



2022 insurance industry outlook

Digital and talent transformation accelerating
as insurers adapt for postpandemic growth

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KEY MESSAGES

- Despite lingering concerns about COVID-19 variants, most insurers responding to Deloitte's global outlook survey expect an accelerating economic recovery and additional digital technology investments to generate significant growth in 2022.
- However, our research also identified multiple challenges for insurance leaders to tackle next year beyond ongoing efforts to adapt to the pandemic's aftermath. They range from economic hurdles such as the potential for sustained inflation; to sustainability concerns including climate risk, diversity, and financial inclusion; to rapidly evolving consumer product and purchase preferences.
- Future of work considerations have also multiplied as carriers seek to create flexible return-to-office strategies while simultaneously struggling to retain and recruit high-level talent in a very competitive job market—particularly for those with advanced technology and data analytics skills.
- Insurers are increasingly dependent on emerging technologies and data sources to drive efficiency, enhance cybersecurity, and expand capabilities across the organization. However, most should also focus on improving the customer experience by both streamlining processes with automation as well as providing customized service where needed and preferred.
- On a more fundamental level, many carriers should also be taking steps to bolster trust among stakeholders to boost retention and profitability. This might be achieved in part through greater transparency in how insurers collect and utilize personal data. They can also become more proactive in seeking comprehensive solutions to big picture societal problems—such as mitigating the financial impact of future pandemics and closing coverage gaps for natural catastrophes.

Insurers poised to accelerate growth in 2022

INSURERS FROM AROUND the world surveyed this past summer by the Deloitte Center for Financial Services remain fairly bullish when it comes to their growth prospects for 2022, despite lingering concerns about the potential impact of COVID-19 variants on overall business recovery and return-to-workplace strategies. Most respondents cited plans to increase investments in enabling technologies and evolving talent models to build on the digital and virtual platforms that sustained their operations and maintained their engagement with customers throughout the worst of the pandemic.

Among the 424 insurance respondents surveyed from North American, European, and Asia-Pacific (APAC) countries, about one-third expect revenues to be “significantly better” next year. (See sidebar, “About the survey,” for details on the methodology.) This positive outlook lines up well with industrywide forecasts for both sides of the industry. The Swiss Re Institute expects rising demand for insurance worldwide (figure 1), with consolidated premiums for all lines rebounding by 3.3% for full-year 2021 and 3.9% in 2022, compared to a drop of 1.3% in 2020.¹ China is predicted to lead the way with 9% growth in 2022, followed by emerging markets (excluding China) at 4.9%, while advanced markets are likely to see more moderate gains averaging 3%.²

Breaking down the industry’s two main components, global life insurers, benefitting from heightened consumer risk awareness due to COVID-19, are expected to post above average premium growth rates of 3.8% in 2021 and 4.0% in 2022.³

Global nonlife premium growth is forecast at a more modest 2.8% in 2021, jumping to 3.7% in 2022 as more people are likely to return to their workplaces and business recovery is expected to pick up speed.⁴ Commercial insurance sales are expected to bounce back more robustly than in personal nonlife segments, driven by accelerating business activity.⁵

Meanwhile, global property-casualty (P&C) reinsurance net premiums written were up 18.5% in the first half of 2021.⁶ Profitability also improved, as P&C reinsurers monitored by Fitch Ratings had an aggregated combined ratio of 94.5%, an 11.4 point improvement over 2020’s first half—which included US\$6.1 billion in pandemic-related losses.⁷ Fitch expects renewal rates to keep rising after two years of growth but at a slower pace amid more abundant capacity.⁸

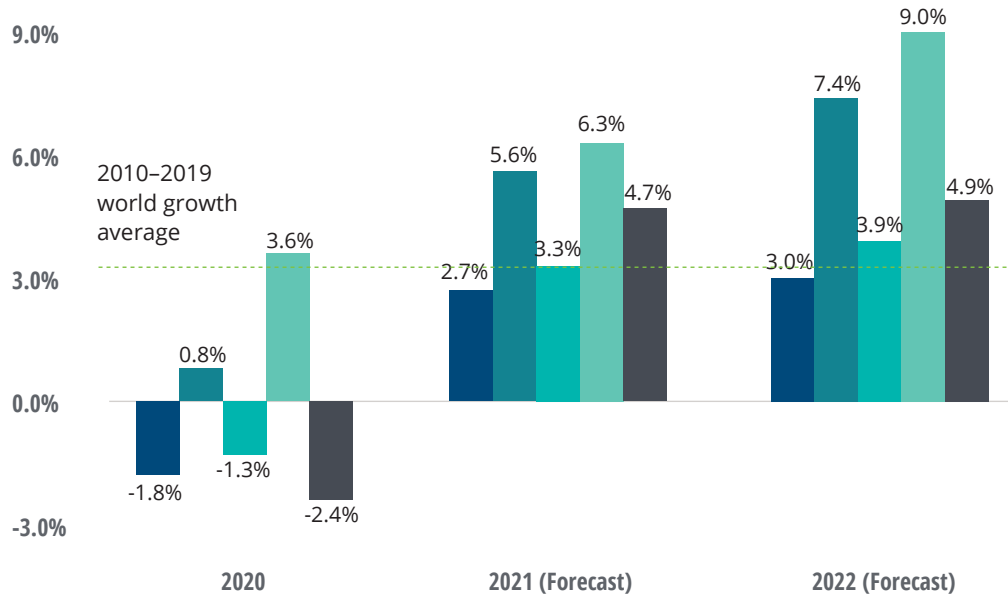
Another growth factor is how increased demand on the nonlife side is driving significant price increases across the board. Premium rates at Lloyd’s were up 9.9% in 2021’s second quarter.⁹

FIGURE 1

Global insurance market outlook foresees above-trend premium growth

Growth in premiums written (life and nonlife)

■ Advanced markets ■ Emerging markets ■ World ■ China ■ Emerging markets excluding China



Source: Swiss Re Institute, "In 5 charts: World insurance outlook post-COVID-19," July 14, 2021.

US P&C price hikes in the same period averaged 5.54% in commercial property, 4.51% in commercial auto, and 4.59% in business owner policies.¹⁰ Cyber insurance rates soared 25.5% in the second quarter,¹¹ due in large part to ransomware attacks as well as increased exposure to breaches after allowing remote access for millions more home-based workers. Only workers' compensation showed a rate decrease, down an average of 1.74%,¹² likely due to the fact that US unemployment remained higher (5.4%) over the summer compared to before the pandemic (3.5%), with about 3 million people still not back in the workforce to insure.¹³

On the life insurance side, US application activity was up 7.3% as of the end of June, according to the MIB Life Index.¹⁴ AM Best reported first-half net income for US life insurers soaring to US\$18

billion compared to just US\$1 billion in the first six months of 2020,¹⁵ when the pandemic put tens of millions out of work—many of whom lost group life insurance coverage. LIMRA updated its sales forecast in August as a result of better-than-expected gains, predicting a US market expansion of 7–11% for full-year 2021, with growth anticipated for nearly all life product lines.¹⁶

The industry, therefore, appears poised for significant growth and a much stronger financial performance in 2022. Yet our global survey shows that multiple challenges remain for leaders in finance, talent, technology, and marketing as carriers continue to adapt to the pandemic's aftermath, while simultaneously seeking bigger picture transformation to generate faster growth and secure their long-term future.

ABOUT THE SURVEY

The Deloitte Center for Financial Services conducted a global survey among 424 senior insurance executives in finance, talent, technology, and marketing, about equally split between property-casualty and life and annuity insurers.

Survey respondents were asked to share their opinions on how their organizations have adapted to the varied impacts of the pandemic on their workforce, operations, technology, product, and marketing strategies, as well as corporate culture. We also asked about their investment priorities and anticipated structural changes in the year ahead as they pivot from recovery to long-term growth.

Respondents were equally distributed among three regions—North America (the United States and Canada), Europe (the United Kingdom, France, Germany, and Switzerland), and Asia-Pacific (Australia, China, and Japan).

The survey, which was fielded in July and August 2021, included insurance companies with at least US\$1 billion in 2020 revenue. About half had between US\$1 billion and US\$5 billion in revenue, and half produced over US\$5 billion.

Insurers face mounting bottom-line challenges beyond pandemic resurgence

BESIDES THE POTENTIAL for new COVID-19 strains to hinder or even derail economic recovery and insurer growth prospects in any number of countries, insurers are likely to grapple with several fundamental bottom-line threats in the year ahead.

To start with, rising inflation combined with flat interest rates could turn out to be major obstacles to improving insurer results. Rapid increases in demand for goods, materials, and labor, as well as ongoing supply chain disruptions have been raising claims costs for personal and commercial property losses.¹⁷ Corresponding price hikes for construction materials, rental vehicles, and auto parts (including semiconductor and computer chips for smart cars) are among the expenses threatening to drive up insurer loss costs into 2022.¹⁸ This factor alone is likely to keep pushing P&C prices higher for buyers.

Yet, interest rates have remained relatively low around the world despite rising price and labor cost trends, as governments look to avoid undermining the recovery's momentum and perhaps risk their economies slipping into recession. Still, this could undermine investment returns for the industry as a whole, while hindering growth and profitability of interest-rate-sensitive L&A products.¹⁹

Regulatory costs also will likely keep mounting. For example, global carriers are entering the home stretch in concluding preparations to comply with International Financial Reporting Standards 17 (IFRS 17), determining how insurance contract assets and liabilities are presented on company balance sheets. Implementation of IFRS 17, due to go into effect in January 2023, could cost global insurers between US\$15 billion and US\$20 billion when all is said and done, according to a survey of 312 carriers from 50 countries by Willis Towers Watson.²⁰

Rising inflation combined with flat interest rates could turn out to be major obstacles to improving insurer results.

Preparations for IFRS 17 are already complete at 37% of companies participating in Deloitte's global outlook survey. About one-third, however, said their companies are only somewhat far along or are just getting started in preparing to make the transition.

The United States is one of the few countries that have decided not to adopt IFRS 17. As a result, many global insurers are also managing the

parallel implementation of Long Duration Targeted Improvements (LDTI)—the US GAAP analog of IFRS 17, which also has a January 2023 effective date. LDTI implementation efforts have been ongoing since early 2019, with respondents to a survey in June 2021 by Deloitte & Touche LLP reporting their preparations are on average only 42% complete.²¹

Climate risk and sustainability efforts still a work in progress

Financial losses from climate risks are likely to continue cutting into P&C insurer profitability and drawing heightened attention from sustainability advocates. The Swiss Re Institute estimated global insured natural disaster property losses of US\$40 billion through June—the second highest first-half figure in a decade, and well above the prior 10-year average of US\$33 billion.²² Hurricane Ida in the United States alone should add between US\$31 billion and US\$44 billion in onshore and offshore insured losses in the second half of 2021.²³

Many insurers have been ramping up efforts to quantify and address climate risk in both their underwriting and investment portfolios, spurred on in part by increasing demands for data and evidence of concrete mitigation action from a wide variety of stakeholders.²⁴ The International Association of Insurance Supervisors' executive committee adopted a paper to help regulators “promote a globally consistent approach to addressing climate-related risks,”²⁵ and a number of regulators have already launched their own initiatives.

For example, the European Insurance and Occupational Pensions Authority (EIOPA) laid out expectations for insurers to employ more robust and longer-term scenario analyses in their Own

Risk and Solvency Assessments to account for climate-related physical risks such as fires and floods, as well as transition risks in moving coverage and investments to less carbon-intensive industries.²⁶ And the Bank of England has launched climate risk stress tests for insurers based on three scenarios over 30 years, in which governments take early action to limit carbon emissions, take later actions, or take no action at all.²⁷

In the United States, the New York Department of Financial Services, following a public comment period earlier this year, is expected to promulgate new guidance on how insurers should be disclosing and managing financial risks from climate change.²⁸ Elements on the table for review include climate considerations in risk management frameworks and processes, business strategies, and financial metrics.²⁹

Quantification of ESG elements for financial disclosure statements should be a top priority for insurer CSOs and senior leadership, to establish both sustainability goals and benchmarks to measure progress.

On the federal level, the US Treasury Department and Federal Insurance Office issued a call for public comment on climate-related insurance risks.³⁰ The focus is on assessing any potential climate-related gaps in insurer supervision and regulation, the possibility of major market disruptions, as well as ways to help insurers achieve climate-related goals.³¹

Meanwhile, the US Securities and Exchange Commission is also getting more specific about what companies should be including in annual financial statements on the impact of climate change and related regulations.³²

However, climate is just one part of a broader industry imperative to tackle a host of pressing environmental, social, and governance (ESG) concerns. About nine of 10 insurance respondents from all regions in our global outlook survey noted their companies would be increasing investments to:

- Propel ESG efforts in climate sustainability
- Enhance diversity in hiring, development, and leadership
- Bolster the economic well-being of the communities they serve, most likely by making products more available and inclusive
- Promote ethical decision-making and reduce conduct risk

At the same time, more insurers are appointing chief sustainability officers (CSOs) or their equivalents to collect and report data on ESG efforts and outcomes, as well as help orchestrate organizationwide strategies and their execution.³³

Quantification of ESG elements for financial disclosure statements should be a top priority for insurer CSOs and senior leadership to establish both sustainability goals and benchmarks to measure progress.³⁴ While the vast majority of outlook survey respondents in finance roles said their carrier had made at least some headway in this area, only one in four indicated they had finished quantifying metrics on climate risk in their books of business or in assessing their own carbon footprint, while fewer than one in five had accomplished this in their investment portfolios. Only 28% of respondents had fully quantified the impact of diversity and inclusion (D&I) initiatives, while just 20% have done so for social equity programs to bolster their presence in underserved markets.



More active M&A activity expected as insurers seek scale and growth

Global insurance merger and acquisition (M&A) activity leveled off in 2021's first half, with 197 completed deals nearly even with the prior year's total.³⁵ Yet activity was stronger in the Americas (up 7.3%) and Europe (2.0%) than in APAC, where deals were down 51.4%.³⁶ Thirty-five of 2021's deals (17.7%) have been cross-border, mirroring the second half of 2020, while more than half of those deals were interregion,³⁷ as more insurers seek growth by expanding outside of their home markets.

Deloitte's most recent insurance M&A outlook noted that "disruptive impacts related to COVID-19 have been far less significant for insurance than for other financial services sectors. However, the pandemic has raised awareness of the need to either double down in certain businesses and/or capabilities or reevaluate portfolios as core versus noncore relative to managing capital and returns. Even now, amid the pandemic's Delta variant-induced fourth wave, we're seeing a continuing increase in M&A deal activity for most insurance sectors."³⁸

Going forward, deals are likely to be strategic rather than opportunistic, with heightened activity perhaps spurred by capital from private equity investment firms already active in the insurance brokerage space, but which may now be turning their attention more aggressively to the company segment.³⁹ Although heightened investment firm interest has been anticipated and is not completely new, the increased pace is noteworthy.

Insurance finance executives responding to Deloitte's global outlook survey generally expect more active M&A strategies in 2022, with over one-third anticipating heightened takeover activity to be very likely. However, the appetite appears to be stronger on the life side, with 44% of respondents citing increased deal-making as very likely, versus nonlife at 32%. Expanding geographic reach outside their home country was the top motivating factor for M&As across the respondent pool, followed by increasing scale and adding new technology capabilities.

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Similar trends in terms of the global outlook for M&A were evident when it comes to legacy insurers seeking to acquire one or more InsurTechs—seen as very likely by 40% of finance respondents. L&A respondents (47%) are more likely to buy an InsurTech in 2022 compared to P&C respondents (35%)—possibly because P&C insurers have already been much more actively engaged in InsurTech

investment over the past decade, with L&A carriers perhaps looking to catch up via acquisition. L&A carriers often have particularly challenging legacy technologies, as older vintages of insurance policies inhibit administrative platform modernization, and InsurTech solutions can address or at least mitigate customer impacts.

Deloitte's midyear 2021 insurance M&A outlook predicted that InsurTechs would continue to be desirable investment vehicles, partners, and acquisition targets, as carriers look to import transformative technology solutions and talent into their legacy operations.⁴⁰ Many have likely already increased their stake in the InsurTech ecosystem, as the first three quarters of 2021 saw more money invested than in 2019 and 2020 combined.⁴¹

Insurers considering M&As should also be modeling "what if" scenarios to assess possible tax implications, which could be particularly complicated in the year ahead. That's because tax reform proposals, as well as changes in corporate rates and global minimum taxes, are being debated around the world.⁴² The impact of such changes could be very significant, particularly for deals involving insurers or InsurTechs domiciled in traditional low- or no-tax jurisdictions as well as in global insurance hubs, such as Bermuda and Ireland.⁴³

Tax departments face upheaval from legislative reforms, operating model changes

A little more than one-third of insurance finance executives surveyed for this outlook say they are very prepared to respond to potential changes in corporate tax rates, cross-border taxation, and taxation of foreign operations, with about the same number feeling at least somewhat prepared. But that left about one in four of those surveyed indicating they are only somewhat or even very unprepared for such tax rule changes.

Meanwhile, 55% of respondents say they have a plan in place to respond to any tax issues arising from shifts in workplace staffing as employees return to the office and/or continue working from home in significant numbers, while 36% are working on such a plan, with virtually no differences among regions.

Nearly all those surveyed said they are committed to changing their tax department's operating model in some significant way over the next year—for example, by outsourcing more. One in five said such efforts are already complete, while over one-third have such transformations in progress, and about one-third are very likely to begin making such changes in 2022.

Attracting the right talent may be the biggest challenge insurers face in 2022

AT LEAST ONE-THIRD of Deloitte's global survey respondents expect to increase headcount in most of their functional areas in 2022. That's likely because insurers in general are preparing for even greater economic recovery and a boost in their own business volume,⁴⁴ spurring the need for additional resources to manage a rising workload.

Insurers should go beyond geography and professional background boundaries to tap into a wider talent pool. They should also consider supplementing full-time roles with part-time, transitional, and contract workers to access talent with specialized expertise and experience.

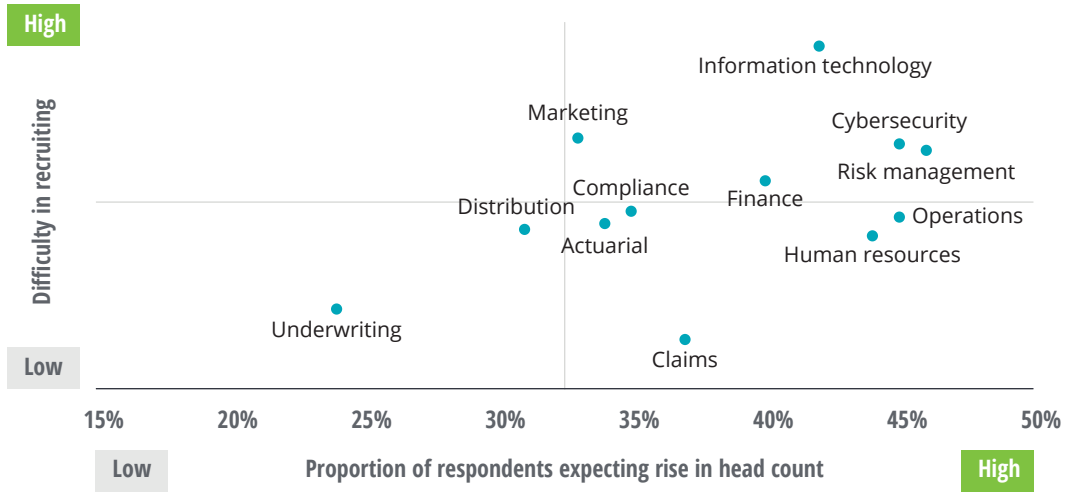
The big question insurers face is where will all that talent come from, and how will they be able to recruit and retain the skill sets to maintain and advance increasingly digitized operations? When we narrow the lens to technology, insurers will likely face an even bigger challenge as they compete for top talent not only with industry peers, but also global tech giants.

Some of that talent gap may be closed via rehiring⁴⁵ in departments hit in 2020 by staff reductions, as insurers trimmed operating expenses in some areas in response to the pandemic's initial economic fallout. Another option is to ask retired personnel to return on a part-time and perhaps even remote basis, and/or seek similar transitional relationships with current employees close to retirement. But that will still likely leave a significant gap, making talent acquisition and retention perhaps the industry's biggest operational challenge in 2022 and beyond.

Deloitte's global survey found that 43% of insurance talent respondents feel it's getting harder to find skilled candidates in a number of functional areas—with information technology topping the list in terms of degree of recruiting difficulty (figure 2). Furthermore, when asked which specific capabilities are the most difficult to acquire, the top five ranked by respondents all involved technology skills: cloud engineering, data science and analytics, artificial intelligence (AI) and machine learning, software development, and cybersecurity. This could undermine transformation efforts at a time when digitization is likely to be accelerated both internally with staff and externally with customers and business partners.

FIGURE 2

Insurers could face recruitment challenges in several key areas



Source: The Deloitte Center for Financial Services 2022 Insurance Outlook Survey.

Difficulties in adding talent to bolster cybersecurity could also hamper insurer efforts to strengthen their defenses at a particularly vulnerable time, given the steep rise in cyber exposures, led by the proliferation of ransomware attacks. Meanwhile, insurer data may also be at greater risk in the wake of most or all employees working remotely on personal networks and equipment since the pandemic hit, and the corresponding expansion of data infrastructure to accommodate the transition to a virtual workplace.⁴⁶ Over the last two years alone, breaches in the insurance industry may have compromised sensitive customer data of over 100 million US insurance policyholders.⁴⁷

Even the fact that marketing was cited by many respondents as one of the most difficult functions for which to recruit likely has a technology rationale, due to the need for more digitally savvy marketers. For example, an increasing number of consumers are “cutting the cord” and dropping

cable or satellite TV services,⁴⁸ which means they may no longer be exposed to the multitude of personal lines insurance ads on legacy channels. Insurers are therefore likely to seek more marketing employees with nontraditional backgrounds and digital-heavy approaches, who can come up with innovative ways to reach prospects via social media, search optimization, mobile technology, and other alternative outlets.⁴⁹

Insurers should therefore be expanding the traditional boundaries of their organization in terms of geography and professional background to tap a wider variety of sources for more highly skilled talent. Recruitment and retention strategies likely also need to be reexamined to supplement those on a company’s full-time payroll with part-time, transitional, or contract workers, thus further widening the recruiting lens for specialized expertise and experience.

Insurers should take a multipronged approach to attract, train, and retain tech-fluent workers

Given these challenges, insurers should consider taking a more holistic approach to bolster their ability to hire and retain talent (figure 3), especially those with general IT and more specialized technology-related capabilities such as machine learning, analytics, digital marketing, and cybersecurity. This includes upskilling existing staff as well as improving recruiting by communicating the advantages of working specifically in tech at insurance companies.

They might start by emphasizing the industry’s unique value proposition as the economy’s financial first responders, protecting consumers from unforeseen risks and catastrophic losses with respect to their life, health, retirement, personal property, and businesses. The industry is also playing a leading role in combating climate change

and taking on other sustainability challenges—elements that could resonate with and appeal to more socially conscious candidates entering the job market.

In addition, offering the opportunity to build and launch a more advanced digital insurance organization may whet the appetite of those starting out and looking to make an immediate impact in their work. This is especially so if insurers offer an attractive career path for technology specialists, so they not only join a company but stick with the job in anticipation of greater responsibility and faster promotions.

Concurrently, a robust skill enhancement program offering similar paths for rapid advancement to those already working in insurance IT, cybersecurity, or other tech-related functions could stem attrition, while creating a more attractive landing spot for future insurer recruits by demonstrating ongoing learning and capability growth.

FIGURE 3

Strategize hiring and retention of talent with requisite skill sets



Look for talent with adaptable skills

- Identify positions where talent can be trained to do the job rather than seeking immediate 100% skills match. (For example, when hiring for a data analytics post, seek those with STEM backgrounds who can be quickly upskilled rather than limit search to established data scientists.)

Upskill existing employees

- Not all employees need to be entirely tech-fluent at first. Training to adapt to specific work with emerging technologies can help accelerate the pace of innovation.
- Automation can free employees from routine manual and administrative processes, and allow manpower to be diverted to more challenging tasks that enrich jobs and careers.

Develop a compelling value proposition

- What could carriers offer prospective employees that might convince them to choose insurance over technology companies?
- What might be beneficial for recruits with tech fluency to start their career at an insurer? (Chance to build a new digital model, integrate emerging technologies into processes, achieve quicker promotions, or work for the economy’s financial first responders?)

Source: Deloitte analysis.

Long-term future of work agenda should drive postpandemic workplace reorganization

Given the accelerated digitization and virtualization of insurance operations over the past two years, the nature of work itself is changing. Thus, even those returning to a central workplace will likely not be doing their jobs the same way as before the pandemic. And while many insurers surveyed for this outlook are already looking to adopt a permanent model combining remote and office-based work—with only 3% of respondents indicating all employees are likely to come back to the office full time—making that decision should just be the start of an ongoing series of moves to execute a hybrid policy and adapt to any complications that arise.

Insurers should be striving to build a digital-ready workplace that can accommodate those on site and others functioning remotely, providing a shared digital environment enabled by virtual collaboration and communication tools.⁵⁰

But beyond the digital infrastructure, a new talent approach should be adopted as well. Insurers should therefore start examining how each employee's tasks, activities, individual situations, and needs have already changed, as well as assessing a hybrid system's implications for corporate culture and human resource policies. No matter the ultimate outcome, there is unlikely to be a "one size fits all" approach. Trial and error should be the norm as insurers test different plans and judge their effect on productivity, collaboration, innovation, and general workforce satisfaction over time, making necessary adjustments along the way.

Indeed, when asked what type of hybrid model would be adopted in 2022, insurance talent officer responses were mixed. While 35% of respondents indicated employees would follow a rotating

schedule and go to an office on designated days, the remaining 65% had a host of other options in mind (figure 4). There were regional differences in approach as well, given that a significant segment of North American and European respondents leaned toward rotating schedules for employees, while those in APAC did not express any clear majority path.

Insurers should account for individual employee needs while developing their return-to-office strategy

Given that about 87% of our survey respondents across all regions at least somewhat agree their company is likely to hire remote employees and gig professionals going forward, insurance workers in general should have more opportunities to change jobs and work far from their company's office locations, providing them with choices and leverage in what will likely remain a very competitive job market over the long term. Insurers should, therefore, be offering a clear and strong value proposition to employees to justify whatever return-to-office strategy they pursue, backed by compelling benefits and a clear career growth path to strengthen retention.

One way to accomplish this might be to focus less on which teams or job roles (claims, underwriting, etc.) should return to an office, and think more from the perspective of individual employee personas (figure 5). For example, those who have just joined the organization may need more office face time initially to collaborate and socialize with peers and leaders, as well as assimilate into the organization's culture. Yet those who have been with the company longer may prefer to have the flexibility to work from home on most days and choose to come to the office a few days each month to learn through osmosis from peers and immediate supervisors.

FIGURE 4

Respondents are looking at a wide range of hybrid return-to-office options

	Overall	North America	Europe	APAC
Totally up to the employees to decide whether they come to the office	10%	0%	3%	29%
Employees can generally choose where they work each day but must come to the office for certain meetings or activities	11%	13%	13%	7%
There will be no institutionwide expectations or guidelines—each manager will decide what works best for their own team	4%	6%	6%	0%
Employees will be required to work a certain number of days in the office each week but can choose which ones	16%	16%	13%	21%
Employees will be required to come to the office on specified weekdays but can work remotely some or all other days	20%	22%	13%	25%
Employees will follow a rotating schedule and must work in the office when it's their designated day or week (e.g., first 50% of teams work on-site the first and third week of the month, remaining 50% work on-site the second and fourth week of the month)	35%	44%	45%	14%
Not applicable—all our employees are eventually coming back to the office	3%	0%	6%	4%

Note: Vertical column totals may add up to more or less than 100% due to rounding.

Source: The Deloitte Center for Financial Services 2022 Insurance Outlook Survey.

Whichever model an insurer adopts, however, they should communicate clear reasons justifying the purpose of coming to an office, even if only part time, in terms of the benefit for employees as well as for the company. Such communications should include general rationales (such as the benefits of

in-person learning and culture establishing events, informal meets and greets to build teamwork, or live gatherings to spark brainstorming and problem-solving), as well as specific reasoning for offering a range of options depending on an individual’s situation, needs, and preferences.

FIGURE 5

Insurers should consider customizing workplace system based on employee personas

Persona examples (illustrative)	Description	Potential workforce models
<p>The newbie</p> 	<p>2–3 years of work experience, but only recently joined the insurance organization; may need initial training and perhaps greater supervision</p>	<p>Initially 3 days a week in office, 2 days work from home</p> <ul style="list-style-type: none"> Needs initial office face time to understand new responsibilities and work activities Wants to collaborate and socialize with new peers and leaders Can better absorb organization’s culture through human interaction
<p>The experienced one</p> 	<p>With the company for 1–3 years; still at an early stage of their career; able to work somewhat independently but can benefit from greater personal interaction</p>	<p>2 days a week in office, 3 days work from home</p> <ul style="list-style-type: none"> Wants to collaborate and brainstorm with peers in person on complex projects Prefers to learn through osmosis from peers, immediate supervisors, and leaders
<p>The manager</p> 	<p>With the insurer for over 5 years; at a mid-management level position; can work independently and supports leadership</p>	<p>1–3 days a week in office, depending on individual need/preference</p> <ul style="list-style-type: none"> Trains and supervises new employees face-to-face Prefers to collaborate and brainstorm with the team live in the office on new ideas or complex projects, as well as share experience/technical knowledge Wants to organize in-person team-building activities to enhance bonding and support company’s culture
<p>The remote worker</p> 	<p>With the firm for over 3 years; works mostly independently; moved to a remote location during the pandemic far away from any HQ or satellite office; or hired for needed skills regardless of location</p>	<p>Comes to headquarters/satellite office quarterly or on as-needed basis</p> <ul style="list-style-type: none"> Prefers to work mostly from home to balance personal and professional responsibilities; no intention of commuting regularly Comes to satellite or headquarter office on an as-needed basis, including participating in organizationwide cultural and L&D initiatives

Source: Deloitte analysis.

Scaling and refining pandemic-driven digital adaptations should hasten longer-term technology transformation

WHEN IT COMES to technology priorities, insurers should be evaluating, refining, and scaling the various digital adaptations they implemented on an emergency basis during the pandemic to support a virtual workplace and customer engagement environment—making sure to align them with evolving long-term technology strategies.

Meanwhile, modernizing core systems should remain high on CIO agendas as carriers manage the end of life for legacy applications and look to rapidly integrate new data and automation solutions to boost efficiency and revenue—many of which would likely be deployed on cloud platforms.

People power can still make or break tech transformation

IT transformation should be as much about people as about bytes and systems, especially with the battle for technology talent expected to be even more ferocious in 2022 (see section on Talent for more details). Insurers expect to be challenged to compete for software engineers who can integrate disparate systems and data sets, data scientists who can help make sense of the flood of information pouring into and out of insurer systems, as well as navigators who can lead cyber

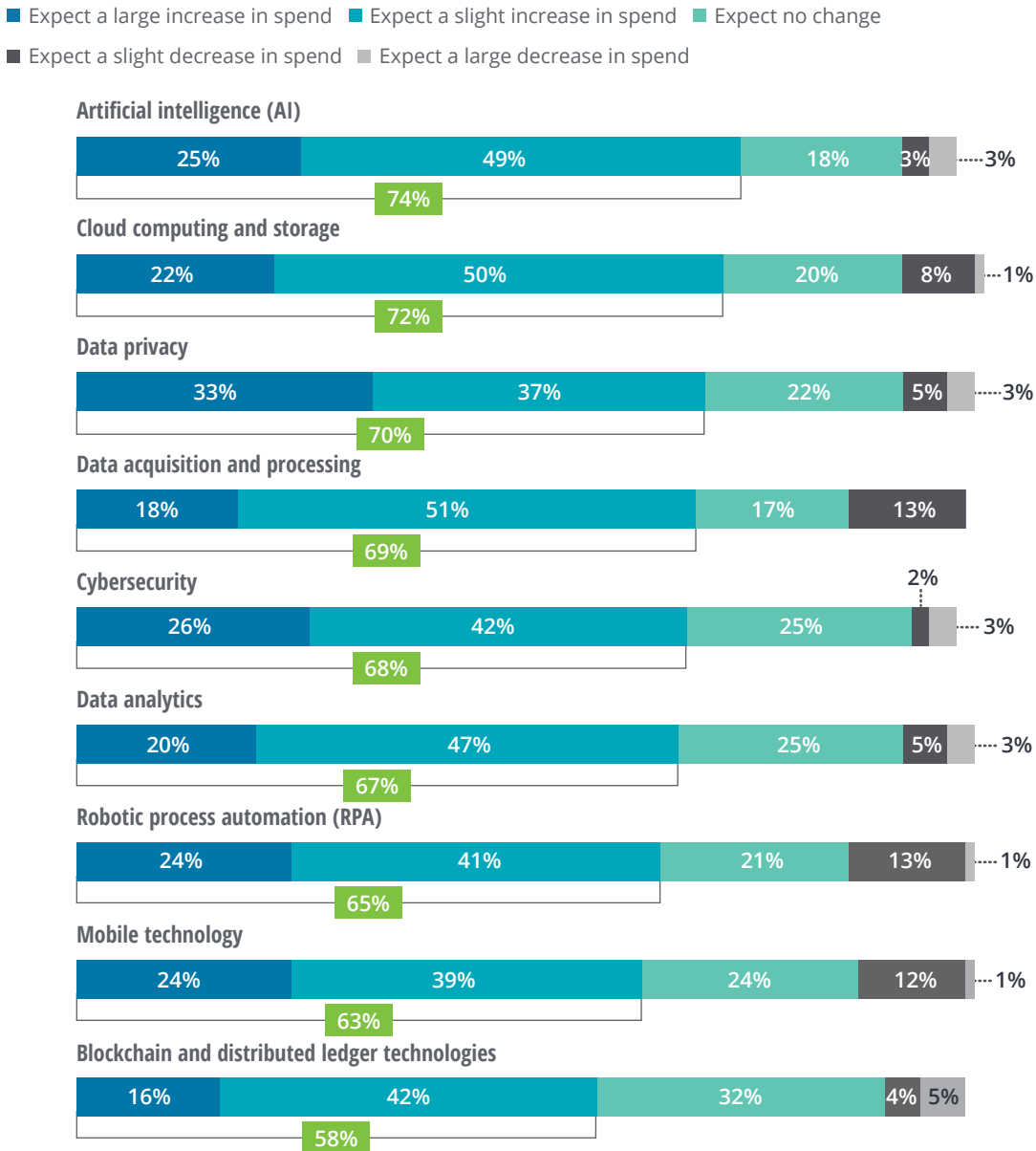
risk management in the face of rising threats from data breaches and ransomware attacks. (See “Cybersecurity takes center stage with increasing ransomware attacks,” on page 21.)

Given this multitude of pressing needs, it’s not surprising that Deloitte’s global survey respondents expect technology budgets to rise 13.7% in 2022. Emerging technologies where respondents expect to increase spending the most include AI, cloud, data privacy, data acquisition/processing, as well as analytics (figure 6).



FIGURE 6

Emerging technologies where respondents expect to increase spending the most in 2022



Note: Percentages may add up to more or less than 100% due to rounding.
 Source: The Deloitte Center for Financial Services 2022 Insurance Outlook Survey.

Using AI, analytics, and cloud to reimagine the insurance value chain, while tightening cybersecurity

A I IS BECOMING increasingly proficient at performing tasks historically difficult for computers to execute, including recognizing images, identifying spoken words, and using unstructured data. At the same time, insurance professionals are getting more comfortable with recommendations coming from AI systems and utilizing them for decision-making in underwriting, pricing, marketing, and claims.

Coupled with alternative data and advanced analytics, AI should have a significant impact across the entire insurance value chain—if it is deployed correctly and those using it are properly trained.

Many insurers are already increasing investment in conversational AI or chatbots to facilitate communications among a variety of stakeholders and reduce wait times. In underwriting, AI solutions can utilize behavioral analytics and machine learning to help identify misrepresentation or fraud while improving speed and accuracy. It can also be used in claims processing to identify suspicious patterns beyond traditional signals and raise red flags about potentially fraudulent submissions.

Mitsui Sumitomo Insurance, for example, utilizes an AI-powered “agent support system” to better identify customer’s potential needs by analyzing internal and external data. The system has

provided agents with 860,000 individual and 80,000 corporate sales leads per month, with agent productivity increasing between 20% and 130%, compared to the conventional sales model.⁵¹

AI could similarly be instrumental in enabling insurers to adopt new business models and take advantage of market opportunities. For instance, using automated underwriting powered by AI, carriers can work in conjunction with online retailers to provide needed insurance coverages in real time when shoppers buy consumer goods.

One potential problem that insurers should watch out for are questions raised by regulators and consumer groups about the accuracy and fairness of AI-driven systems. Our outlook survey indicated that only 24% of respondents were currently training AI and machine learning programs to identify algorithmic biases and ethical dilemmas. Insurers should be taking more proactive measures to ensure that automated decision-making is equitable and fair to policyholders and stakeholders and does not result in additional compliance and reputational risks.

At the same time, to overcome other challenges in adopting AI identified by respondents (figure 7), insurers should look to develop AI awareness programs while improving the overall technical fluency of their workforce to advance digital maturity.

FIGURE 7

Top challenges facing respondents in AI

- 1 Technology is not mature enough
- 2 Regulatory and compliance
- 3 Short-term focus on returns

Source: The Deloitte Center for Financial Services 2022 Insurance Outlook Survey.

Improved analytics should enable differentiation via alternative data

Rapid virtualization across industries and digital workflows accelerated the already exponential rise in the amount of data available to insurers from internal and third parties. This was driven in part by the proliferation of sensors, digitization of physical records, and the expanding digital footprint left by consumers from online activities.

Almost seven in 10 of Deloitte’s global outlook respondents said they planned to increase spending on data-related technologies—specifically privacy (70%), collection (69%), and analytics (67%). Insurers should be taking a multidimensional approach with alternative data by (i) leveraging enhanced analytical capabilities to derive real-time insights for faster and more accurate decision-making, and (ii) automating routine risk selection, pricing, and fraud detection, resulting in improved loss and expense ratios.

These goals to advance analytics are fundamental but may be difficult to realize in the short term, given concerns over reliance on legacy systems, complexity of implementation, and technology not being mature enough—cited by our outlook survey respondents as their top-three challenges (figure 8).

Therefore, insurers should focus on developing a strong data management system that is secure and scalable. It should also be flexible enough to enable integration of multiple internal and external datasets, as well as advanced analytical and automation capabilities. Most importantly, insurers should keep modernizing outdated legacy systems that could prevent them from extracting value and making new types of data actionable.

There also likely needs to be a comprehensive data strategy that addresses integration across platforms—legacy and new. Data can often be fragmented, of poor quality, and difficult to access—especially across operating units and lines of business. Continued reliance on legacy systems may be part of the challenge, but this also might reflect the lack of a holistic data management system.

In parallel, insurers should develop programs to upskill their internal data analysis capabilities. In February 2021, AXA UK invested in a data academy program, open to all its employees, to upskill and futureproof its workforce, support decision-making, and improve customer experience.⁵² In addition, experienced legacy underwriters should be working closely with cross-functional data scientists to design, develop,

FIGURE 8

Top challenges facing respondents in advanced analytics

- 1 Reliance on legacy systems
- 2 Complexity of implementation
- 3 Technology is not mature enough

Source: The Deloitte Center for Financial Services 2022 Insurance Outlook Survey.

and ultimately own analytic and predictive models underlying more robust, data-driven risk assessment and pricing systems.⁵³

Cloud will likely be the foundation for digital transformation initiatives

Cloud technology should be considered foundational for achieving most digital transformation goals, as a key enabler of workforce, technology, and operational flexibility. At the same time, cloud often provides improved expense management, greater speed of deployment, and more rapid scaling of products.

Seventy-two percent of Deloitte's global outlook respondents said they planned to increase spending on cloud, which would boost adoption across the board. The applications that insurers first started deploying on cloud platforms are systems of engagement such as portals, digital customer engagement channels, and consumer analytics. However, only a small number of insurers have a majority of their systems of record (such as underwriting, policy administration, billing, or claims systems) on the cloud.⁵⁴ That's likely to change fairly soon, however, as the ability of cloud platforms to seamlessly integrate with insurer vendors and partners makes a compelling case for accelerating the migration of core applications to the cloud.

That said, respondents noted that availability of supporting skill sets, alignment to business strategy, and return on investment were the top challenges in adopting cloud strategies (figure 9).

Cloud adoption should, therefore, be part of broader business transformation, which includes upgrading workforce skills and processes to align to the advantages offered by the cloud platform.

FIGURE 9

Top challenges facing respondents in adopting cloud strategies

- 1 Availability of technical skill sets
- 2 This technology is not important to our business strategy
- 3 Return on investment (ROI) is low/not clear

Source: The Deloitte Center for Financial Services 2022 Insurance Outlook Survey.

Insurers should also keep privacy and data security top of mind as they move more data and systems to the cloud, since they are still accountable for protecting customer information and applying appropriate security and access controls to information and applications even though they are stored in a public cloud.

Cybersecurity takes center stage with increasing ransomware attacks

Global cyberattacks across all industries increased by 29% in the first half of 2021 compared to the same period last year. This trend was largely driven by a 93% surge in ransomware events, as hackers continued to exploit the shift to remote work prompted by the pandemic⁵⁵ amid other factors. Attackers not only targeted sensitive data from organizations for ransom. They also went after supply chains and network links to partners, making the attacks farther-reaching and potentially much more damaging.⁵⁶

Implementing zero-trust principles by imposing verification requirements on anyone seeking access to data or systems, regardless of being internal or external, is a leading practice that can help carriers protect company assets under these conditions.



Insurers also should develop third-party risk management strategies to ensure suppliers and vendor networks are not impacted even if insurers' systems are compromised.

Insurers may also consider several additional measures to detect, prevent, respond, and recover from ransomware threats more effectively (figure 10).

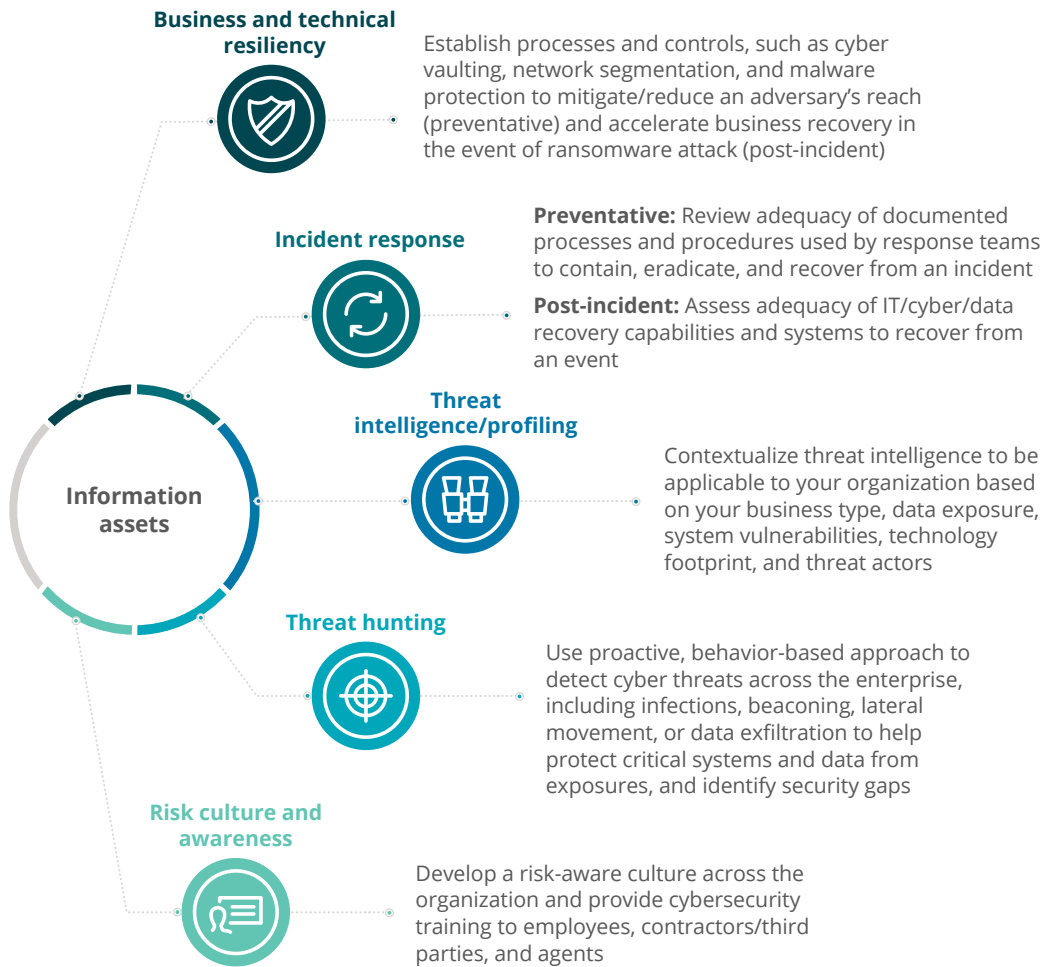
Another option for carriers is to adopt a data-vaulting strategy that provides backups for critical business processes that are disconnected from the network, which should help get a compromised operation up and running more quickly while a ransomware incident is resolved.

Cybersecurity teams should also continuously be developing enhanced controls and endpoint protection technologies to exert greater control over end user devices. Training and awareness activities, focusing particularly on remote guidelines and standards for work-from-home environments, are particularly important with so many likely to remain outside a traditional office setting.

At a minimum, insurers should consider devoting more resources to meet added regulatory requirements being implemented or considered by several authorities worldwide. For example, the New York Department of Financial Services has established a wide-ranging cyber insurance risk framework with multiple reporting expectations.⁵⁷

FIGURE 10

Insurers should enhance capabilities to detect, prevent, respond, and recover from ransomware attacks



Source: Deloitte analysis.

Insurers should accelerate digital strategies while maintaining options for more personal customer engagement

INSURERS QUICKLY SHORED up digital capabilities to enable virtual consumer engagement after COVID-19 made face-to-face contact problematic even for those who still preferred to buy and be serviced that way. However, as the environment begins to stabilize, carriers should be considering how to build on these adaptations and better integrate them with legacy approaches to product development, marketing, and distribution.

While digitization is an important priority, insurers also should not neglect the value of the human touch, given product and process complexities embedded throughout the insurance life cycle.

Our global outlook survey shows most insurance marketing executives across sectors believe buyer expectations for acceleration of digital distribution channels to be very high. Many P&C respondents in particular appear to clearly recognize the need to

align strategies with this trend, but there may be a small disconnect between how some life carriers perceive consumer behavior and preferences versus their plans to bolster online or mobile sales.

However, while digitization is an important priority, insurers also should not neglect the value of the human touch, given product and process complexities embedded throughout the insurance life cycle. A shift to “right-channeling”—thinking strategically about which insurance interactions require digital versus human intervention to create the ideal experience for each consumer—should guide insurer distribution and service strategies.

For example, while consumer preferences appear to be shifting toward greater digitization and self-service capabilities, agent/broker interaction remains a vital component to prospecting, sales, and service. That doesn’t mean the legacy agency force won’t need to be digitally enabled to succeed in this increasingly virtual business world. Indeed, insurers should support their agents by providing customer relationship management platforms and systems to engage remotely more effectively with consumers.

Many agents are already looking to expand their capabilities in this area to supplement and enhance traditional approaches to sales and service. The 2020 Agency Universe Study by the Independent Insurance Agents & Brokers of America found social media and digital marketing cited by 58% as a top marketing strategy.⁵⁸

Insurance marketers should adapt to shifts in consumer media consumption

Insurers should be rethinking their advertising approaches as well to reflect new digital realities. A Pew Research Center survey revealed that US adults who say they watch television on cable or satellite declined from 76% in 2015 to 56% in 2020 (figure 11), with an even steeper decline in younger segments.⁵⁹

To be most impactful, carriers and agents should therefore be shifting to alternative media drawing a growing share of eyeballs. US auto insurers already increased investments in digital advertising 20% to about US\$1.5 billion in 2019, which still only

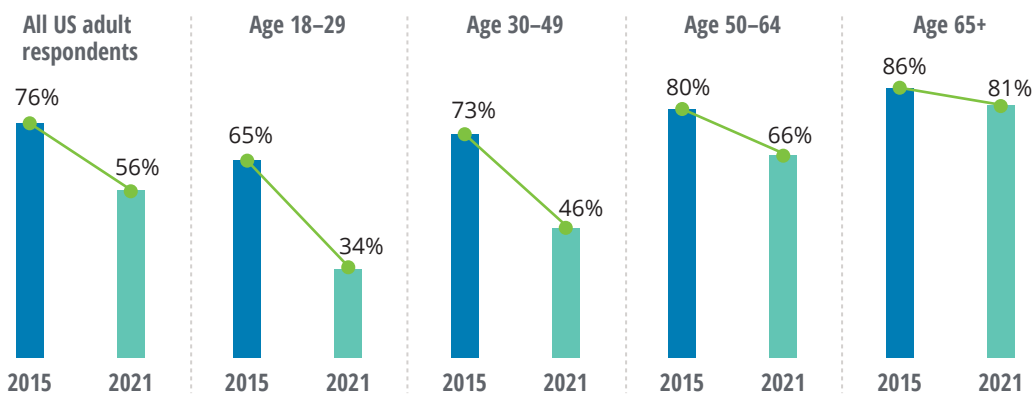
represented 22% of their overall ad spending at that time.⁶⁰ However, since traditional marketing, such as a 30-second Super Bowl spot, is far more expensive than social media ads, paid search, or other digital options, insurers should also be able to get a lot of mileage from relatively small but steady increases in digital ad investments.

Insurer media spend should also be more personalized to reach emerging target audiences. A Deloitte media trends survey revealed 55% of Generation Z and 66% of millennial respondents said ads on social media are influential.⁶¹ They also typically preferred ads on social media more than in streaming video content and other channels.⁶²

When our global outlook survey queried marketing respondents about their company’s long-term changes in customer communication and engagement strategy, P&C insurer respondents ranked social media interaction highest. However, life respondents did not list this as one of their company’s top three priorities, which could result in missing a key opportunity to influence a substantial and growing market segment.

FIGURE 11

Percentage of US adults who say they receive TV via cable or satellite at home



Note: Respondents who did not give an answer have not been included here.

Source: Pew Research Center (survey of US adults conducted January 25–February 8, 2021).

Investing in digital media strategies may be foundational to reaching more consumers going forward, but customization is also likely to be critical to maximize prospecting, acquisition, and retention efforts. Such initiatives could perhaps be bolstered by more advanced customer data analytics. For example, Prudential Financial Inc. purchased Assurance IQ in September 2019 to offer consumers personalized health and financial wellness solutions through a direct-to-consumer platform.⁶³

While many insurers have already integrated customer data platforms, more comprehensive customer relationship management systems, and master data management architecture platforms, licenses, and software, some may continue to struggle with analyzing all the data they have traditionally collected, let alone make emerging alternative data sources actionable.

It is therefore encouraging that Deloitte's survey respondents across sectors largely agree their company's highest investment in marketing, sales, and distribution budgets over the next year will go toward data and analytics.

Insurers can differentiate value through modernized product offerings

In addition to advancing prospecting, sales, and distribution strategies, insurers should also consider innovative ways to differentiate their overall value proposition beyond price and coverage.

The potential to offer more products based on real-time risk monitoring resonated across sectors and regions. However, it's becoming increasingly challenging for insurers to offer such customized client experience on their own. They should,

therefore, consider forming alliances or partnerships with entities that can provide seamless interaction and data sources to create more holistic, consumer-centric experiences. For example, AXA XL is partnering with innovation leaders, contractor customers, and technology companies to create a construction ecosystem using sensors and cameras to collect data for more impactful engagement with commercial customers.⁶⁴

Insurers are increasingly finding it hard to offer customized client experiences on their own. They should, therefore, consider forming alliances or partnerships with entities that can provide seamless interaction and data sources to create more holistic, consumer-centric experiences.

Moreover, a recent Deloitte survey of underserved US life insurance consumers showed most segments may be more interested in purchasing coverage if it included the possibility of an adjustable premium based on lifestyle and healthy eating—perhaps measured by fitness apps or other data sources.⁶⁵

Increasing product flexibility was cited as a top priority for P&C respondents, which aligns with results from an earlier Deloitte Global Auto and Homeowners Consumer Survey, in which US respondents indicated interest in being able to more easily and frequently adjust their coverage depending on what they need and can afford.⁶⁶

Although this factor ranked lower among life respondents in our global outlook survey, carriers should consider making this a higher priority, as the element that resonated most among underserved US life insurance consumers surveyed by Deloitte when considering a purchase of mortality coverage was the ability to increase or decrease coverage online as needed.⁶⁷

In the P&C realm, global outlook survey respondents ranked the addition of new products as another high priority. One avenue they could potentially consider is writing “greenfield” risks for emerging exposures, such as the burgeoning cannabis or cryptocurrency markets.

While obstacles including regulatory uncertainty as well as lack of oversight and transparency may complicate matters for insurers interested in providing risk-transfer products for these budding industries, they are among a handful of promising organic growth opportunities in a generally mature P&C market. The US\$21.3 billion-a-year global cannabis business alone could bolster sales in a wide array of standard and specialty coverages, including crop insurance and product liability, given 2020’s nearly 50% increase in cannabis sales, with forecasts of growth to US\$55.9 billion in 2026.⁶⁸

Meanwhile, even though some niche insurers such as Coincover and Nexus Mutual are already providing coverage for cryptocurrency risk, most legacy carriers are not yet participating in the crypto insurance market, leaving a relatively wide-open field for those that can decipher how to profitably underwrite and market such policies.⁶⁹

While not new, cyber insurance remains another underpenetrated opportunity, representing less than 1% of industry direct written P&C premiums.⁷⁰ The rapidly changing cybercrime landscape makes underwriting and pricing coverage a huge challenge—as noted earlier, average premium hikes in the line soared by 25.5% in the second quarter.⁷¹

However, sharing claims data both with clients and among themselves may help insurers more successfully navigate this turbulent market. For example, in June 2021, several leading carriers formed an entity called CyberAcuView, which combines resources related to cyber data to help consumers mitigate future attacks and potentially sustain a competitive market for cyber insurance.⁷²

Climate change is also acting as a catalyst for less conventional insurance offerings as carriers look to close disaster coverage gaps. Some respondents, particularly in Europe, are looking to innovate with parametric insurance products for traditional or emerging risks, automatically triggered by underlying events. One example is Zurich North America’s customizable Construction Weather Parametric Insurance for project owners and contactors, where claims are based on predetermined weather events and don’t require proof of physical loss for payment.⁷³

In light of the increasing insurer focus on environmental sustainability, others are also beginning to offer “green” discounts and coverage to encourage customers to use sustainable materials. Travelers, for example, offers “green home additional coverage” which provides up to 10% more in replacement costs to rebuild with green materials, while Farmers rewards clients with discounted premiums if they drive hybrid or other alternative energy vehicles.⁷⁴

To keep trust levels rising, insurers should be aspiring to a “higher bottom line”

INSURERS OFTEN CHARACTERIZE themselves as the economy’s financial first responders, those entrusted with helping policyholders cope with and recover from some of the most challenging times in their lives, whether paying to repair or replace damaged properties, cover liabilities, finance retirement, or provide funds to support those losing a family member or key business leader.

Insurers are likely to be increasingly called upon to take steps to rebuild trust, contribute to a more just and sustainable world, and build a more equitable financial services industry where profit and societal impact coexist amicably.

Insurers appear to have retained and may even have been able to build upon that foundation of trust despite disruptions caused by the pandemic, including denial of a number of property, business interruption, and liability claims for pandemic-related damages and mandatory lockdowns because of various policy exclusions—in some cases, prompting litigation.⁷⁵ Still, about one-third of 5,300 small business owners in 14 countries

surveyed by Deloitte over the summer of 2021 said trust in their insurers and agents or brokers had actually improved significantly since the COVID-19 outbreak, while another third said their trust was at least somewhat improved.⁷⁶ Only a handful said their trust levels had deteriorated, while the rest said it was about the same.⁷⁷

Among small business survey respondents who said their trust levels had improved, the top reasons cited were that insurers and their intermediaries had helped them through the pandemic by providing additional support services, accelerated claims payments, and premium discounts.⁷⁸

However, there are additional steps individual carriers could take to build greater trust and burnish the industry’s reputation as risk managers. One way they might accomplish this is by leading efforts to come up with alternative financing mechanisms to cover a wider range of future pandemic losses, including potential public-private partnerships patterned after the one now supporting the terrorism insurance market. They could also be more proactive in ESG initiatives to limit the causes of climate risk at its source, recruit a more diverse workforce and leadership team, as well as launch new products and services to alleviate coverage gaps for underserved communities.

Insurers might also bolster trust by becoming more open and collaborative with consumers on how all the new personal data available is being gathered and utilized. Only 11% of marketing leaders responding to our global outlook survey strongly agree that their company is much more transparent now in how they collect and use a customer's personal information, while eight of 10 agreed they are not doing enough to make customers feel they are in control over their privacy.

The bigger picture is that insurers are likely to be increasingly called upon to take steps such as these and more to “rebuild public trust, contribute to a more just and sustainable world, and build a more equitable financial services industry where profit and societal impact coexist amicably,” according to *A higher bottom line*, a report issued earlier this year by Deloitte's financial services practice.⁷⁹

The report posits that a company's bottom line should no longer be considered “just the sum total of profits and losses.” Instead, “a higher bottom line values the future of our planet and people just as much as profits. It blurs the line between the striving and the successful until there's less inequality and more shared wealth. In short, our vision is one of a higher bottom line that represents both the financial and human profit to be gained from a more educated, equitable, sustainable world.”⁸⁰

Enhancing trust should lead to greater profitability

Since insurance ultimately comes down to a matter of trust—the consumer's confidence that their premiums will pay off in the end if they suffer a loss—maintaining and bolstering that bond should therefore be an ongoing priority.

“Across macroeconomics ... we build and maintain trust by acting with competence and intent,” according to a recent Deloitte Insights paper on *The link between trust and economic prosperity*.⁸¹ The report defines competence as “the ability to execute, to follow through on what you say you will do, and live up to your brand promise,” while intent “refers to the reason behind your actions, including fairness, transparency, and impact.”⁸² The authors note that “one without the other cannot build or rebuild trust—both are needed.”⁸³ This sounds like a good strategy for enhancing trust in insurance.

Trust distinguishes and elevates companies such as insurers, connecting them with “the common good,” according to Deloitte's report linking trust with economic prosperity. “Put trust at the forefront of your planning, strategy, and purpose, and your customers will put trust in you.”⁸⁴ Whether dealing with customers, regulators, investors, or employees, insurers can benefit from trust-building initiatives in both the short and long term.

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