue since 2018

*Source: EY analysis*

## The rise and rise of captives

Captives have grown dramatically, and there's every reason to believe that they will continue to absorb business and divert premium from the open market. Market demand for innovative products (especially among the largest clients) has led to the development of super captives that already assume huge amounts of risks. Increasingly, the largest captives see little reason to turn to the open market. Having built robust in-house capabilities, they are increasingly comfortable taking on more risk. Many captives already sell extensive coverage within their own supplier networks, and their use of reinsurance has grown more sophisticated in diversifying risks and reducing portfolio volatility.

Enhanced data management and insight generation capabilities provide the foundation for effective loss prevention strategies; this emphasis on loss prevention currently gives captives a clear differentiating point from traditional insurers. Captives also seem well positioned to win in the ecosystem era and, potentially, to dominate the entire value exchange. Having mastered their parents' own risks, they can lead the development of platforms and networks designed to efficiently meet the needs of industry associations and mutual societies.

The potential combination of larger captives and embedded insurance presents a significant threat to incumbents. How long before major cloud computing providers – several of which operate successful captives – dominate the cyber insurance market by embedding insurance protections within their standard pay-per-use contracts? Similarly, what's to stop large pharmaceutical companies from covering their entire supply chains, including their many development partners and clinical trials? Established carriers have done relatively little to safeguard their market share in these areas. Collaboration with captives – or co-opetition – may be the best path forward for some insurers.

## MGAs getting creative for growth

MGAs and coverholders have delivered some of the highest profile recent innovations, including sector-specific policies (e.g., for media and technology), “insurer-in-a-box” startup models and the provision of digital product and workflow solutions for carriers and brokers. They are succeeding on multiple dimensions – growing faster and more profitably than other market players and attracting more capital, including large sums from outside the industry.

MGAs are structured in myriad ways – some are owned by carriers and brokers, others by external capital providers – and offer flexibility to pursue many different strategies. Captives often use MGAs to bind risks within their own supply chains, while decentralized risk pools use blockchains to provide access for reinsurers. In all of these cases, specialization is key to driving scale; indeed, many MGAs are at the forefront of product innovation and developing niche distribution channels. We believe there are many more potential opportunities for MGAs to exploit – and for insurers that can get creative in using MGAs to drive growth.

**US\$100 billion**  
worth of revenue in the global  
MGA marketplace

Source: EY analysis



## The expanding role of brokers

With the range of challenges facing businesses across the globe, the wholesale broking model remains relevant and continues to evolve. Forward-looking brokers have already begun to build on this trend and strengthened their positions as trusted risk advisors and consultants, boosting revenue and deepening customer relationships by expanding their service offerings and specializing in specific market segments. Some are working directly with captives on niche policies and target geographies; others will partner with MGAs and capital providers to find and exploit profitable corners of the market, squeezing traditional carriers and seeking to dominate a larger sphere within the value exchange.

>50%

approximate proportion of current revenue to be generated from advisory and loss prevention services among global brokers by 2030

Source: EY analysis

Traditional sales practices are becoming less useful, as brokers build out service models that optimize placement via real-time data feeds and insights. Some brokers are already monetizing client data via risk and performance benchmarks. The most ambitious brokers will look to expand into high-growth areas, such as risk engineering, data sourcing and analytical services.

## Embedded insurance, ecosystems and alternative models

In thinking about alternative distribution models for the future, insurance leaders would do well to remember that consumer trends have a way of reaching business-to-business markets faster than expected. New players are likely to drive embedded insurance into the corporate market. For example, several prominent automotive

manufacturers now offer insurance to consumers at the point of sale. These embedded offerings will become more popular as mobility-as-a-service subscriptions grow more popular and self-driving vehicles become the norm.

Embedded insurance will be used to cover corporate assets (e.g., fleet, construction, clinical trials, marine hull). In a more-connected market, corporate customers seeking to protect their IP, patents and brands will be looking for the same easy and intuitive experiences that have attracted consumers to embedded finance. These developments represent both a threat (e.g., potential loss of market share) and an opportunity (e.g., boosting revenue and margins through white labeling) for traditional carriers.

30%

approximate proportion of all insurance transactions which will take place on an embedded basis by 2030

Source: EY analysis

Certainly, they can play an essential role in expanding commercial protections via embedded offerings; after all, no one has more risk data or more extensive skills in modeling risk. The key is to decide their strategies and allocate the necessary resources to execute.

Ecosystems, partnerships and communities will continue to expand as well. Consider how banks now offer directors and officers (D&O) insurance alongside financing and credit products. In many markets, these solutions are targeted toward small businesses, with an emphasis on liability coverage. But, based on developments in several important markets, it's clear that more corporate bancassurance solutions are coming onto the mid-market. Ecosystems will also play an essential and enabling role for collaborations – including with regulators, government authorities and other entities outside the industry – to address the protection gaps associated with climate and cyber risks.



# 3

## Seizing the opportunity: How insurers can unlock growth

In 2019, we predicted that the large commercial and reinsurance sectors were entering a decade of great change. In 2023, after a highly disruptive pandemic, we stand by our initial hypotheses. However, the industry must build on the solid foundation of recent transformation initiatives with more ambitious plans and more creative action.

Seizing the opportunity depends on insurers and other market participants moving on from incremental transformation objectives to breakthrough innovation and value creation and greater commitments to collaboration.

### A vision for market leadership

The key focal points for tomorrow's market leaders will be:

- ▶ **Innovation:** leading with purpose to deliver client value
- ▶ **Connectivity:** building on baseline digitization to optimize the entire business
- ▶ **Community:** driving value through collaboration and co-creation
- ▶ **Talent:** putting humans at the center of the insurance enterprise

## Innovation: leading with purpose to deliver client value

From cyber crime and geopolitical conflict, to increasing climate risk and ESG concerns, it's clear that the world has never needed a high-functioning insurance industry more than it does today. The industry's historical purpose of protecting society from its greatest threats provides ample inspiration for innovations that map to market needs. For instance, insurers can develop integrated solutions that cover "brown" risks and offer incentives for firms to "green" their operations. Insurers can also demonstrate leadership by investing in long-term solutions, such as carbon-capture technologies, that the market is looking for.

**10%**  
estimated proportion of cyber risks that are insured

Source: Munich Re

Providing innovative solutions backed by a clear purpose will generate greater social value and benefit insurers in multiple ways – from attracting talent and restoring the relevance of insurance brands, to strengthening customer relationships and slowing the trend toward self-insurance.

The design of successful products starts with sharp insights into specific client needs. Beyond algorithmic-based flow underwriting, tailored policies will become the norm, which requires a retooling of underwriting's role. This evolution will be driven by:

- ▶ Data-driven workflows and decision-making, with underwriters analyzing historical and third-party information to uncover opportunities for tailoring solutions to client needs
- ▶ Increased adoption of smart contracts, changing how intangible assets and fluctuating risks are assessed, priced, adjusted and covered
- ▶ Clear pricing models driven by insights produced and shared across interconnected ecosystems, rather than black-box underwriting
- ▶ Simpler policy language to provide the transparency customers want

These capabilities will catalyze a move away from annual renewal cycles for corporate coverages, once the data flows enable dynamic real-time pricing. Further, they will provide the foundation for "product factories" that allow insurers to develop, test and launch new types of products (e.g., parametric coverage for intangible assets) much more quickly than in the past.

New and enhanced services will supplement – and ultimately supplant – existing policy types within more holistic insurance value propositions. Those services will range from proactive risk prevention and incident recovery solutions, to business advisory and compliance support. Insurers won't necessarily deliver all of these services themselves but may provide access to them via partnerships and ecosystems. Innovative brokers are well on their way to satisfying growing market demand for many of these services.

We believe increased customer centricity, continuous product innovation and a renewed sense of purpose hold the key for insurers looking to gain a competitive edge and mitigate the threats posed by captives and new market entrants.



## Connectivity: building on baseline digitization to optimize the entire business

Developing insight-driven services and tailored products at scale requires sophisticated front-end solutions, highly automated back-office operations, and advanced data management and analytics capabilities. Insurers should direct investments toward synergistic digital transformation across the business rather than deploying point solutions within stand-alone functions or individual lines of business.

Some initial efforts in these areas have been fruitful but should be expanded and linked to reach every part of the insurance enterprise. Underwriting, claims, portfolio management, product design and pricing, business development – these functions must all be digital first and fully integrated to optimize overall performance and deliver full value to customers and partners.

# 0.2%

average proportion of GWP carriers  
spent on technology development, 2021

Source: EY Specialty Cost Benchmarking Survey

The value of technology to improve operational efficiency and shorten turnaround times should not be overlooked. By investing in sophisticated and fully integrated front-end underwriting and claims toolsets, insurers can improve risk selection, drive automated placement through sophisticated triage methodologies, and eliminate friction points in policy issuance, billing and renewal.

The benefits of increased digitization and automation also extend outside the organization. Pervasive real-time connectivity will enable a more dynamic value exchange, with insurers engaging partners to enable real-time underwriting for flexible, on-demand coverage solutions. Strong APIs are necessary for seamless connections via ecosystems and platforms. Common data standards and models for the industry will enable fast, transparent data sharing among all market participants.

Again, it's not just automating to reduce labor costs. Consider how continual loss prevention, driven by timely risk insights and proactive monitoring, can greatly reduce overall claims volumes and payouts. AI and blockchain, rules-based underwriting workstations, IoT-enabled sensors and the cloud can all help streamline current operations and drive pervasive connectivity among market participants.

## Community: driving value through collaboration and co-creation

Intense competition has confirmed that few, if any, insurers can be all things to their customers or go it alone. Extensive connectivity means they don't have to. In forming their own ecosystems or joining those developed by others, insurers should seek a role that is unique, value adding and differentiating.

Ecosystems are not for distribution alone, though higher sales and access to new customers are the core of the business case for investing in them. The co-creation of new protection products, the bundling of ancillary services and access to specialist resources are other common benefits. Consider how insurers can work with third parties to offer independent site safety inspections to reduce risks across clients' supply chains. Similarly, MGAs' use of external partnerships (including third-party administrators) suggests how ecosystems can serve as a source for non-core skills.

To make the most of partnership-based models and accelerate the shift to a dynamic value exchange, insurers will take action on multiple fronts, including:

- ▶ Designing and investing in ecosystems built around distinct customer needs and offering a broad range of tailored service and trading mechanisms
- ▶ Deploying advanced IT architectures and environments that leverage strong and flexible APIs for secure and streamlined data sharing and plug-and-play capabilities
- ▶ Creating partnerships to provide holistic coverages to multinational clients with geographically broad and diverse asset bases
- ▶ Utilizing outsourcing and managed service providers to access specialty expertise and advanced technology, driving economies of scale and gaining flexibility to scale up or down in line with demand fluctuations



## Talent: putting humans at the center of the insurance enterprise

For all the impact of technology and data on innovation, people, talent and culture still largely determine success. Every senior leader in the industry recognizes the need to develop a more fluid, innovative and technology-proficient workforce – a prerequisite for companies to thrive and maintain competitive advantage in the future. Transformation programs must be designed so that people and teams are energized and empowered by change, a process that starts with clear communications about why the organization must change and how individual jobs will be impacted.

To keep up with evolving customer needs, insurers will need:

- ▶ Data scientists embedded within underwriting, claims and actuarial functions
- ▶ Digital-first strategists relentlessly focused on delivering innovative technology and data-driven solutions to take to market
- ▶ Experience designers focused on solutions that enhance the customer experience
- ▶ Business analysts and workers experienced with Agile techniques to provide the bandwidth in delivering the transformation

These skills are notoriously scarce and expensive. Moreover, there is a risk that the industry will struggle to attract the right people at all as it increasingly competes over talent with technology companies. That means insurers must embrace new sourcing strategies, including more extensive partnerships, to solve the talent gap.

Creating a culture that values collaboration, creativity and risk taking can help attract younger workers and boost returns on talent investments. Insurers and brokers must equip their leaders and teams to be agile and purposeful in adopting hybrid ways of working. Workers should be trained and encouraged to focus on the

# 8%

## proportion of full-time employees in insurance who have digital roles

Source: Glassdoor

highest-value activities. Capability-based HR models can promote skills development at scale and help insurers achieve talent liquidity – the ability to move skilled resources and talent around the organization as business needs dictate.

In terms of talent and culture, the end goal is a more diverse and effective workforce and more inclusive work environments. To get there, the industry's top priorities include:

- ▶ Higher degrees of diversity, equity and inclusion (DEI) at executive levels to make leadership more representative of the workforce and society as a whole
- ▶ Purposeful leadership that links work to the higher ideal of protecting businesses and society
- ▶ Agile organizational design that integrates key capabilities from across the value chain
- ▶ Strategic workforce planning, skills development and increased internal mobility for critical skills
- ▶ Flexible sourcing of talent (e.g., permanent, contingent, managed) to access the right skills in the right locations, at the right time based on strategic and operational demand
- ▶ Compelling employee value propositions, with the right blend of remuneration, flexibility and career development

Transformation programs should be designed to energize and empower people and teams.





### Meeting the moment with bold action

Firms that take bold action to navigate new competitive threats and meet higher customer expectations stand to realize both profitable new business growth and much improved underwriting returns. For companies that adopt a more ambitious approach to transformation, the significant value created for customers and society as a whole, as well as on the bottom lines of individual insurers, more than justifies the hard work and substantial investment.

And the work will be very challenging. Freeing the funds to invest in modernization of core systems is one barrier. Streamlining a core product set that remains fragmented is another. The need for extensive collaboration among partners is imperative and well understood by leaders across the industry; but within a competitive industry with layers of vested interests, securing collaboration will be challenging. Internally, hierarchical and complex organizational charts – not to mention the lack of key skills and risk-averse cultures – make it hard to enact the business model shifts needed to drive breakthrough innovation and sustainable growth and accelerate the transition from a linear value chain to a dynamic value exchange.

**For firms that innovate successfully, the revenue opportunity is immeasurable.**

However, the revenue opportunity for firms that effectively seize these opportunities is immeasurable. By innovating boldly, focusing relentlessly on client demand and repurposing key roles (e.g., underwriters, actuaries and claims handlers), carriers can realize significant premium growth for new and emerging risks, which are those most likely to be captured by captives and nontraditional players. It's also a matter of monetizing existing intellectual capital and data assets; alternative revenue streams from risk advisory and data-led services will enable insurers and brokers to capture money they are currently leaving on the table.

An increase in revenue will be complemented by much improved loss ratios. Investment in sophisticated underwriting, portfolio management, pricing and claims tooling, and more-robust analytics capabilities will drive more-informed risk selection decisions. Effective loss prevention services will also help reduce losses and volatility in the overall book of business.

Finally, insurers should target single-digit administrative ratios as a core objective. Full automation in the middle and back offices and strong third-party relationships (e.g., with MGAs and managed services providers) can effectively offset acquisition costs and help ensure the cost base is flexible and adaptable for both hard and soft market cycles.

## Conclusion: opportunities invite innovation

The post-9/11 era illustrates what's possible when the industry focuses on the biggest risks and works together to overcome financial, operational and technological barriers to innovation. Climate, cyber and ESG risks aren't going away and will only intensify. Insurers that proactively respond with new ways of understanding exposures, pricing risk and offering new products will be able to turn today's perils and opportunities into tomorrow's innovative solutions and bottom-line growth.

# EY NextWave Diagnostic: a transformation roadmap

Insurance executives are naturally curious about which business models of the future are best suited to their organizations – and how much transformation will be necessary to fulfill the vision. No matter the vision, leaders in commercial and reinsurance should consider three steps to successful transformation:

1. Baseline the organization today and defining the future strategy and objectives
2. Delivering “prerequisites” for winning
3. Investing in the core enabling capabilities

The first steps are to understand where you are today, baseline the organization and determine end goals, both strategic and tactical. From there, insurers can define the prerequisites for success – setting operational efficiency targets, replacing core platforms that inhibit innovation and reconfiguring the workforce – which will clarify the immediate-term investment priorities. These steps are critical in providing a foundation for long-term transformative change that will drive differentiating value in the future.

The EY Insurance team has developed a robust diagnostic tool and baselining methodology to help commercial insurers, reinsurers and brokers assess current performance, identify the challenges they must navigate and confirm the most-compelling growth opportunities. An interactive data-sharing and diagnostic session starts the process.

Please consult the list of contacts on page 20 if you would like to learn more.

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# NextWave Insurance leadership

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