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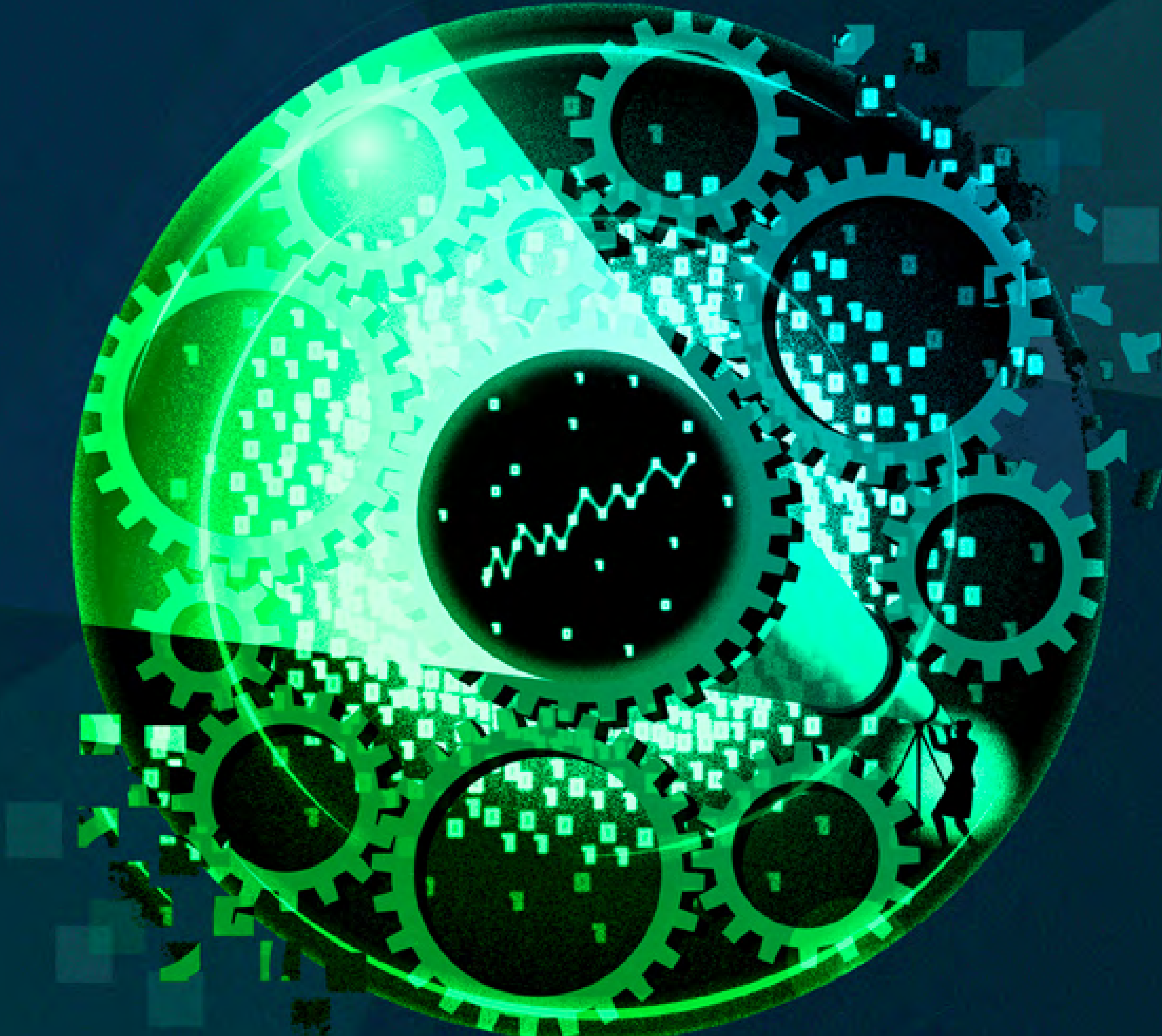

2020 insurance outlook

Insurers adapt to grow in a volatile economy

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KEY MESSAGES

- The global insurance industry is scrambling to grow and maintain profitability amid maturing markets and volatile economic conditions, all while reinventing their products, operations, and business models to cover evolving exposures, satisfy rising consumer expectations, and integrate new technologies.
- While the vast majority of insurer IT spending still goes toward maintaining legacy systems, budgets are starting to shift away from core applications toward analytics, artificial intelligence, and other advanced functionality to enable more flexible, customized products and enhanced customer experience.
- InsurTech funding hit record levels with a full quarter still to go in 2019 despite the dearth of new launches. However, only 25 percent of first-half 2019 InsurTech investments came from insurers, most of which continue to treat startups as vendors rather than partners or codevelopers in innovation.
- Insurers should be upgrading not only their technology systems and operating models, but talent capabilities and workplace policies to resolve an expected exodus in baby boomers and a widening digital skills gap.
- Regulatory changes are coming that will likely require significant investments and fundamental changes by insurers in sales standards, accounting, tax policy, cybersecurity, and privacy protection—although some new rules may also create opportunities to bolster sales in challenging markets such as annuities and flood coverage.
- How well insurers resolve the “synthesis challenge”—integrating innovation in technology, talent, and business models into change-resistant legacy environments—may be the biggest success factor for the industry in the decade ahead.

Where do insurers stand as they enter 2020?

THE INSURANCE INDUSTRY remains resilient, continuing to generate growth around the world and maintaining overall profitability despite turbulence in the global economy.

In the United States, the world's biggest insurance market, the property and casualty (P&C) sector is building upon a strong 2018 in which the industry saw net income soar 66 percent to US$60 billion, thanks to a 10.8 percent boost in net premiums written and nearly breaking even on underwriting (after losing US$23.3 billion the year before).[1] US insurer results deteriorated a bit but were still positive in the first half of 2019, with the industry posting an underwriting gain of US$5.4 billion (down from US$6.1 billion for the same period in 2018) and a profitable combined ratio of 97.3 (up from 96.2).[2]

Globally, Lloyd's, the world's biggest insurance market entity, reported a profit (US$2.8 billion) for the first half of 2019 after two full years of losses.[3] While 2019 consolidated figures for the global industry are not yet available, nonlife premiums were up 3 percent in real terms last year, above the 10-year average of around 2 percent, with close to 3 percent growth expected again for full year 2019 and 2020.[4] However, growth is expected to be more robust in some developing regions. Nonlife premiums in advanced markets are only expected to rise 1.8 percent through 2020, compared to 7 percent in emerging markets—slightly down from the 10-year average due to concerns about China's slowing economy and trade disputes with the United States (figure 1).[5]

Some of the rise in US net written premiums can be attributed to changes in reinsurance purchasing strategy prompted by the Tax Cuts and Job Act of 2017.[6] However, P&C insurers around the world are indeed growing premium volume simply by raising rates, in part to compensate for mounting liability and catastrophe losses as well as lower yields on fixed-income securities. Commercial policy pricing soared nearly 6 percent in the second quarter of 2019, according to Marsh's Global Insurance Market Index—the seventh consecutive quarter of average price hikes, and the largest increase in any quarter since Marsh launched its survey in 2012.[7]

The hardening P&C market was a worldwide phenomenon, with increases in all major geographic regions for the third straight quarter, led by the Pacific region at 18 percent, versus 6 percent in the United Kingdom and 5 percent in the United States, with continental Europe trailing at only 2 percent.[8] Increases were most prominent in financial and professional liability (nearly 10 percent), driven in part by higher directors and officers losses due to escalating securities and derivatives suits. Property coverage (8 percent)

FIGURE 1

Real nonlife premium growth comparisons vs. 2019–20 outlook

Markets	2008–17A	2018E	2019–20F
Advanced	1.1%	1.9%	1.8%
Emerging	7.7%	7.1%	7.0%
World	2.2%	3.1%	3.0%

Note: A = Annual average; E = Estimate; F = Forecast.
Source: Swiss Re Institute, *World insurance*: *The great pivot east continues*, July 4, 2019.

also saw significant increases, given higher disaster losses over the last few years.[9] Casualty rates overall were basically flat (1 percent).[10]

Looking ahead, S&P Global Market Intelligence is projecting "modest deterioration" in US P&C underwriting profitability over the next four years, as drivers of recent gains—including relatively strong private passenger auto liability results and favorable workers' compensation loss trends—are expected to "abate over time."[11]

The US industry's top-line growth rates and profitability could also be undermined by a slowing economy, as Deloitte's economic forecast team expects real GDP growth to fall to 1.6 percent in 2020, with the probability of a recession relatively high at 25 percent. Interest rates should remain at historically low levels, rising only to about 3.25 percent over the next five years.[12]

FIGURE 2

Real life premium growth comparisons vs. 2019–20 outlook

Markets	2008–17A	2018E	2019–20F
Advanced	-0.7%	0.8%	1.2%
Emerging	8.1%	-2.0%	8.7%
World	0.6%	0.2%	2.9%

Note: A = Annual average; E = Estimate; F = Forecast.
Source: Swiss Re Institute, *World insurance*: *The great pivot east continues*, July 4, 2019.

Life insurance and annuity growth may hit speed bumps

On the life insurance and annuity (L&A) side of the business, global premiums are forecast to increase by 2.9 percent in each of the next two years—much better than the 0.6 percent annual average over the last decade. This increase is once again driven largely by emerging markets, where premiums are forecast to rise by a robust 8.7 percent (figure 2).[13] China is expected to contribute almost half of the increase in global life premiums over the next two years, with a rebound to 11 percent growth after a sharp 5.4 percent contraction in 2018 due to tightening of regulations.[14]

However, these global life insurance growth predictions may yet be tempered by several evolving elements in the macroeconomic environment. These include how Brexit is implemented, the outcome of the 2020 US election, fallout from possible trade wars, declining interest rates, as well as slowing economic growth in Europe and China.

In the United States, while life and annuity writers saw total revenue rise by only 1.3 percent for the first half of 2019 compared to the same prior year period, profitability was much improved, up 36.2 percent, according to S&P Global Market Intelligence.[15] Total life direct premiums grew 5.1 percent in the second quarter of 2019 to US$46.71 billion, which was the industry's fastest rate of expansion since the fourth quarter of 2017.[16] Growth in ordinary life premiums increased to 3.2 percent in the second quarter, up from 2.4 percent in the first quarter.[17] Group life business spiked by 12.2 percent compared with 3.6 percent in the first quarter,[18] likely helped in part by steady growth in the employment base.

On the annuity front, low interest rates and a shift to risk-based solvency frameworks have put a damper on retirement and savings-related products in the advanced European markets.[19] As a result, premium income has fallen 1.1 percent annually over the past decade.[20] The Swiss Re Institute sees some growth opportunity here, as aging populations and cuts in public pensions may fuel demand for guaranteed income options such as annuities.[21] However, growth will still likely require additional effort by the insurance industry to accommodate emerging consumer needs. "Insurers will have to innovate to offer attractive products to satisfy this demand," noted Swiss Re."[22] (Later in this outlook, we note some significant legislative developments that could fuel more demand for annuities in US retirement accounts.)

In the United States, where product-specific results are more readily available, 2019 second quarter sales of fixed-rate deferred annuities and indexed annuities increased by 10.1 percent and 13.6 percent, respectively, helping to counter stagnant variable annuity growth in a continuation of a longer-term trend.[23] The strength of ordinary individual annuity business was further offset by an 8 percent decline in second quarter group annuities sales.[24]

Ordinary individual annuity premiums and considerations are projected to grow 4.4 percent for full year 2019.[25] While indexed annuities are positioned for significant gains as consumers try to minimize risk in investment products, variable annuity growth will likely continue to erode[26] as market volatility tempers interest in equity-based products.

Direct group annuity premiums and considerations are expected to decline by 1.9 percent for full year 2019, following a particularly active year for pension risk transfers the year before.[27] Such transfers generated US$11.1 billion in the second quarter of 2018 alone, the second most active period on record.[28]

Looking ahead to 2020 and beyond

While most insurers we've encountered are continually seeking expense efficiencies (via robotic process automation, or RPA, for example) and variabilization of costs (such as through outsourcing/offshoring of noncore talent, or shifting data and software to the cloud) most also keep investing proactively. More insurers are looking to bolster core systems, add capabilities, and enhance customer experience through artificial intelligence (AI), digitalization, new sales platforms, alternative product development, and other innovations. Many are beginning to pivot from investments to support business as usual to financing innovations facilitating more fundamental business model changes.

In this outlook, we spotlight areas on the primary insurance side of the business that should be high on insurer agendas over the next 12–18 months, whether it's to grow the company, run it more efficiently and productively, or meet rising regulatory compliance demands. We also consider how insurers should be repositioning for success throughout the 2020s to adapt to changes in consumer purchasing preferences, property use, and work habits.

Growing the insurer

Rule changes could boost US annuity uptake to bolster retirement

Financing retirement for an aging population is a global problem, particularly in many of the more advanced economies. However, some relief may be on the way in the United States, where even with Social Security as a backstop, about 40 percent of households headed by people aged 55 through 70 lack sufficient resources to maintain their standard of living in retirement.[29] Legislative and regulatory changes under consideration would make annuities a more common option for US retirement plan participants.

Consumers have often been reluctant to buy annuities due to concerns about associated fees and potential surrender charges, the product's complexity, and complicated tax rules.

For example, awaiting US Senate consideration as this report was prepared is SECURE (the Setting Every Community Up for Retirement Enhancement Act of 2019), which would increase consumer access to annuities for distributions from defined contribution plans. It would also alleviate a major obstacle inhibiting employer uptake of annuitization options with a safe harbor provision to protect plan sponsors or other fiduciaries from liability if insurers fail to pay annuity claims. With some 55 million active members of 401(k) plans holding an estimated US$5.7 trillion in retirement assets as of March 31, 2019,[30] even if annuity providers achieve a 1 percent penetration of this market thanks to these changes, that would represent US$57 billion in transferrable assets.

Along the same lines, the Rehabilitation for Multiemployer Pensions Act of 2019 would provide financial support that managers of some 1,400 US multiple employer plans (MEP) could use to transfer pension obligations to private insurers by purchasing group annuities.[31] The bill could help insurers generate as much as US$70 billion in additional group annuity sales over a 10-year period, according to projections from the Congressional Budget Office.[32]

However, altering the rules alone may not make a major difference in annuity sales unless the products and sales process are also revised. Consumers have often been reluctant to buy annuities due to concerns about associated fees and potential surrender charges, the product's complexity, and complicated tax rules, as well as fear that if the insurance company behind the annuity goes under, the guaranteed income stream could vanish.

WHAT SHOULD INSURERS BE DOING ABOUT ANNUITIES IN 2020?

Annuity providers should be considering how to simplify and rebrand retirement products, enhance the sales process, as well as improve public perception of the value proposition versus investment alternatives so more will opt in if given the chance.

For example, repackaging annuity products by embedding more flexibility and liquidity may go a long way toward giving customers better control of their investment. Putting annuity features within managed accounts and building glide paths within the products to gradually shift to annuitization may also help increase their appeal.

While pending legislation for annuities is poised to drive sales in the group segment, New York State's best interest standard, which took effect August 1 for annuities (and due to extend to life insurance sales on February 1, 2020),[33] could complicate expansion plans for individual annuity sales, especially because other states and federal agencies are also considering new fiduciary measures prohibiting sellers from being influenced in their recommendations by financial compensation or other incentives.[34] (See "Regulating the insurer" for more on this development.)

KEY QUESTIONS FOR ANNUITY LEADERS TO ASK

As annuity leaders consider making changes to rules to enable greater annuity sales via retirement plans, insurers should be repositioning to capitalize on the resulting growth opportunities. Among the issues to address:

- How might you modify products and sales platforms to accommodate a future in which annuities can be key components of 401(k) and MEP plan distributions?
- What changes might be necessary in your sales compensation and distribution strategies should the best interest standard be more broadly adopted?
- What kinds of educational and marketing efforts are you planning to increase consumer understanding and comfort levels with annuities versus other retirement investment options?

Life insurance analytics: Taking a good start to the next level

Life insurers have been experimenting for several years with new sources of data and analytic tools to improve customer experience, streamline the sales process, and engage with policyholders more often, rather than only at renewal. John Hancock, for example, has altered marketing and pricing strategies, using data generated from fitness trackers to generate a steady stream of data about buyers in return for price discounts on life insurance.[35] Others are accumulating data from a variety of aggregated sources to accelerate the underwriting process and avoid invasive, time-consuming, and expensive medical tests.

While this might be a good start, a chronic lack of penetration in large, untapped market segments suggests a more robust strategy may be required, including a more effective use of alternative data and analytics across the insurance value chain to better meet the evolving needs of consumers and insurers alike.

WHAT SHOULD LIFE INSURERS BE DOING ABOUT ANALYTICS IN 2020?

While some carriers have made headway in advanced analytics adoption,[36] insurers in general should be doing more to fully harness the power of connectivity and the new data being generated by wearables and other alternative sources.

Life, health, and retirement product providers may consider converging their vast resources of consumer data for seamless, more cost-effective targeting and servicing of the underserved low- and middle-income segments. For example, the accelerated life underwriting application process, which is generally available only for young and healthy consumers, may become more accessible to a broader population with additional data sources, such as aligning with health care providers to integrate electronic health records. While HIPAA requires consumer authorization to share medical records, this information is a standard requirement in most high-value life insurance applications.

Advanced demographic analytics can also drive value both pre- and postapplication. Identifying consumers experiencing life or asset changes can help insurers anticipate their needs and sell products to fulfill them. Targeting consumers during transformative life events can significantly increase the likelihood of consideration of an insurance marketing message.[37] Predictive analytics tools, such as Deloitte's PredictRisk, can be useful to identify, reach, and insure customers, as well as accelerate underwriting. Indeed, such tools may even enable customized nudges to keep people motivated to complete the application process.

However, insurers will likely need to overcome several challenges to fully capitalize on analytics investments. Traditional data management processes may require modifications to collect and incorporate new sources of data and deliver insights in an efficient manner. Insurers should be breaking down technology and process silos for seamless data processing and integration. And as the availability of data and information sources increases, insurers will need to understand and filter out the noise from the resulting inflows for accuracy, reliability, and utility.

Externally, insurers may also need to increase transparency about the lifestyle information they access and how they use it to improve coverage, pricing, and service, and thereby convince privacy-sensitive customers that sharing personal data is an attractive value proposition. As US regulators emulate more stringent European privacy standards, insurers developing or already implementing analytics initiatives may consider periodic audits or establish an internal analytics regulatory group for efficient compliance.

KEY QUESTIONS FOR INSURANCE LEADERS TO ASK

Analytics investments will likely be a key step in modernizing insurer operations and customer experience. A life insurer's considerations may include:

- What upgrades will you make to your analytics capabilities to improve customer experience and target underpenetrated market segments?
- Will your company consider creating broader partnerships and/or working with third parties to access more data sources?
- What strategies will your company implement to convince customers it is worth their while to share more of their data to fuel analytics programs?

Many L&A carriers struggle to connect with digital consumers across demographic segments

About 41 percent of Americans do not own any form of life insurance,[38] as many don't appreciate the full value of these products against ever increasing competition for consumer wallet share. Moreover, annuity penetration has continued to lag due to a lack of consumer familiarity with how the products work, as well as their perceived high cost.[39] While possible federal legislative changes mentioned earlier may set the stage for new opportunities to sell individual and group annuities, such complex products won't sell themselves. The advisers of the future will likely need to be fortified with a more compelling narrative and new sales tools to improve their targeting and closing capabilities in an increasingly digital world, particularly in the middle market.

Despite some attempts to upgrade legacy marketing and distribution systems with advanced customer relationship management (CRM) platforms, many carriers continue to struggle to drive more effective connections with consumers accustomed to online shopping and self-service, while empowering agents and advisers to be more productive in an online age. Digitalization to support or perhaps supplant traditional intermediaries could be important, but many companies are not yet fully prepared to accommodate emerging online consumers.

By 2020, more than nine in 10 new life insurance sales are expected to be at least influenced by digital interaction, including online searches to assess life insurance providers and advisers; compare price and coverage options; and apply for a life insurance or annuity policy on an insurer's website.[40] Others could look to take advantage of increasingly sophisticated robo advisory services.

WHAT SHOULD L&A INSURERS BE DOING ABOUT DISTRIBUTION IN 2020?

CRM efforts should be facilitating a more mature set of capabilities for sales management, both in terms of direct-to-consumer sales, as well as for producers. They should also be enhancing postpurchase efforts, including upselling and cross-selling, while adding ancillary services, such as access to a fully detailed retirement plan, as a value-added component to reinforce the product sales relationship.

Online services and direct digital distribution functionality will also likely be necessary to compete in the multichannel environment taking shape across other insurance sectors. L&A websites should provide online research features, improve the digital user experience, and prompt human follow-up if online inquiries are abandoned midprocess.

Experimenting or enhancing a direct digital online channel may be effective for simple life insurance and annuity products, but human interaction will likely remain the rule rather than the exception for many complicated L&A policies. Instead of operating a "direct *or* agent" scenario, insurers should prepare for a "direct *and* agent" hybrid model in which even online consumers may easily seek more pointed advice later in the process and remain engaged for a shorter time.

Human interaction will likely remain the rule rather than the exception for many complicated L&A policies.

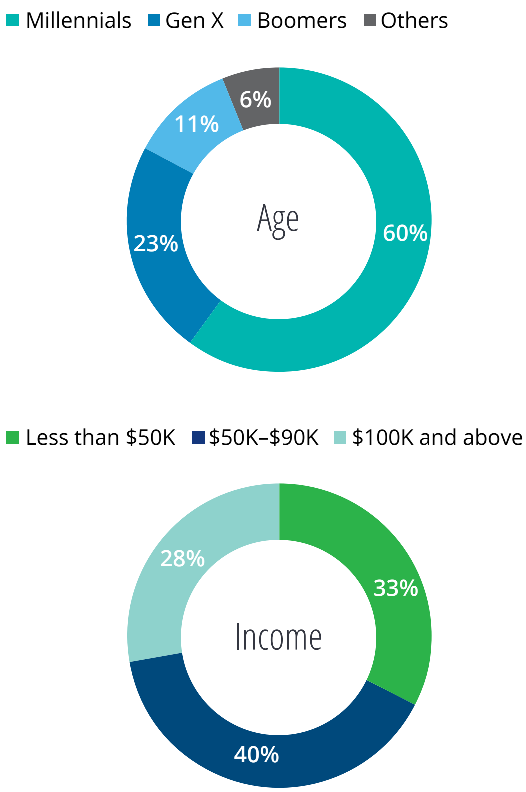
Agents should be retrained to offer appropriate levels of advice to consumers who initially engage with a carrier over a digital channel. The adviser of the future may also have to modify the way they present annuities to make them more palatable as discretionary products, which will likely require skills to more effectively build rapport and understand the emotional connections involved in investing large portions of retirement savings.

Carriers should also continue upgrading their robo advisory capabilities. Fifty-eight percent of Americans expect to use a robo adviser by 2025, while 71 percent want access to such self-service technology along with human advice.[41] Most companies still tend to direct lower-income investors to robo advisers for cost efficiencies, while high–net worth clients tend to receive a high-touch experience.

However, because the range of consumers that prefer robo advice crosses a broad range of segments (figure 3), a self-direct-to-guidance model should likely be employed across

FIGURE 3

Robo advice users in the United States are present in varying age and income groups



Note: All dollar amounts are in US dollars. Percentages may not total 100 percent due to rounding.

Source: Charles Schwab, *The rise of robo: Americans' perspectives and predictions on the use of digital advice*, November 2018.

demographics, depending on the preferences of the client, not the income bracket. Cost efficiencies gained from the high–net worth robo users could perhaps be redeployed to balance the expense of providing additional guidance to lower income segments.

KEY QUESTIONS FOR INSURANCE LEADERS TO ASK

As insurers modernize distribution channels and networks to drive growth and efficiencies, they should consider the following questions:

- How might you continue to enhance your distribution systems and platforms to realize the full economic value of your investments, such as integration of hybrid distribution and advisory models?
- What are you doing to empower agents and advisers to succeed amid growing digitization and changing consumer expectations?
- How do you find new talent or train existing agents and advisers to more effectively and efficiently meet the needs of more discerning buyers and investors?

Private carriers pouring capacity into US flood market

Providing affordable private insurance for homes in flood zones has been a major challenge worldwide, exacerbated by the effects of climate change. Some countries, such as Germany and Italy, have developed an optional coverage system in which private carriers must offer flood insurance for an additional, risk-adjusted premium.[42] Others, such as the United Kingdom, Spain, and Japan, use a bundling system in which flood is combined with other perils to spread the risk among a wider geographic area, and if overall losses exceed premiums, insurers pay assessments by market share.[43]

France and Spain have catastrophic reinsurance programs in place to ease the exposure of private insurers if disaster losses exceed a certain threshold.[44] The UK established Flood Re, which collects flood premiums from all homeowner insurers, as well as additional premiums for high-risk properties that carriers do not feel comfortable covering themselves.[45]

In the United States, the idea of private insurers writing a significant amount of US flood insurance was a nonstarter for decades, leaving the risk in the hands of the National Flood Insurance Program (NFIP).

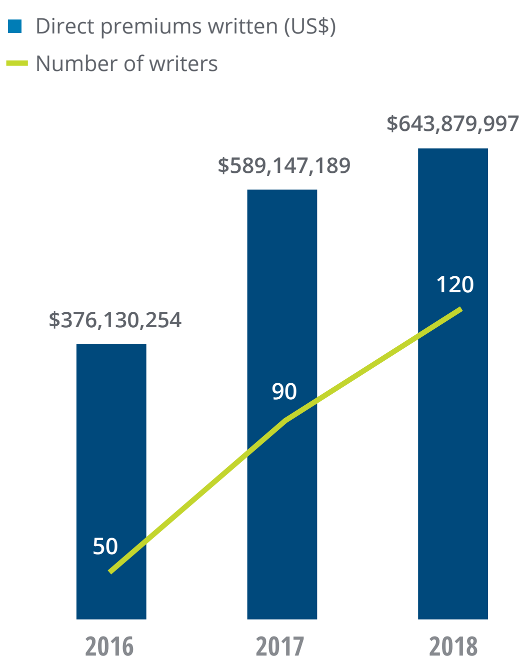
That is changing dramatically. Thanks to advances in modeling technology and regulatory reforms, private carriers have begun entering the flood market in a big way (figure 4). Direct premiums written by private flood insurers soared 70 percent between 2016 and 2018, to US$644 million.[46] Fifteen states have seen private flood premiums more than double over that period.[47] The number of private carriers writing the coverage has expanded from 50 in 2016 to 90 the following year and to 120 last year.[48]

Private reinsurers are also bolstering their place in the market. In January 2019, 28 reinsurers took on US$1.32 billion of the NFIP's exposure—the third consecutive year such a risk transfer deal was struck. The 2019 placement covers portions of NFIP losses above US$4 billion arising from a single flooding event, for which its parent, the Federal Emergency Management Agency (FEMA), paid US$186 million in premiums.[49]

FIGURE 4

Insurers increasing their presence in flood coverage

Private flood insurance market for US states and territories



Note: All dollar amounts are in US dollars.

Source: National Association of Insurance Commissioners (NAIC), as reported on Property & Casualty annual statement blank as of April 1, 2019. Reprinted with permission of NAIC.

WHAT SHOULD INSURERS BE DOING ABOUT FLOOD INSURANCE IN 2020?

There is still lots of room for growth in flood insurance. Indeed, FEMA estimates that only about 3 percent of US homeowners are covered,[50] while a 2018 Insurance Information Institute survey found that as many as 15 percent have flood policies.[51] Either way, that still leaves millions of potential prospects for insurers to approach.

Regulatory changes are also creating a more fertile environment for flood insurance growth. In July 2019, a new rule went into effect allowing lenders to accept qualified private insurance policies rather than requiring NFIP coverage for properties in specified flood hazard areas.[52] Insurers looking to increase market penetration should be taking steps to meet the new federal standards.

But to capitalize on this opportunity, insurers will likely need improved modeling capabilities to be better able to assess individual risks. Efforts are already underway to achieve this goal.[53]

This isn't to suggest that selling private flood insurance will be a slam dunk. Indeed, a survey by the National Association of Insurance Commissioners (NAIC) found that while 41 percent of respondents agree or strongly agree that having flood insurance is important, only 17 percent of them said they had actually bought a policy.[54]

In addition, while the growth outlook for flood insurance looks promising for private insurers, at least in the short term, once carriers have harvested the low-hanging fruit—those with the lowest flood risk—the challenge is expected to be how to profitably attract and retain a larger, higher-risk book of business, particularly given concerns over the expanding effects of climate change.

KEY QUESTIONS FOR PROPERTY INSURANCE LEADERS TO ASK

Many US insurers have already targeted flood coverage as a potential growth area, but they've likely only scratched the surface. Those looking to enter or expand in the market should be asking:

- What risk modeling capabilities should you be developing to compete for flood risks not only with the NFIP, but also with the growing number of private carriers that have entered the market in the past few years.

- What policy changes should be considered to pass muster as an acceptable substitute for NFIP coverage with lenders in flood zones?

- How might insurers and their agents more effectively engage property owners who have thus far been reluctant to buy flood insurance because of the cost versus the perceived exposure?

- How can insurers continue to profitably expand their flood business nationwide given worsening exposures due to ongoing changes in climate and weather patterns?

US M&A pace slows, but global activity soaring

Despite a slowdown in the volume and value of US insurance merger and acquisition (M&A) activity into the summer of 2019 (figure 5), the pace of deal-making picked up considerably in other regions around the world, and the possibility of achieving nonorganic growth or repositioning through acquisition remains a viable option for many carriers.

In the L&A sector, while M&A activity has slowed, the trend of divesting noncore segments to focus on acquiring blocks of business for market leadership in key strategic areas will likely continue, thanks to declining interest rates and pending changes to GAAP accounting.

Deals of note in the United States include Ameriprise announcing a US$1 billion sale of its auto and homeowners' lines to American Family in April to focus on its core growth areas of advice and wealth management, as well as asset management.[55] And in September, Prudential Financial Inc. purchased Assurance IQ to penetrate the middle market cost effectively with an online sales platform.[56]

While consolidation in the US insurance brokerage sector remains high, activity fell nearly 10 percent compared to the first half of 2018. Private equity buyers accounted for 67 percent of these transactions,[57] while most of the largest players continued to make acquisitions to build market share and diversify distribution, geographic footprint, and specialization capabilities.

Globally, although the United States was the most active region, the largest increase in M&A activity occurred in Europe, with a 40 percent jump in the number of deals over the prior six months (figure 6), as companies there began to move on from preparations for Brexit in location and staffing, while also addressing broader strategic concerns.[58]

The Asia-Pacific region marked the fourth consecutive period of rising deal volume with 38 transactions. While Japan and Australia led the way, recent legislative changes in India are beginning to drive heightened activity there.

FIGURE 5

Insurance sector M&A activity, 2018–19 (United States and Bermuda)

	Number of deals				Aggregate deal value				Average deal value			
	CY 2018*	YTD 2018	YTD 2019	YOY change (Jan. to May)	CY 2018	YTD 2018	YTD 2019	YOY change (Jan. to May)	CY 2018	YTD 2018	YTD 2019	YOY change (Jan. to May)
Under-writers	87	40	19	-52.5%	$42.7B	$28.9B	$1.6B	-94.5%	$971M	$1.5B	$267.6M	-82.1%
L&H	26	10	6	-40.0%	$8.6B	$3.8B	$147.8M	-96.1%	$614M	$941.4M	$147.8M	-84.3%
P&C	61	30	13	-56.7%	$34.1B	$25.1B	$1.5B	-94.0%	$1.1B	$1.7B	$291.6M	-82.8%
Brokers	594	238	231	-2.9%	$8.1B	$986.0M	$782.1M	-20.6%	$245M	$54.8M	$71.1M	29.7%
Total	681	278	250	-10.0%	$50.8B	$29.9B	$2.4B	-91.9%				

*CY 2018 represents full calendar year 2018. YTD 2018 is defined as January 1, 2018 to May 31, 2018, and YTD 2019 is defined as January 1, 2019 to May 31, 2019.

Note: All dollar amounts are US dollars.
Source: Deloitte analysis using SNL Financial M&A database.

FIGURE 6

Insurance sector M&A activity, 2017–19 (sampling of major global markets*)

	Number of deals			Aggregate deal value			Average deal value		
	YTD 2017	YTD 2018	YTD 2019	YTD 2017	YTD 2018	YTD 2019	YTD 2017	YTD 2018	YTD 2019
Under-writers	31	32	31	$4.3B	$25.1B	$4.4B	$230M	$1.4B	$326M
L&H	14	10	7	$1.9B	$7.6B	$342M	$201M	$1.0B	$70M
P&C	17	22	24	$2.4B	$17.5B	$4.0B	$241M	$1.2B	$390M
Brokers	73	69	70	$730M	$1.0B	$463M	$29M	$38M	$93M
Total	104	101	101	$5.1B	$26.1M	$4.9M			

*Includes data for United Kingdom, Spain, Germany, France, China, Japan, and India.

Note: YTD 2017 is defined as January 1, 2017 to July 31, 2017, YTD 2018 is defined as January 1, 2018, to July 31, 2018, and YTD 2019 is defined as January 1, 2019, to July 31, 2019. All dollar amounts are in US dollars.
Source: Deloitte analysis using SNL Financial M&A database.

WHAT SHOULD INSURERS BE DOING ABOUT M&A IN 2020?

Global insurers may prepare for projected economic, interest rate, and financial market uncertainty by building or strengthening their M&A muscles to better prepare for either acquisitions or divestitures. This exercise should include aligning strategic business initiatives and capabilities with potential market opportunities, as well as due diligence to reach out proactively to potential targets and show interest before others enter the arena.

Insurers should strive to become nimble enough to capture optimum opportunities as soon as they present themselves. Insurers can also reexamine M&A corporate development and integration capabilities to establish a more efficient and effective screening discipline for their decision-making process. Utilizing tools and playbooks such as Deloitte's iDeal, Digital Deal Room, and M&A Central may enable more advanced digital and analytics capabilities throughout the M&A life cycle.

KEY QUESTIONS FOR M&A LEADERS TO ASK

Amid organic growth concerns across insurance sectors in a slowing economy, carriers should examine their readiness to assess and process acquisitions and divestitures. An insurer's considerations may include:

- Have you considered M&A strategies to build your geographic footprint, either domestically or globally?
- Is your company strategically positioned to quickly identify, target, and integrate acquisitions ahead of competitors and maximize deal value?
- How will your company culture need to change for more effective integration of acquisition targets?

Running the insurer

Bridging the generational and skills divide to head off a talent gap

Only 4 percent of millennials are interested in working for the insurance industry.[59] A preference for the technology industry,[60] a generally negative perception about working in insurance,[61] and lack of knowledge about how the industry functions[62] are among the obstacles most carriers face in attracting new talent.

At the same time, a large number of baby boomers, who made up one-fourth of the insurance workforce in 2018,[63] are rapidly nearing the traditional retirement age of 65, including 31 percent of insurance agents and 24 percent of underwriters.[64] This anticipated exodus is expected to result in the loss of a wealth of institutional knowledge and leave nearly 400,000 unfilled job openings by the end of 2020.[65]

Meanwhile, digital transformation has changed the nature of work in the industry as well as talent needs. In underwriting and claims, for example, there is a growing demand for those with higher-level skills and a more entrepreneurial mindset to get the most out of analytics, AI, and other advanced technologies.

At the same time, insurers are being challenged to become more flexible by offering alternative staffing opportunities such as contract, freelance, and gig arrangements, which are increasingly mainstream.[66]

WHAT SHOULD INSURERS DO TO BRIDGE THE TALENT GAP?

One option is to stem the tide of retirements by retaining and retraining older professionals. Alternative staffing arrangements, such as keeping semiretired workers on a part-time basis or for short-term assignments, can allow insurers to preserve boomers' skills and experience while giving them a chance to remain active, increase their nest eggs, and ease the transition into retirement.

However, while such efforts may help stem the tide of retirements, it will only postpone the inevitable departure of boomers. Insurers should therefore also step up efforts to raise awareness about potential insurance careers among students and young job seekers, particularly through social media. They should be emphasizing the challenging, high-tech work environment insurance can offer—points about which many millennials are apparently unaware.[67] To attract Gen Z, carriers should work with universities to spotlight the industry's technological evolution, emphasizing how tech-savvy graduates could help accelerate innovation in an industry where billions are being poured into InsurTech initiatives.

Insurers also should be reshaping job descriptions and training programs to reflect the evolving nature of work itself. Actuaries, for example, are seeing their jobs redefined by technology, leveraging the power of automation and AI to move beyond the role of data steward and model builder and become business strategists.[68] The day-to-day work, skill sets, and responsibilities of underwriters, claims managers, and agents are also rapidly evolving exponentially.

To meet the new demands being made of insurance professionals, skill sets should be consistently upgraded. Deloitte's 2019 Global Human Capital Trends survey found nearly 72 percent of insurance respondents believe current employees need to enhance their skills to succeed in the emerging digital environment.[69]

Carriers should therefore be ramping up higher-level training programs to help their existing and incoming workforce acquire and maintain requisite skills in RPA, AI, analytics, and other advanced technologies. Training should be fully integrated with work, more personally oriented, and extend throughout an employee's tenure to continually upgrade capabilities while keeping jobs challenging.[70]

KEY QUESTIONS FOR TALENT LEADERS TO ASK

Line of business and functional leaders at insurance companies should be working with their colleagues in talent to engage with and manage expectations for a multigenerational workforce, while developing a road map to address the challenges they face in recruitment, retention, and retraining. Among the questions they should be asking:

- What alternative work arrangements can you establish to better leverage the strengths of older workers beyond traditional retirement age?
- How might you foster greater collaboration between older and younger workers to meet business objectives and employee needs?
- How can recruitment, onboarding, mentoring, and retention strategies be updated to attract students and young job seekers to the industry to offset the inevitable exodus of boomers?
- What new skill sets will be required to compete in an increasingly digital market, and how can insurers institute ongoing training of new and existing workers to keep their people up to speed?

Core system transformation reloaded for digital initiatives

Over the past several years, most carriers have invested heavily in legacy modernization initiatives to transform core operations. What's changing for many companies are the business objectives driving such efforts. Insurers' digital ambitions will likely fashion most core system transformation efforts going forward.

Core systems need to be ready for the digital technologies that power new business models.[71] For example, new products designed to meet the demands of the sharing economy allow customers to start/pause/stop coverage at the click of a button on their mobile apps. Providing this functionality to customers would be possible only if core insurance functions—such as rate, quote, bind, issue, claims, billing, service, etc.—are equipped to handle such advanced requirements.

Thus, a carrier's ability to utilize new technologies to enhance customer engagement, develop new product offerings, analyze data, or employ automation tools is tightly coupled with the readiness of its core systems.

WHAT SHOULD INSURERS BE DOING ABOUT CORE SYSTEM TRANSFORMATION IN 2020?

While a large part of a company's IT spending goes toward core systems, budgets are starting to shift away from core applications toward analytics, data security, and other advanced functionality.[72] Since core systems serve as the backbone to these digital initiatives, insurers cannot afford to take their eye off wider-ranging modernization.

On the L&A side, insurers should continue replatforming existing core applications from legacy systems to more modern environments to ensure they are adaptable for digital capabilities. For P&C, with more evolved core packages offered by longtime software vendors, carriers should look to initiate or continue their core system transformation efforts utilizing vendor packages as the base. Carriers should look for options where digital capabilities are embedded within the core system.

Companies should also evaluate cloud as a platform for their modernized core systems. Cloud can provide carriers with added agility and flexibility to meet future requirements. Insurers that may already be building on-premise solutions should look to augment their delivery capabilities using cloud. (See next section for more about the cloud.)

KEY QUESTIONS FOR BUSINESS LEADERS TO ASK

Business and IT leaders at insurance companies should work together to understand the demands new digital technologies will put on core systems and identify strategic priorities to develop a modernization roadmap. They also should ask:

- Where are you in the journey of core systems upgrades? Are your core capabilities ready to handle the current and future load placed by advanced digital transformations?
- Are customer engagement and business development goals clearly defined and captured in your core transformation business case, or is the program still heavily focused on cost reduction and efficiency goals?
- Does core system transformation require updates to your business rules and/or processes?
- Have you evaluated various core platform vendor options against your company's key success factors and associated requirements?
- Could hosting selected core applications on a cloud help you be better prepared to meet future business transformation needs?

Cloud moving from infrastructure concern to business transformation enabler

Insurers have been moving more and more data and applications to the cloud. However, conversations about cloud have generally shifted from IT-centric topics such as where to more efficiently house data, to business-driven considerations such as how cloud can enable system modernization and business model transformation. This is possible due to the benefits of speed, flexibility, and scalability, in addition to the operating cost efficiencies cloud can provide.

This same pivot is being made by most cloud service providers, who have started focusing on industry-specific solutions and cloud native offerings for core system applications, advanced analytics, automation tools, and infrastructure services.[73]

Looking ahead, insurers worldwide seem to be making cloud a higher priority when deploying new apps for the digital world, given the platform's cost and speed advantages over on-premise deployments. However, if applications on the cloud link back to existing on-premise core solutions, it could lead to excessive network traffic between the two environments. This could strengthen insurers' business case for migrating core systems to the cloud and taking the opportunity to modernize those systems in the process.

Bottom line, cloud is more than a destination for data and applications; it is a business methodology—one that could enable a transformation in core systems while providing the computing power and flexibility to integrate more advanced technologies, such as machine learning and AI.

WHAT SHOULD INSURERS BE DOING ABOUT CLOUD IN 2020?

Companies should develop a multiyear cloud strategy, ideally as a part of their broader efforts to create the digital insurer of the future. Taking a holistic view of digital initiatives and business considerations could help carriers in identifying which applications to migrate to cloud and creating a phased migration plan for adoption.

There are several other nuances for insurers to consider. For one, wherever applicable, carriers should try to deploy business applications as micro services, which makes them easily accessible and reusable, both internally and externally through application programming interfaces (APIs). This can enable carriers to tap into broader digital partnerships that could drive revenue growth, rather than just move to the cloud as an expense reducer.[74]

Second, to benefit from the unique advantages offered by different cloud service providers, insurers should create a deliberate strategy to use cloud native services where possible. Integration capabilities across a multicloud environment offered by service providers can alleviate the risks of using a cloud provider–agnostic environment.

Finally, when it comes to safeguarding their data and applications, cloud security should be an integral part of a carrier's planning process. As data protection and privacy regulations become tougher, companies and cloud service providers alike will likely need to adapt quickly to ensure compliance. For example, providers are setting up data centers across the Americas, Europe, and Asia to comply with region-specific data residency regulation, while also investing to boost cybersecurity.

That said, while providers may be accountable for the cloud infrastructure, insurers are ultimately still responsible for vetting the security and recovery capabilities of their cloud vendor, as well as applying appropriate security and access controls to their cloud applications.

KEY QUESTIONS FOR BUSINESS LEADERS TO ASK

Cloud can enable insurers to become more agile in adapting to changing business models and customer needs. To achieve these benefits, however, functionality requirements from cloud for different businesses should be clearly understood, articulated, and accepted across the organization. Insurers should be asking:

- Have you developed a phased migration plan for moving to cloud, considering the impact of digital transformation on the selection and sequencing of applications?

- Have you assessed the pros and cons of a "lift and shift" approach where you move existing systems to the cloud as is, versus rebuilding and modernizing your applications and the underlying processes during the transfer to enable a broader digital transformation?

- Have you considered deploying new applications directly on cloud, such as analytics, AI, and machine learning tools?
- Are you on top of the privacy and data security regulations and implications of cloud across different regions? Do you have a mechanism to track and analyze the impact of changing regulations on your cloud infrastructure?

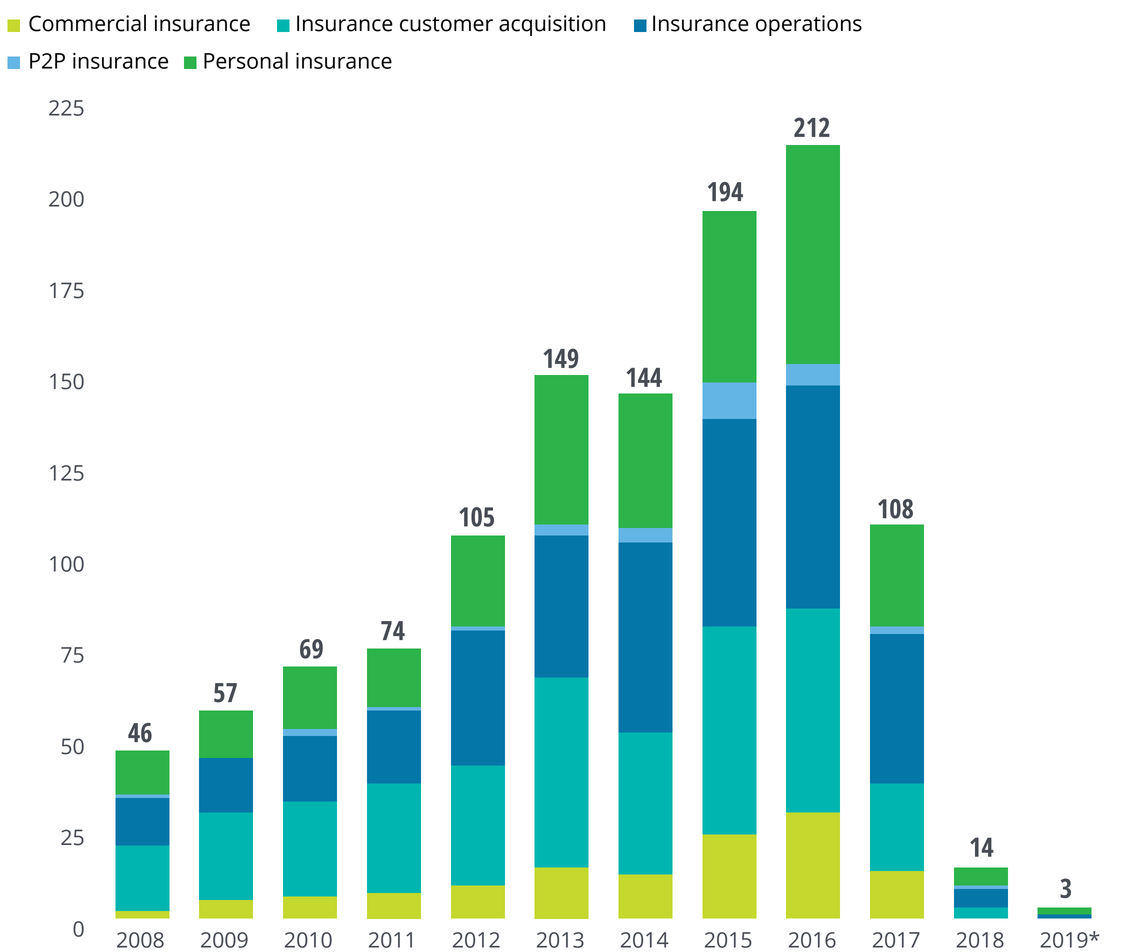
Maturing InsurTech market prompting shifts in innovation strategy

For the second year in a row, launches of new InsurTechs have come to a virtual halt (figure 7), with only a handful entering the market after

FIGURE 7

InsurTech startups reach saturation point after decade of experimentation

Number of InsurTechs by category, by year companies were founded



*2019 figures are through Q3.

Source: Deloitte Center for Financial Services analysis using data from Venture Scanner.

hitting a high of 212 in 2016. However, global investment in InsurTechs continued to surge through the first three quarters of 2019 (figure 8), setting a record of US$3.26 billion with a full quarter still to go.[75]

The vast majority of InsurTech investments continues to come from parties outside the industry, such as venture capital funds.[76] That means most insurers remain passive spectators and consumers of InsurTech, rather than actively engaging in their development and the industry's transformation.

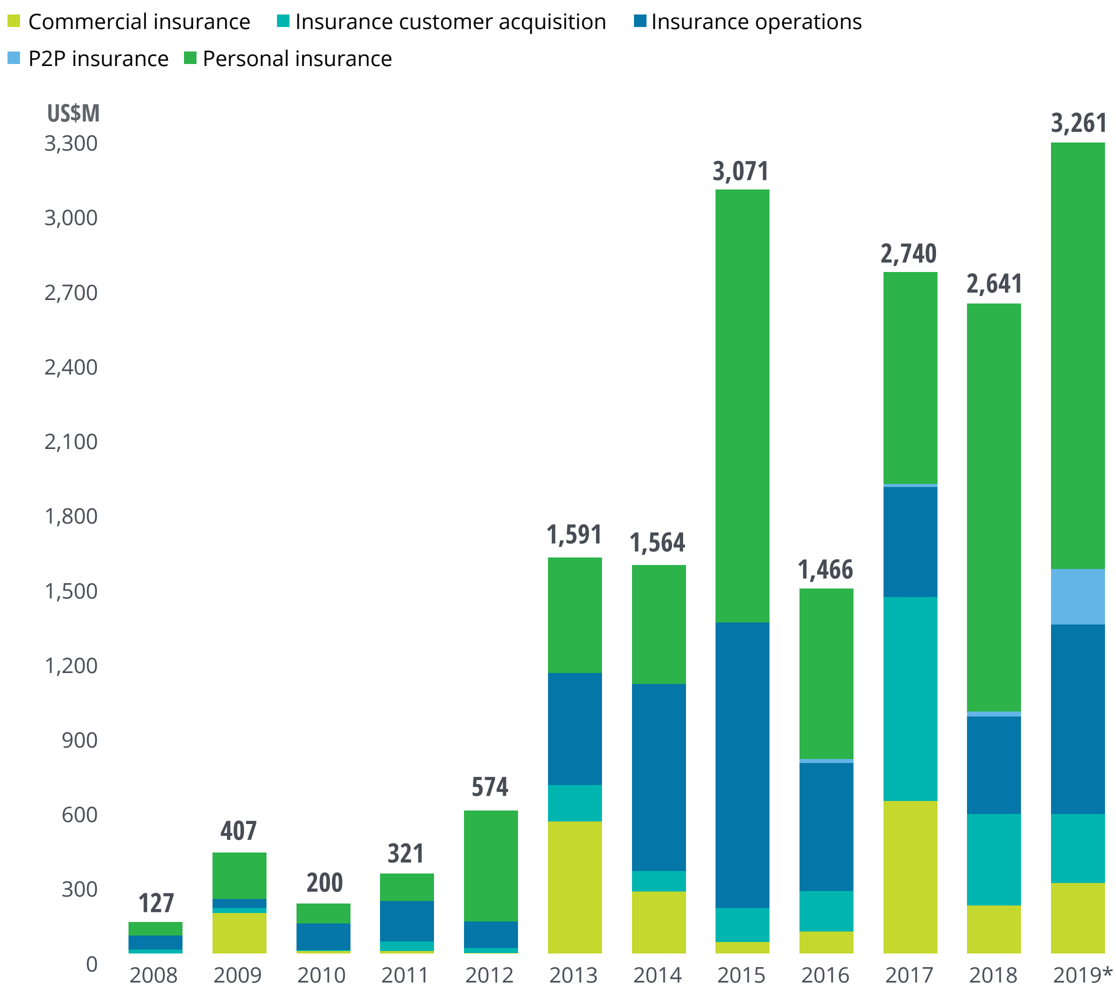
WHAT SHOULD INSURERS BE DOING ABOUT INSURTECH INVESTMENT IN 2020?

Rather than treat InsurTechs as just a new type of vendor, more carriers should be looking to

FIGURE 8

Financing for InsurTechs hit highest level in 2019

InsurTech funding by category/investment year



*2019 figures are through Q3.

Source: Deloitte Center for Financial Services analysis using data from Venture Scanner.

collaborate with or even acquiring them so legacy players may feed off the entrepreneurial culture and technical ingenuity of startups, while tech pioneers at startups benefit from the industry's market expertise, capital, and brand recognition.

One area where insurers might up their InsurTech game is in commercial insurance, which has lagged personal lines development considerably—with only 164 launches for the former versus 410 startups for the latter. However, there are likely to be opportunities to apply what's been learned in the personal lines space in product development, underwriting, pricing, distribution, and claims to the commercial segment—particularly in the small business market, where commoditization and the potential for self-service are presenting similar challenges for insurers.

Another likely growth area is InsurTech to support life insurance and annuity sales and service. While P&C applications have netted nearly all the InsurTech investment dollars thus far, that appears to be shifting, as L&A-focused InsurTechs drew nearly US$188 million of capital in 2018, or 7.2 percent of the total invested.

Carriers should also keep in mind that InsurTech is very much a global phenomenon, and therefore should look for investment and development opportunities around the world. While the United States leads in total L&A dollars invested, Singapore has generated nearly half as much as have US sources. And while China has logged only 26 InsurTech startups overall, the average amount invested in each is US$51 million versus only US$13.8 million for the 804 US launches. India and Germany are coming on as InsurTech development centers as well.

KEY QUESTIONS FOR BUSINESS LEADERS TO ASK

InsurTechs are quickly becoming part of the industry's overall innovation ecosystem, rather than being outliers. Among the questions that insurers should be asking:

- How are your InsurTech investment portfolios performing, and what adjustments need to be made? Which startups merit additional funding to advance and get to scale, and which should be dropped?

- For those insurers that haven't made many if any InsurTech investments, how might a later-stage play, acquisition, and/or codevelopment deal help take a startup to the next level, while enhancing the carrier's capabilities and bottom line?

- For insurers preferring to be sideline observers and customers rather than active participants in the InsurTech development race, how might legacy processes be streamlined to take advantage of the entrepreneurial mindset and agility of startup providers?

Regulating the insurer

Insurers look to enhance privacy compliance with data management upgrades

While the EU's General Data Protection Regulation (GDPR) has been in effect for more than 18 months, the California Consumer Privacy Act (CCPA) goes live in January 2020. Insurers have devoted much time and money preparing to comply with these new rules and thereby avoid stiff penalties, legal liabilities, and reputational damage.

The immediate concern, particularly for those subject to California law, will be implementation and execution of compliance plans. Have insurers done enough to meet the new standards, or are there elements they've overlooked? What course corrections still need to be made, and how will companies monitor compliance on an ongoing basis?

The good news for carriers—at least those with a global footprint—is that much of the effort going into GDPR compliance overlaps with what should be done for CCPA.

Meanwhile, insurers should brace themselves for additional regulatory initiatives. New York is debating its own privacy rule that appears likely to go farther than either GDPR or CCPA by establishing insurers and other data collectors as information fiduciaries and allowing private causes of action.[77]

The good news for carriers—at least those with a global footprint—is that much of the effort going into GDPR compliance overlaps with what should be done for CCPA (figure 9). In addition, the European Court of Justice ruled that the "right to be forgotten" under GDPR, allowing individuals to ask that personal information (PI) be removed from websites, news articles, and databases, cannot be applied outside the European Union.[78] In essence this means such a right will not exist in the United States without federal or state laws mandating it.

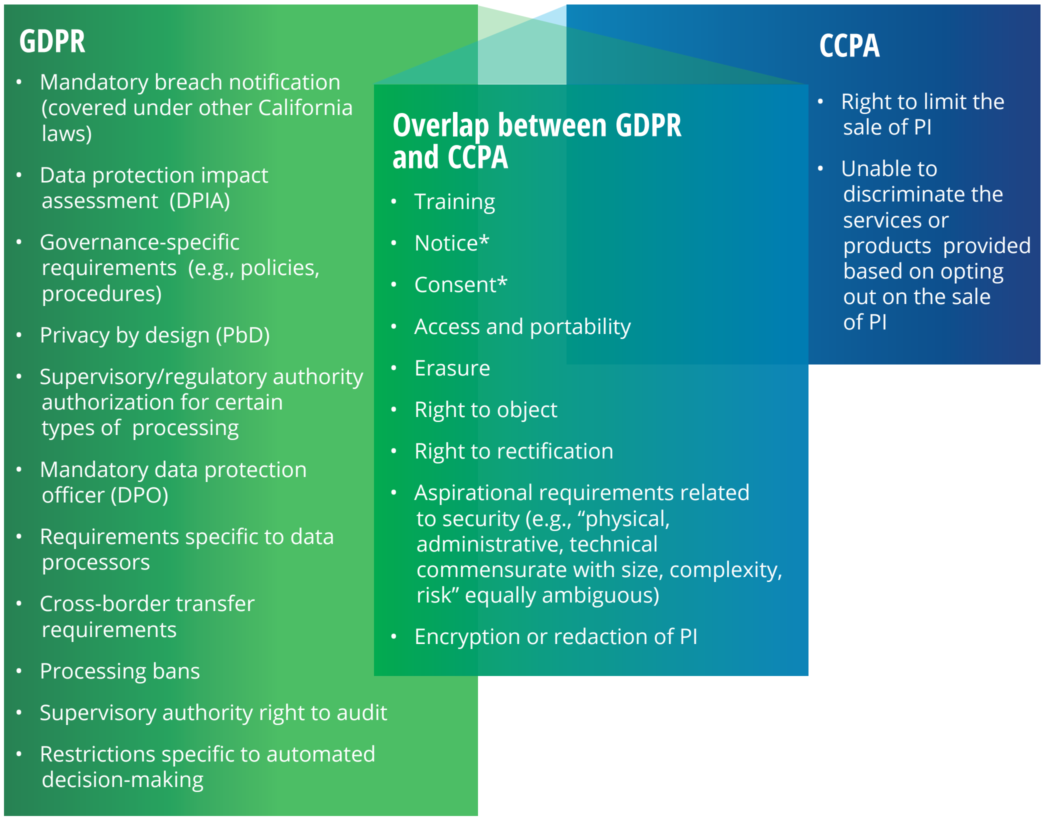
WHAT SHOULD INSURERS BE DOING ABOUT PRIVACY AND DATA MANAGEMENT IN 2020?

Many carriers are struggling to meet new regulatory requirements because siloed legacy systems often lack integration. The overwhelming volume of data being maintained can also be problematic. Insurers should consider establishing a more comprehensive information governance program that addresses these and other data management and privacy challenges—not just to meet compliance standards but also to enable better business decisions and actions.

One potential area to focus on is data minimization, in which protocols are set to automatically flush superfluous information on a routine basis. Companies should be aware that often the best way to protect sensitive information from a breach is to carefully and legally discard that information when it is no longer needed for legal or business reasons.

FIGURE 9

Insurers can leverage GDPR preparedness for CCPA



* Although required by both the CCPA and GDPR, there are specific requirements to demonstrate compliance with the CCPA.

Source: Deloitte Development LLC.

Still, while emerging data collection options (such as telematics for vehicles, homes, and businesses) may create additional compliance hurdles for insurers to clear, regulatory concerns are only half the story. Insurers also should engage with customers to better utilize all the new data at their disposal for their mutual benefit. Treating data as a tradable asset that consumers knowingly and willingly exchange for something of value could be turned into a competitive advantage.[79]

KEY QUESTIONS FOR PRIVACY LEADERS TO ASK

Insurers need to be aware of exactly where data about specific consumers is stored, how complete and accurate it is, and how it is used and protected. They also should ask:

- Have you evaluated whether you are keeping only the data you need to retain for marketing and/or regulatory purposes?
- How do your information governance programs and capabilities align to industry standards and peer organizations?
- What new uses and technologies for data are planned, and how might you engage with customers more effectively to access personal information in return for added value?

- Does your chief privacy officer have the skill sets and authority to coordinate privacy and data governance efforts across the organization and impact client experience?

New technologies, broadening ecosystem raise the stakes for cybersecurity

As insurers increasingly step outside their own infrastructure borders, depending on data repositories, application hosts, and external partners to conduct business, they may be losing a measure of control over cybersecurity as well.

This seems especially troublesome because the human factor remains perhaps the weakest link in cyber risk management. Rather than dealing with just their own personnel—who can be directly trained, monitored, and managed—insurers often rely on individuals, platforms, and systems beyond their supervision to protect digital assets. At the same time, consumers, agents, and other outside parties have more channels than ever to access insurer systems and data, creating a multitude of new vulnerabilities.

Cyber risks are also rising with expanded use of connected devices, forcing insurers to defend against attacks via remote sensors in smart cars, homes, wearables, and commercial buildings. While these technologies help insurers better engage with customers and enable new products and service capabilities, they can make it more difficult for the cybersecurity function to keep pace. Insurers are also collecting more data than ever before thanks to all these mobile monitors, vastly expanding the digital treasure trove chief information security officers (CISOs) are called upon to secure.

Meanwhile, as insurers up their own games with AI, they should be aware their adversaries are likely taking advantage of the same advanced technologies to discover new vulnerabilities and propagate malware to exploit them.

Looking ahead, the rise of quantum computing and 5G capabilities could exacerbate cyber threats considerably—the former by undermining the effectiveness of current encryption methods, and the latter by accelerating how quickly connected devices communicate, thereby cutting the time required to infiltrate systems and transfer data.

WHAT SHOULD INSURERS BE DOING ABOUT CYBERSECURITY IN 2020?

Insurers should be incorporating cybersecurity into development of new systems, applications, and products right from the start. However, they also cannot afford to neglect regular patchwork for existing infrastructure, systems, and applications, which may often go unpatched for long periods because insurers are concerned about budget or the impact on operations.

As insurers increasingly step outside their own infrastructure borders, they may be losing a measure of control over cybersecurity as well.

Proper governance to make sure carriers are effectively aligning and collaborating across lines of business and operational silos is another important factor. Part of that process is risk management triage—determining where the insurer's "crown jewels" reside and how such data and systems might best be protected. Another key element is empowering CISOs to weigh in at the executive level about prioritization and cybersecurity strategy.

Deloitte's 2019 Future of Cyber Survey, which polled CISOs across industries, emphasized the importance of companies adopting a "cyber everywhere" mentality, in which cybersecurity is an enterprisewide responsibility and at the center of digital transformation efforts.[80] Insurance, with its treasure trove of personal data, is no exception.

CISOs queried at insurers and other financial services companies for Deloitte's second annual cybersecurity survey with the Financial Services Information Sharing and Analysis Center (FS-ISAC) identified three distinctive traits setting more mature cyber risk management programs apart (figure 10), particularly the prominent role cybersecurity should be playing in overall business strategy and its execution.[81]

KEY QUESTIONS FOR CYBERSECURITY LEADERS TO ASK

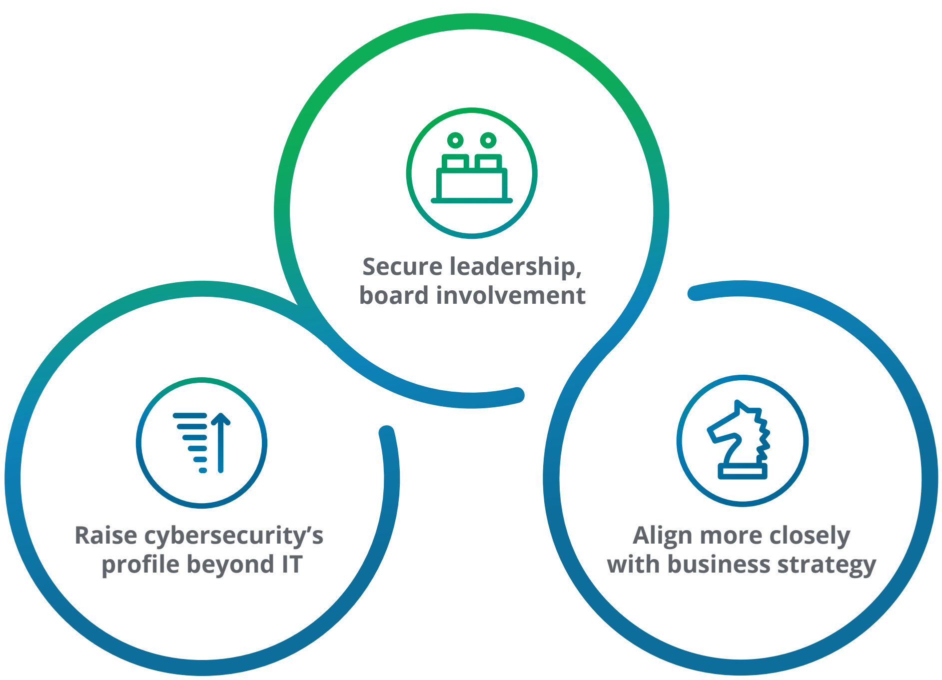
Deloitte's survey with FS-ISAC found that even insurers with advanced cyber risk management programs can't afford to rest on their laurels in defending against a constantly evolving threat. Among the questions that insurers should be asking:

- Are cybersecurity concerns routinely addressed early on as an integral part of the process when developing new products, platforms, and services?
- As insurers partner with third parties and migrate to external sites such as cloud services to host data, systems, and applications, how is cybersecurity being maintained to meet internal and regulatory standards?

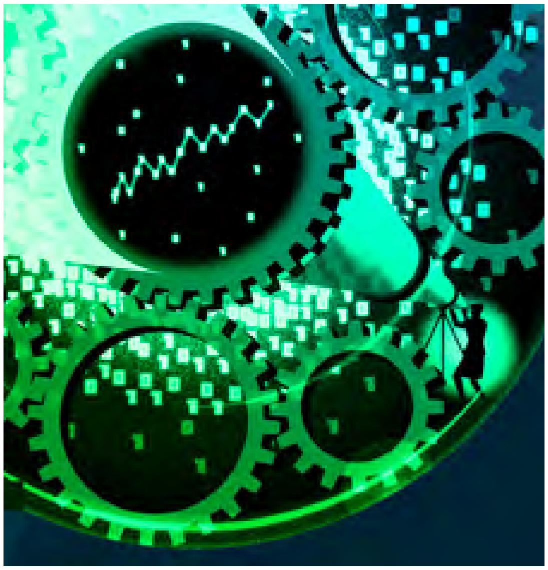
FIGURE 10

What traits set adaptive companies apart?

Survey spotlights three core characteristics



Source: Deloitte Center for Financial Services, 2019 FS-ISAC/Deloitte Cyber Risk Services CISO Survey.



- What are you doing to better encrypt systems and defend against hackers leveraging AI, quantum computing, and 5G networks to bolster their infiltration capabilities?

L&A players prepare for transition to "best interest" sales standards

The way life insurance and annuities can be sold by carriers and their intermediaries is likely to be upended thanks to new federal securities and state insurance regulations. While varying considerably in their scope, the "best interest" requirements reflect a continuing trend toward consumer protection, going beyond existing suitability obligations when providing advice and product recommendations to clients.

On June 5, 2019, the US Securities and Exchange Commission (SEC) voted to adopt new principles-based rules and interpretations in its release of its "Regulation Best Interest" (Reg BI) package. This includes Form CRS Relationship Summary and other interpretations that require broker-dealers (including insurance-affiliated broker-dealers) and their registered representatives to act in the "best interest" of their clients when providing securities transaction or investment strategy recommendations, including variable life and annuity products. The compliance date for Reg BI is June 30, 2020, and requires broker-dealers to satisfy four important obligations:

- Care obligation
- Disclosure obligation
- Conflicts of interest obligation
- Compliance obligation

The SEC has also clarified certain aspects of an investment adviser's fiduciary duty, including requirements to "serve the best interest of its client and not subordinate its client's interest to its own."

Similarly, the New York Department of Financial Services implementation date for Regulation 187—Suitability and Best Interests in Life Insurance and Annuity Transactions (Reg 187)—sets stringent requirements for insurers and producers who provide recommendations for the purchase of annuity products (effective Aug. 1, 2019) and for life insurance products (effective Feb. 1, 2020). The scope covers noninvestment life and annuity insurance products as well as variable insurance products.

The regulatory landscape becomes further clouded as multiple states introduce legislation aimed at various requirements for investment or financial advisers, such as fiduciary duties, conflicts of interest disclosures, best interest standards, or fee transparency.

WHAT SHOULD INSURERS BE DOING ABOUT BEST INTEREST STANDARDS IN 2020?

There are likely to be a tremendous amount of strategic and operational changes necessary to accommodate these new federal and state requirements. Companies and their intermediaries should be assessing their current state to identify gaps and potential enhancements needed for compliance. This may include designing or updating processes to assess product offerings, conflicts analysis, producer compensation and incentives, as well as controls regarding documentation to support producer recommendations, supervisory and compliance policies, procedures, monitoring mechanisms, and recordkeeping.

Sales practices may need to be redesigned to increase transparency to investors, while additional support should be given to advisers and supervisors to educate them about new obligations, policies, processes, and controls. Planning and implementation for this changeover will likely require strong governance, integrated planning and decision-making across multiple workstreams, and reconfiguration work by IT professionals.

KEY QUESTIONS FOR COMPLIANCE LEADERS TO ASK

To prepare for the rollout of various new best interest standards, insurers should consider:

- What strategic and operational changes do the rule requirements have on the different aspects of insurance company operations?

- As compliance with regulatory obligations is highly contingent on how well a company's employees and advisers embrace the change, what steps should you take to ensure the new standards and protocols are understood and met?

- How is your company monitoring the changing regulatory and competitive landscape to understand and implement leading practices (for example, regtech tools) and meet regulatory expectations?

Life insurance accounting changes should spur data modernization

In August 2018, the Financial Accounting Standards Board (FASB) released ASU 2018-12, an update to improve financial reporting for insurers issuing long-duration contracts, such as life insurance, disability income, long-term care, and annuities.[82] This will fundamentally change how insurers measure, recognize, and disclose insurance liabilities and deferred acquisition costs. It is expected to also improve transparency about how long-duration contract assumptions change over time, especially since some may remain in force for several decades.

To comply with the standards for large public companies with fiscal years beginning after Dec. 15, 2021, and for entities other than large public companies, effective for fiscal years beginning after Dec. 15, 2023, insurers will need to become much more agile in how they report, manage, and analyze data. For those steeped in legacy systems, processes, and data sources, as well as complex actuarial models, the challenge of modernizing data platforms, analytics capabilities, and tools for automation may seem daunting.

However, while efforts to comply with these new standards can be complex, costly, and time-consuming, on a more positive note they may also be leveraged as a catalyst to modernize and expand business value across the insurer's information value chain.

WHAT SHOULD INSURERS BE DOING ABOUT ACCOUNTING CHANGES IN 2020?

Many insurers have designed their business systems to handle transactions, not information, so they must now consider how to rapidly evolve to meet these new data demands.[83] As accounting changes will likely require increased agility in managing, analyzing, and reporting data, insurers can consider it an opportunity to modernize systems and processes to adapt to other forces impacting the industry as well.

That means CIOs, CFOs, and chief actuaries should begin reexamining their operations and technology, then consider how to optimize compliance efforts by balancing them with data, analytics, and platform modernization to achieve maximum value. For several areas, especially as it relates to data and its analysis, as well as cleaning and review of historically issued policies, the work insurers have already done to prepare for IFRS 17 can likely be leveraged for the implementation of ASU 2018-12.

Insurers may require updated methods for rapidly discovering, remediating, and analyzing unstructured operational data.[84] Implementing AI and machine learning may help in analyzing unstructured data, as well as automate and improve the effectiveness of data stewardship. Many insurers are already using RPA and natural language generation to enable processing and workflow to generate the additional disclosures and reconcile financial statements required for compliance. However, machine learning and AI applications can also further extend internal performance assessments as they are adapted to new external measurements, taking advantage of additional, improved enterprise data.[85]

Enhanced data aggregation and reporting tools can help companies minimize manual effort when managing greater volumes of data and additional reporting bases. These tools can also effectively reconcile from the lowest level of transaction detail to summary reporting across the actuarial and finance functions. These tools can also produce significant insights about asset and liability management and profitability.[86]

KEY QUESTIONS FOR INSURANCE LEADERS TO ASK

Despite an extended compliance implementation date, insurers have little time to spare to launch compliance initiatives, while taking advantage of the opportunity to modernize enterprisewide data and analytics capabilities in the process. They should consider the following:

- How will you mobilize your efforts to get maximum value from the transformation needed to comply with new accounting standards?

- Do you have the talent and skill sets necessary to adapt actuarial models to new regulations and modernize each part of the data and analytics value chain, or do you need to call in outside support to avoid having to reinvent the wheel and be sure to meet compliance deadlines?

- Beyond simple compliance with the new rules, what steps will you take to change your culture to fully integrate modernized data and analytics systems and processes across the value chain?

Changes may be necessary for global tax planning efficiency

The Tax Cuts and Jobs Act (TCJA) increased the volume and complexity of certain compliance and reporting obligations for taxpayers. In 2018 and 2019, many insurance company tax departments were focused on tax compliance and interpreting the significant volume of guidance that Treasury and the Internal Revenue Service issued in relation to the TCJA and other recent tax developments.

In 2020, insurers should review the resulting changes to their tax profiles and strategically think through tax planning opportunities, including potential changes in structures or operations, that may increase tax efficiencies.

Although significant US tax guidance has recently been published, additional guidance in key areas is expected. Also, US tax reform may drive tax law changes in other jurisdictions.

WHAT SHOULD INSURERS BE DOING ABOUT REMAINING TAX UNCERTAINTIES IN 2020?

As insurers weigh the benefits and costs of specific tax planning strategies, they should be mindful of the potential for subsequent changes to their tax profiles and the costs and burdens of unwinding or modifying potential planning strategies.

Insurers should monitor relevant legislative developments and make investments in the technology and processes needed to model their specific tax profiles year over year. This should allow companies to quantify the impact of tax law changes on their business and identify strategies to implement in 2020. Many companies are also evaluating their tax talent models and exploring the cost-saving benefits of offshoring and outsourcing so that they can be ready to address the complexities of tax planning in addition to their compliance and reporting functions.

The evolving tax landscape should also prompt insurers to explore whether to become focused on certain countries or regions instead of having operations across the entire world. For example, if other countries implement rules similar to the US Base Erosion and Anti-Abuse Tax (also known as "BEAT"), then it may become more difficult to utilize capital efficiently due to tax costs. Instead, insurers may need to focus on smaller geographic areas and form partnerships or alliances to cover other countries.

KEY QUESTIONS FOR BUSINESS LEADERS TO ASK

- What can your tax department do to capitalize on risk and discover opportunities? What investments in technology and processes should be made to accomplish this?

- How are other companies staying close to international tax developments and positioning themselves to adapt nimbly to an evolving tax landscape?

- How might tax law changes affect your ability to serve clients in the United States and abroad?

Where should insurers be heading in the 2020s?

Industry may face "synthesis challenge" in adapting to emerging environment

Most carriers are aware of the growth challenges they face in already mature insurance markets, exacerbated by a slowdown or even retraction in a number of major economies. As a result, many are being far more selective about where they direct organic expansion efforts. Growth is rarely being sought for growth's sake, but for differentiation and profitability. At the same time, seeking expense efficiencies is likely to be an ongoing mission for most insurers, in part to free up funds to invest in new products, systems, business models, and capabilities.

In the decade ahead, insurers are likely to increasingly experiment with platform and alliance plays—teaming up with auto manufacturers, for example, to offer coverage on newly purchased vehicles, as well as with smart home and commercial property builders to tie coverage terms and conditions to real-time, sensor-driven data.

Few carriers are debating whether they are being disrupted, both by forces within and outside the industry. Instead, many are beginning to focus on longer-term responses to avoid irrelevance.

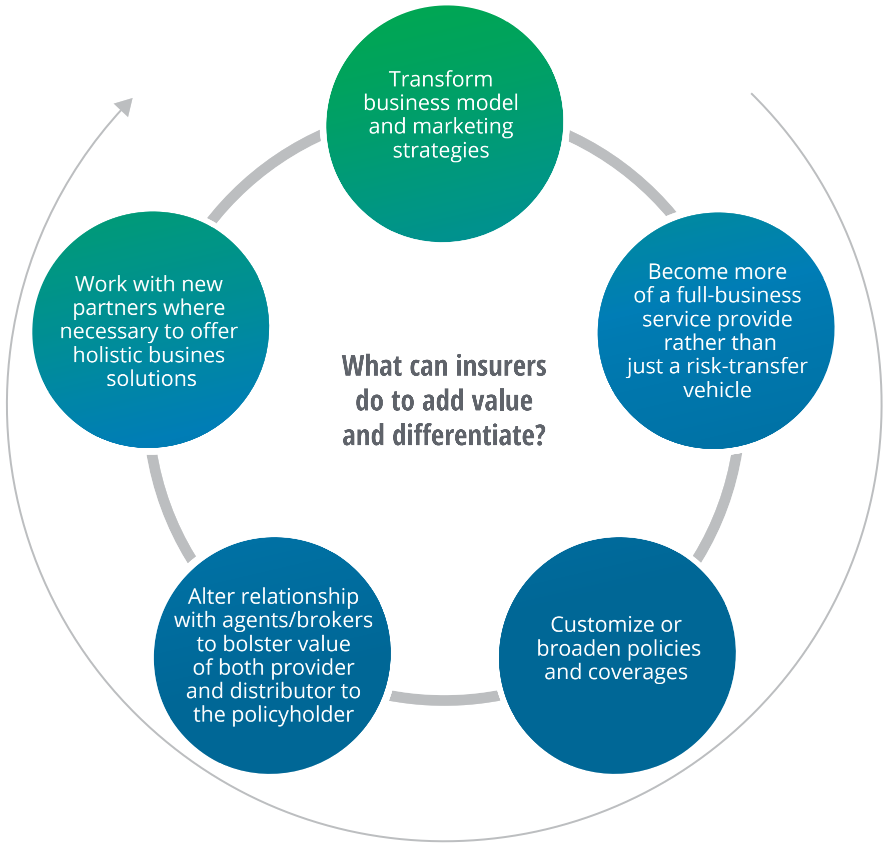
We called attention to the potential of even more ambitious bundling strategies in a recent Deloitte research report, suggesting that insurers consider either forming or taking part in a broader service partnership network.[87] The goal would be to differentiate and break the cycle of commoditization creeping up into the middle market from the small commercial business segment (figure 11). Middle-market buyers surveyed indicated keen interest in acquiring noninsurance products and services to support their business through insurers and agents, from tax advice, to security and payroll systems, to business loans and peer exchanges.[88] Small business carriers may also benefit from such bundling of services.

Not everyone will innovate in the same way or follow similar paths. However, what's changing in insurance seems to be the increasing sense of urgency. Few carriers are debating whether they are being disrupted, both by forces within and outside the industry. Instead, many are beginning to focus on longer-term responses to avoid irrelevance.

Still, most insurers have a long way to go to become more forward thinking in their innovation efforts. While speaking with chief innovation officers for another Deloitte research project, we found that many carriers may be overly focused on enhancing legacy systems, products, and business models, while neglecting to devote enough resources to more disruptive innovations that might differentiate them in an increasingly customer-centric economy.[89] Innovation officers

FIGURE 11

Ecosystems can help commercial insurers differentiate in a commoditizing market



Source: Deloitte Middle-Market Insurance Consumer Survey, 2018.

were often found to lack enough budget and/or authority to drive broader transformation efforts across their entire organization.

We also learned that improved technology alone will not likely foster sustainable innovation unless accompanied by fundamental changes in insurance company strategy, operating models, and culture, with an emphasis on enhancing their talent base. Beyond the formidable retention and recruitment challenges cited earlier in this outlook, insurers should also make sure that even if they manage to find highly skilled people and entice them to work in the industry, the bigger challenge may be integrating them. This is akin to the potential for tissue rejection in a transplant—will legacy personnel wedded to the way insurers have historically conducted business accept the different attitudes, approaches, and ideas of newcomers, and work together to create the insurer of the future?

Therefore, despite all the talk and emphasis on emerging technologies, insurance remains a people business, both in terms of how it is sold and bought, as well as how insurers are managed. Resolving this emerging "synthesis challenge"—that is, how to integrate new tools, technologies, and techniques with legacy systems, while reconciling bold new ideas from InsurTechs, ecosystem partners, and new hires with time-honored status quo practices—may be the biggest success factor for insurers in the decade ahead.

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