



Midyear 2021 US insurance outlook:

Most carriers primed for growth as economy rebounds

Survey finds majority bullish about top and bottom line gains, fueled by higher technology investments

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KEY MESSAGES

- Most US insurers surveyed by Deloitte have already pivoted to a postpandemic growth strategy, often doubling down on technology investments that allowed them to work and engage with customers remotely in order to drive further efficiencies and enable longer-term business model upgrades.
 - While some carriers are still trying to rationalize expenses and avoid balance sheet deterioration due to the pandemic's impact, 40% of those surveyed already increased their budgets for 2021, and 31% expect to boost spending even more over the rest of this year. Over half anticipate both higher revenues and an improved bottom line.
 - As COVID-19 restrictions are lifted across the United States, many insurers are struggling to determine how to safely reintegrate remote employees into an office environment and/or transition to a hybrid system where many continue working from home in what may turn out to be the industry's biggest operational challenge.
 - Insurers should be capitalizing on the innovations and operational flexibility adopted during the pandemic to accelerate their transformation to a more agile, customer-centric business while aspiring to a "higher bottom line" that addresses emerging environmental, social, and governance (ESG) expectations among stakeholders.
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More insurers bullish about growth as pandemic restrictions ease

WITH BUSINESS ACTIVITY continuing to pick up and COVID-19 restrictions being relaxed or removed in many areas despite a rise in variant infections, most US insurers are looking to capitalize on the innovations they implemented during the pandemic in terms of going virtual and digital. Yet even though the industry as a whole may have adapted remarkably well to the extraordinary challenges raised during the past 18 months, there is still much work to be done and many critical decisions to be made over the rest of this year and into 2022.

Key issues to be addressed include:

- Many employees who were enabled to do their jobs from home during lockdowns may soon have to be safely reintegrated into an office environment, while some insurers will seek to retain the best of both worlds by adopting a hybrid model—which may be easier said than done.
- Most engagement with policyholders via agents, brokers, and claims adjusters had to go virtual due to the pandemic, but with COVID-19 restrictions being removed across the United

States, many insurers will be reassessing the value of face-to-face interactions and considering how customer preferences might have changed long term.

- How might insurers fully integrate more nimble and innovative approaches into their culture without needing a crisis to drive them?

As society gradually returns to normal and the economic recovery gathers momentum, bolstering GDP¹ (figure 1), most insurers should be looking to build on the foundation of innovation and adaptability that helped transform their operating models, talent structure, and customer experience practically overnight in response to the COVID-19 outbreak.

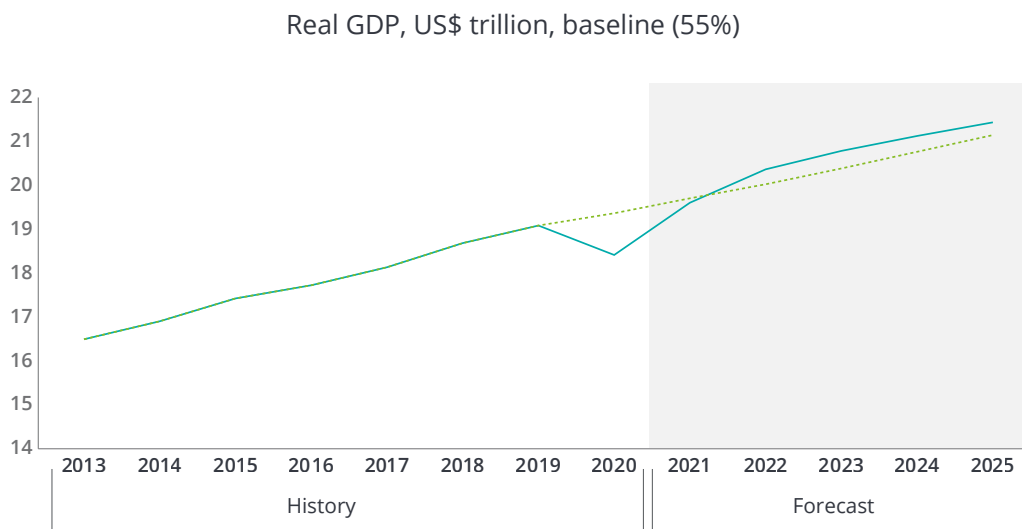
To get a sense of how insurers are feeling about their top and bottom lines, investment priorities, transformation progress, and talent plans for the rest of 2021, the DCFS surveyed various senior US insurance financial executives. While generally optimistic about the near future, the leaders surveyed also raised a number of challenges that could become significant speed bumps depending on how insurers respond.

FIGURE 1

Real GDP likely to exceed prepandemic growth path toward the end of 2021

US\$ trillion, chained 2012 prices

Baseline (Feb 2021) Pre-COVID-19 baseline



Source: Deloitte Services LP economic analysis.

Financial expectations mostly positive, but some remain cautious on spending

Revenue expectations for 2021 among respondents were fairly positive, with 59% anticipating a higher top line, against only 16% predicting a decline (figure 2). Modest gains of 1%–5% are predicted by 28% of respondents, but 31% expect even more robust growth—including 12% seeing jumps of over 15% ahead. Property and casualty (P&C) respondents were a bit more bullish than those from the life and annuity (L&A) sector, with 66% expecting growth in P&C (including 18%

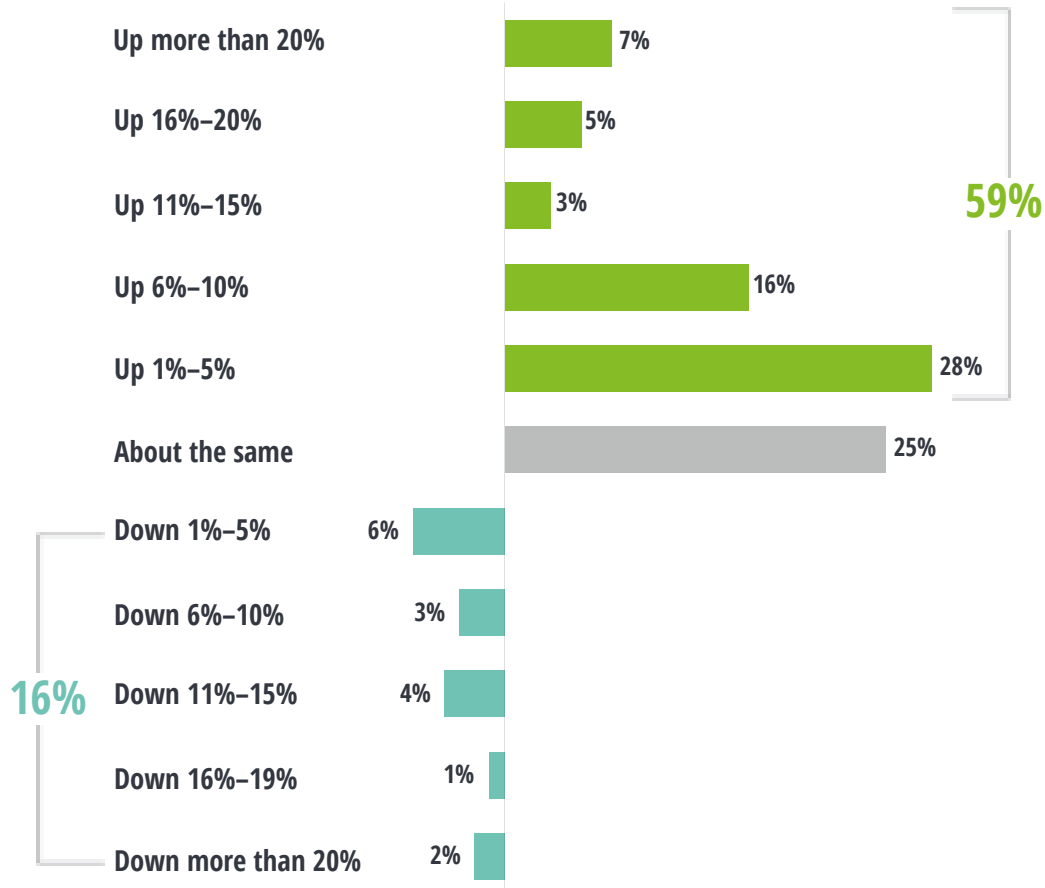
anticipating revenue gains of over 10%), versus 57% in L&A overall, and only 11% expecting more than 10% top-line growth.

The same overall trend holds for the bottom line, with just 23% of respondents anticipating a drop in net income, versus 56% expecting higher profits in 2021 (figure 3). Indeed, 28% surveyed predict growth of over 5%, including 16% forecasting gains of more than 10%. But unlike differences within the industry about the top-line outlook, expectations among P&C and L&A carriers for bottom line gains tracked closely.

FIGURE 2

Most respondents upbeat about 2021 top-line growth

Top-line expectations for 2021 compared to 2020

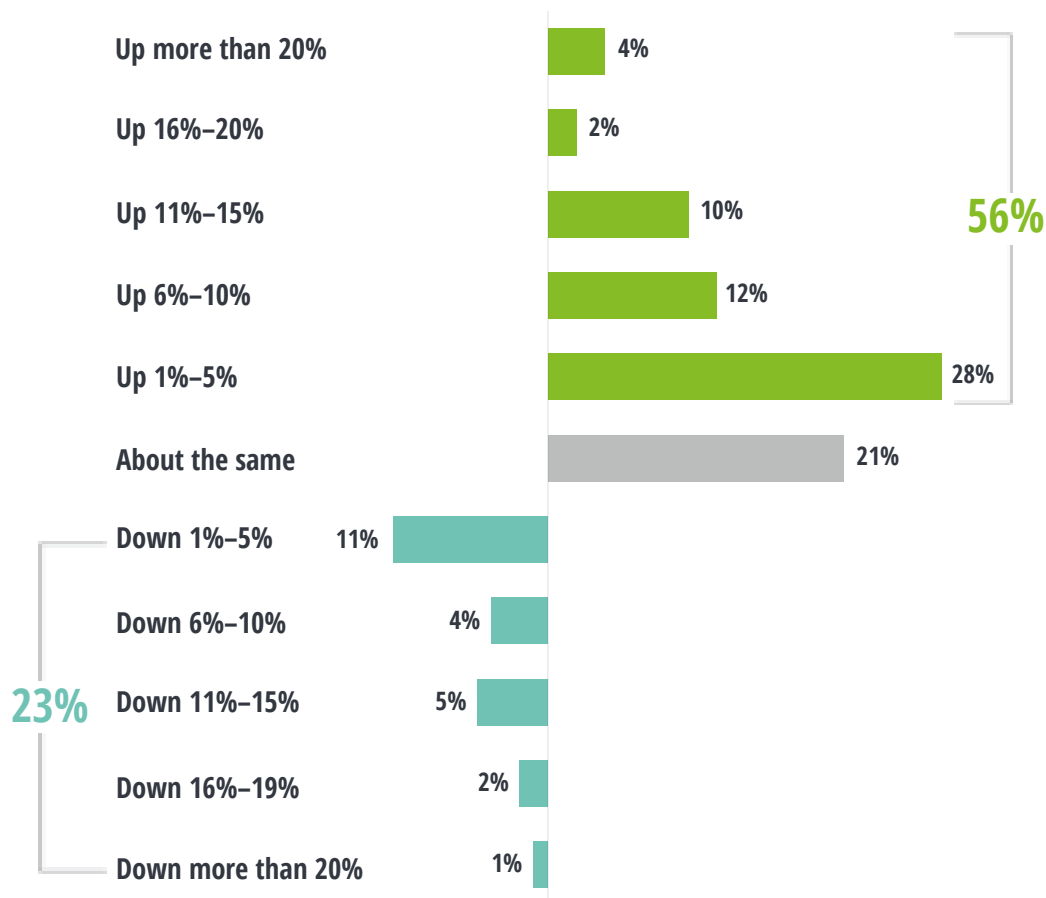


Source: The Deloitte Center for Financial Services Midyear Insurance Outlook Survey, 2021.

FIGURE 3

Majority of respondents expect a bigger bottom line in 2021

Bottom-line expectations for 2021 compared to 2020



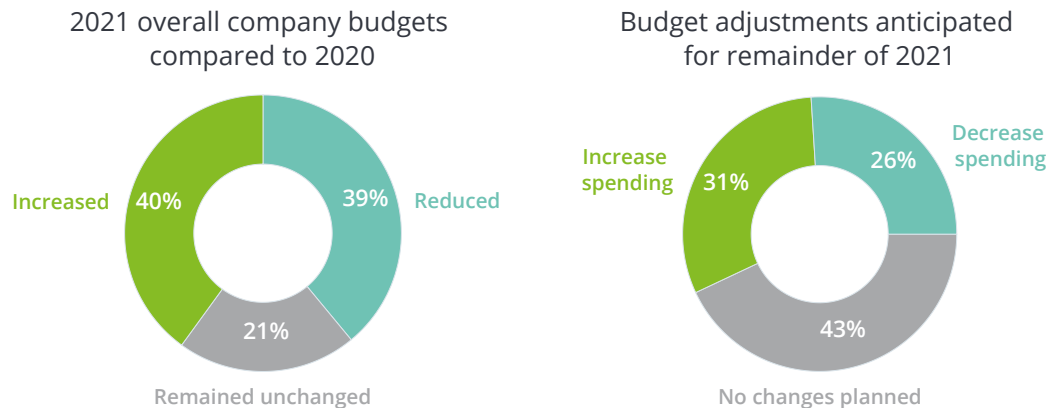
Source: The Deloitte Center for Financial Services Midyear Insurance Outlook Survey, 2021.

However, 77% of those surveyed are concerned about possible fundamental changes that may have been prompted by the pandemic, both in the economy as well as in consumer behavior. That could in part explain why generally upbeat revenue

and profit expectations have not yet translated into higher spending plans among a larger portion of respondents (figure 4), as many insurers wait to see how all this shakes out before making any additional financial commitments.

FIGURE 4

Many increase spending, but majority of respondents still appear cautious for the rest of 2021



Source: The Deloitte Center for Financial Services Midyear Insurance Outlook Survey, 2021.

Many companies shifting focus to growth

The cautious stance toward increased spending among a majority of respondents notwithstanding, 69% said their company has moved beyond the respond and recover phase and is starting to pivot or already has shifted to thrive mode by adopting a proactive, growth-focused approach.

Our midyear outlook survey found companies that maintained strategic long-term initiatives even during the pandemic are now more likely prepared to pivot to a growth mindset. Respondents at such companies are close to three times as likely to increase spending in the remainder of 2021 than are those that have not yet shifted gears toward growth.

This tracks with our observation in the 2021 insurance outlook published in December 2020, when we noted that while most companies were looking to contain spending rather than cutting

budgets across the board, many were shifting allocations to bolster strategic initiatives, such as technology modernization, that could help them adapt to the pandemic in the short term while positioning them for longer-term growth.²

Technology to the rescue

Given the need to digitize and virtualize their operations overnight, it's no wonder that even though 52% of respondents trimmed discretionary spending, often in areas such as talent, only 6% cancelled or postponed long-term technology projects, while 96% are accelerating digital transformation initiatives.

Meanwhile, the top two actions prioritized by responding insurers to support financial and operational stability over the next 6–12 months involved implementation of new technology—first, to enhance efficiency (70%) and second, to improve customer experience (68%).

That sentiment appears to be fueling more aggressive technology investment, with 68% of those surveyed planning to increase spending on data analytics (up from 49% in Deloitte's 2021 Outlook Survey taken last summer) and 66% allocating more to upgrade customer relationship management (CRM) software. Fifty-nine percent will increase spending on artificial intelligence (compared to 40% in our last survey), while about half of respondents also plan to boost budgets for robotic process automation (up from 30%).

Talent: The insurance workplace may never be the same

Transitioning to a postpandemic workplace model may be the biggest challenge insurers face for the rest of 2021. Fewer US insurers are being forced to consider workforce-related actions to counter COVID-19's financial impact as exposure concerns ease and the economy regains its strength. Only 10% of insurers surveyed in May 2021 by Deloitte

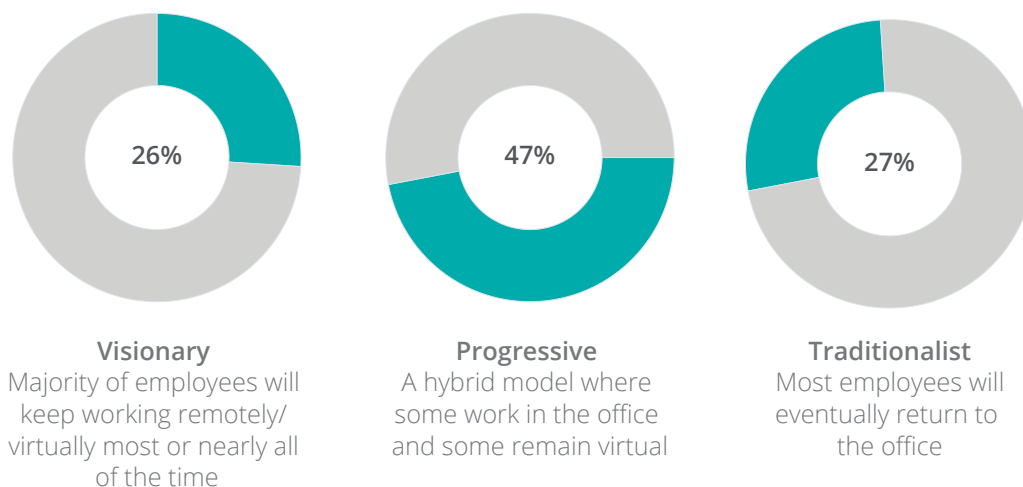
said they are likely to rationalize employee headcount and compensation in the next 6–12 months, compared to 60% of respondents in Deloitte's 2021 Outlook Survey last summer.³

Instead, insurer attention is likely focused on determining the preferred workplace business model going forward, as well as what actions and policies should be put in place to manage the transition.

Deloitte's survey found only about one in four likely to revert to the “*traditionalist*” model of having nearly all employees work together in centralized offices. Nearly half of those surveyed are planning to adopt a “*progressive*” hybrid model incorporating a fluid, often remote, workforce alongside those in offices, while the remaining quarter considers a more “*visionary*” path maintaining a mostly virtual environment (figure 5). Nationwide Insurance, for instance, anticipates that at least 50% of its workforce will either operate out of their homes for good or in a hybrid model.⁴

FIGURE 5

Nearly half of respondents likely to adopt a hybrid model in the wake of the pandemic



Source: The Deloitte Center for Financial Services Midyear Insurance Outlook Survey, 2021.

Nontraditional models should allow insurers to tap an expanded talent pool, since at least some staff may no longer be required to live within commuting distance. Such shifts are already having an impact, as nearly 51% of respondents are now hiring employees irrespective of their location, while 58% are augmenting their teams with gig workers. This trend may also lower real estate expenses as well, as less office space may be required.

What's next for the rest of 2021?

Over the next few months, many insurers may have a difficult time determining what proportion of the workforce should be asked to return to an office, how to decide which individuals can remain remote, and how much autonomy employees should be given in making such decisions (figure 6). Insurers may also struggle with whether these questions call for different responses at the enterprise level versus individual business units or operating functions.

FIGURE 6

Respondents grapple with details over hybrid return-to-workplace policies

What do you expect to be the basis for whether to work remotely or in the office?

Leadership will decide individually on a case-by-case basis

32%

Employees will be expected to work on premises for predetermined days/periods of time

28%

Employees will be allowed to choose their preferred workplace

28%

Don't know yet

13%

What percentage of employees do you expect to keep working virtually over the long term?

More than 50%

40%

34%–50%

30%

21%–33%

23%

16%–20%

6%

Notes: Questions asked to those who chose "Progressive—A hybrid model where some work in the office and some remain virtual" as the workplace strategy. N=47.

Source: The Deloitte Center for Financial Services Midyear Insurance Outlook Survey, 2021.

Over the long term, changes in talent needs and management models will present a number of fundamental opportunities and challenges (figure 7). But in the interim, insurers will likely have to consider changes in human resource policies, workspace design, and employee engagement. They should also upskill managers on how to adapt, manage, and effectively engage a hybrid workforce while maintaining the corporate culture and team productivity.

Most employees have been working out of their homes for over a year now, and while some may be eager to return to the office, others are likely to prefer continuing to work from home. Getting employees onboard with whatever model is adopted while accommodating personal priorities and preferences will be important in achieving a successful transition. It is therefore encouraging that among those surveyed, 87% said they were able to maintain a strong engagement with employees during the pandemic, including 30% who strongly agree with that sentiment.

Regulation: ESG concerns on the front burner

Insurers are likely to face several compliance challenges in the second half of 2021, including the potential for heightened market conduct exams, with regulators checking to make sure consumers were adequately and fairly addressed given that most client interactions went virtual during the pandemic.

In addition, renewed focus is likely to be devoted to ESG issues. Two-thirds of survey respondents asserted that the pandemic has already prompted more attention at their companies to ESG concerns. The “E” of ESG should be a particularly hot topic in the second half of 2021, with two-thirds of respondents taking additional steps to address and disclose climate risks, while about half are reconsidering their investment strategy and portfolio to better reflect climate risk concerns and goals. More carriers are also appointing chief sustainability officers or their equivalent to

FIGURE 7

Pandemic-induced changes should alter talent agenda for insurers

Potential opportunities	Potential challenges
Availability of a broader talent pool With remote working, carriers can tap into a talent pool across geographies, making it easier to recruit and retain talent, especially for emerging skill sets such as advanced analytics and integration of artificial intelligence.	The uncertainty factor Although vaccines are rolling out, many may decide not to get a shot, and long-term efficacy will have to be monitored. COVID-19 is therefore likely to remain problematic for at least the rest of 2021, impacting insurer return-to-office plans.
Operational cost efficiencies Reduced needs for physical office space and hiring gig workers to supplement full-time staff can potentially reduce overhead costs while improving operational excellence.	Balancing needs of remote vs. in-office workforce Managing this transition is likely to be the biggest operational challenge for insurers this year. Onboarding, training, and mentoring programs may need to be revamped and culture integration activities redesigned to support this new mix.

Source: Analysis by The Deloitte Center for Financial Services.

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at least orchestrate ESG initiatives and reporting, while many are taking steps to reduce their own carbon footprint.⁵

At a minimum, insurers are expected to face new climate risk reporting expectations laid down by the New York Department of Financial Services. Based on public feedback collected through June 23, the department will issue a timeframe by which insurers should have fully embedded approaches to climate risk management in their governance structures, risk management frameworks and processes, business strategies, metrics, targets, and disclosure methods.⁶

Federal attention is focused on the issue as well, in large part because the new administration has put climate risk on the front burner. Meanwhile, US senators asked the heads of eight insurers for details on how climate change may impact both the risks they underwrite and the assets supporting those liabilities.⁷ Insurers were questioned about:

- The potential influence on premiums and claims
- Which climate scenarios insurers are considering
- What stress tests they are conducting
- What those exercises revealed about exposure to fossil fuel assets
- How fossil fuel underwriting and investment policies align with broader sustainability goals

The “social” aspect of ESG will also likely draw more external attention to the makeup of insurer staffs, management teams, and boards, which is perhaps why 69% of survey respondents are allocating additional resources to bolster diversity and inclusion efforts.



Achieving equity in availability and affordability of bedrock coverages such as auto and flood insurance will likely remain a regulatory priority as well, as underwriting criteria are challenged (such as the use of credit scores or asking whether applicants had ever contracted COVID-19) and regulators seek more information on whether the algorithms in artificial intelligence and robotic process automation systems might have a disparate impact on underserved communities.

Sector deep dives: Where might insurers go from here?

Life insurance: Stars align to build on pandemic-fueled momentum

Life insurance premium income was down 8% for 2020 while revenue overall fell by 4%, cutting net income in half.⁸ However, the pandemic prompted heightened awareness about the need for mortality coverage, with record growth in applications setting the stage for a sales rebound in 2021.⁹

After years of low-to-no growth, there was a 4% surge in life insurance applications last year.¹⁰ That trend continued into at least Q1 2021 with a 10.1% uptick in activity.¹¹ In fact, in March 2021 individual life applications were 18.5% higher

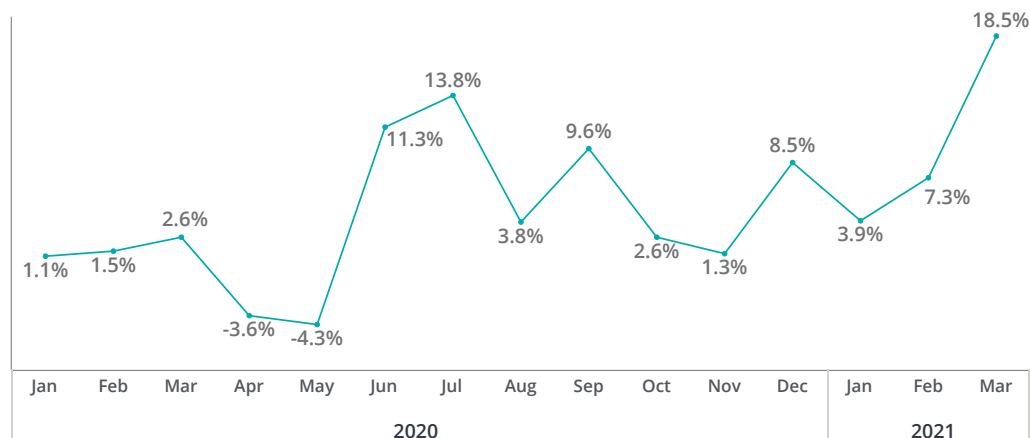
compared to the same month last year (figure 8), and were up 22% versus March 2019.¹²

On the operational side, lockdowns accelerated the adoption of online applications and underwriting, as well as virtual sales and service interaction among insurers, customers, and intermediaries. Since January 2020, online life insurance sales increased between 30% and 50% for companies with digital capabilities and algorithm-driven underwriting, while agent-driven sales were down by as much as 50%.¹³ The pandemic has already accelerated online competition from digital startups,¹⁴ and if consumer preferences continue in this direction, such competition is likely to intensify into 2022.

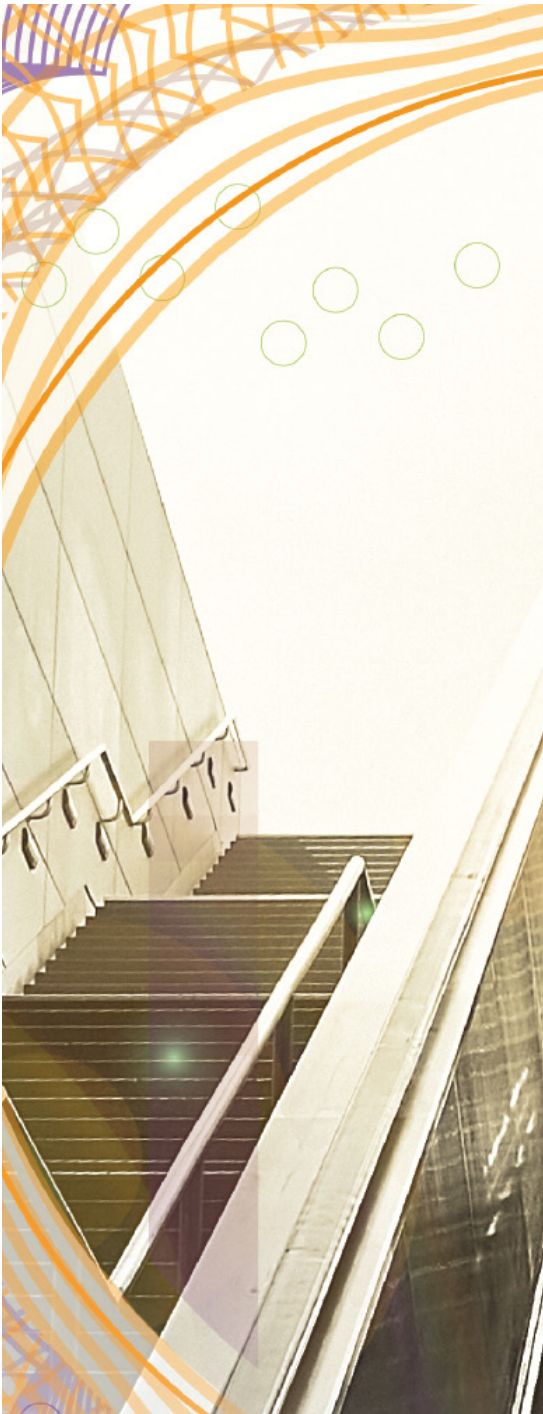
FIGURE 8

MIB Life Index shows a spike in life insurance activity following the initial onset of the pandemic

YoY % gain/loss



Source: MIB Life Index, "Record breaking Q1 for U.S. life insurance activity," April 14, 2021.



Yet, despite all the upheaval caused by COVID-19, the percentage of US adults who say they have a gap in their life insurance coverage continues to grow. Only 52% of Americans said they had life insurance in 2021, down from 54% in 2020 and a much more significant drop from 63% in 2011, according to a study by LIMRA.¹⁵ Some 102 million uninsured or underinsured Americans believe they need to either buy or increase their life insurance coverage, the LIMRA study found.¹⁶

What's next for the rest of 2021?

As the pandemic begins to wind down across the United States, both consumers and insurers will likely be reassessing how their needs and preferences have changed. The question is whether carriers will be able to build upon the innovations they implemented to adapt during the COVID-19 outbreak.

The industry has both opportunities to capitalize on the momentum spurred by the confluence of catastrophic events, as well as a number of potential challenges that might stand in their way (figure 9).

However, as concerns over COVID-19 start to lessen across the United States, life insurers should be building on pandemic-driven innovation to accelerate transformation to more user-friendly policies, platforms, and processes. An estimated life insurance gap totaling some US\$12 trillion identified by LIMRA¹⁷ remains to be addressed, especially in terms of reaching underserved markets.

FIGURE 9

Life insurers can capitalize on pandemic-driven awareness and sales momentum

Potential opportunities	Potential challenges
Awareness: Pandemic-driven mortality concerns bolstered life insurance mindfulness and drove up sales. Insurers should build on this momentum and follow up with more educational marketing to generate sustained interest.	Consumer preferences shift: Thirty-five percent of those who considered purchasing life insurance due to the pandemic—but ultimately didn't buy—say they decided against it because COVID-19 cases in their area started going down. ^{^^}
Digitization: Sixty percent of the underinsured seeking additional coverage ranked online channels first or second as a purchase preference. [^] Yet product complexity may demand an omnichannel strategy.	Novel product features: Incorporating real-time data sources and tools in new products to meet consumer desire for greater customization and control may also increase cybersecurity and privacy concerns.
Product redesign: In redesigning products for online channels, insurers should consider how customer expectations for features are changing, with control of coverage levels and pricing as lead desires. [^]	Underwriting dynamics in flux: Fallout from changes in either direct or indirect COVID-19–related mortality probabilities may prompt carriers to reconsider underwriting standards in the post-pandemic era.
Identify underserved “microsegments”: Based on elements such as size, value, and propensity to purchase, carriers should be focusing on more surgical segments and designing propositions tailored to their unique needs.	Uncovering profitable “microsegments”: Carriers must decide which underserved demographics will be most valuable for specific business models, and modify processes, products, and services to efficiently address.

[^] Deloitte Life Insurance Consumer Survey, 2020.

^{^^} Georgia Rose, “Life insurance shoppers lose interest when COVID-19 cases drop,” NerdWallet, December 10, 2020.

Source: Analysis by The Deloitte Center for Financial Services.

Group insurance: Offsets to top-line pressure position carriers to rebound

Since group insurance revenues are tied directly to employment levels, all of the layoffs, business shutdowns, and subsequent benefit plan cancellations prompted by the COVID-19 outbreak could have exerted enormous top-line pressure on insurers. There was also concern over a sharp increase in claims fueled by employees exposed to the virus. However, the overall impact was buffered to some extent by several factors.

First, as opposed to the 2008 financial crisis, there were far more closures last year among smaller businesses that are less likely to offer group

benefits. Moreover, some larger companies were able to stave off revenue blows and maintain most of their workforce as government payroll protection programs helped keep millions of employees and their benefits in place.

The impact on claims varied based on a carrier's product mix. Mortality claims from COVID-19–related deaths did escalate, negatively impacting term life carriers. However, many insured employees shelved various health screenings, dental visits, and other wellness activities during the period, driving claims down in related group lines. Even US maternity claims dropped as people put off having children, with an estimated 300,000 fewer babies expected in 2021.¹⁸ The anticipated rise in disability claims

related to the virus were balanced out by the insureds who put off elective surgeries, as well as those who had been on disability but now could work from home as a response to the lockdowns.

Throughout all the uncertainty, carriers scrambled to pivot from traditional processes and services to accelerate digital capabilities while accommodating a virtual workforce and online customer interactions. For example, to enable online disability claims, insurers not only had to work out how to convince people to use telemedicine and share electronic health records, but also make them comfortable with digital claims and payments.

Meanwhile, many took the opportunity to upgrade their longer-term digital capabilities. One life insurer, for example, streamlined and automated group administration processes with cloud-based benefits software designed to digitize enrollment, provider directories, and plan configuration via a member portal. In addition, another life insurer

offers customers capabilities to use a virtual assistant to check balances of their medical, dental, and vision care accounts.

As all this was unfolding, bidding activity—which businesses use to switch from one group insurer to another—fell as US companies scrambled to address more pressing talent issues. However, while this drove group sales down across the sector, retention was up, with the net impact helping alleviate top-line deterioration.

What's next for the rest of 2021?

As group carriers pivot from recovery to thrive over the rest of this year, there are a host of opportunities and challenges ahead (figure 10). With millions of laid off employees having returned to the workforce, and many more likely to follow this summer and fall, a rising tide should help lift all boats in the group benefits market.

FIGURE 10

Reignited competition likely to shift dynamics in the group benefits arena

Potential opportunities	Potential challenges
Heightened competition: With more employers likely to put their group programs out to bid following a pandemic pause, providers may have a chance to grow organically if price and service offerings can beat the competition.	Differentiation: Renewed bidding activity may put retention at risk, prompting insurers and brokers to differentiate beyond price by elevating their value proposition with new capabilities and enhanced customer service.
Consider modernizing and/or upgrading: Address core legacy operations platforms to facilitate seamless execution of routine administration and servicing activities such as case installation, billing, claims, and absence management.	Changing consumer expectations: Even as the pandemic eases, many employers may remain wary of face-to-face meetings, further increasing demand for personalized, digital, and omnichannel services.
Product and service redesign: Enable speedier and more agile customization of products with enhanced automation, rationalization, and harmonization of product portfolios and services to improve profitability.	Complex product provisions servicing needs with profitability: Complex product portfolios with varying provisions accumulated over time may challenge simplification; aligning sales and service organizations around service expectations may require deliberate effort.

Source: Analysis by The Deloitte Center for Financial Services.

However, heightened competition is expected as well, as many employers resume plans to put their programs out to bid. This should prompt providers to seek ways to retain accounts and generate new business through product offerings and service differentiation rather than just competing on price.

Property-casualty insurance: Microsegmenting may be the path to sustained growth

Forecasts of outsized claims, especially in more heavily impacted lines such as workers' compensation and business interruption, did not materialize to the extent initially feared, helping the US P&C industry generate a 52% rise in 2020 underwriting profit of US\$11.8 billion, with a combined ratio of 98.8% that was nearly the same as in 2019,¹⁹ although some lines fared better than others. Private auto business, for example, delivered a direct incurred loss ratio of 58.3% in 2020—an improvement of nine percentage points from 2019, thanks in part to

the fact that far fewer miles were driven during the pandemic lockdowns.²⁰

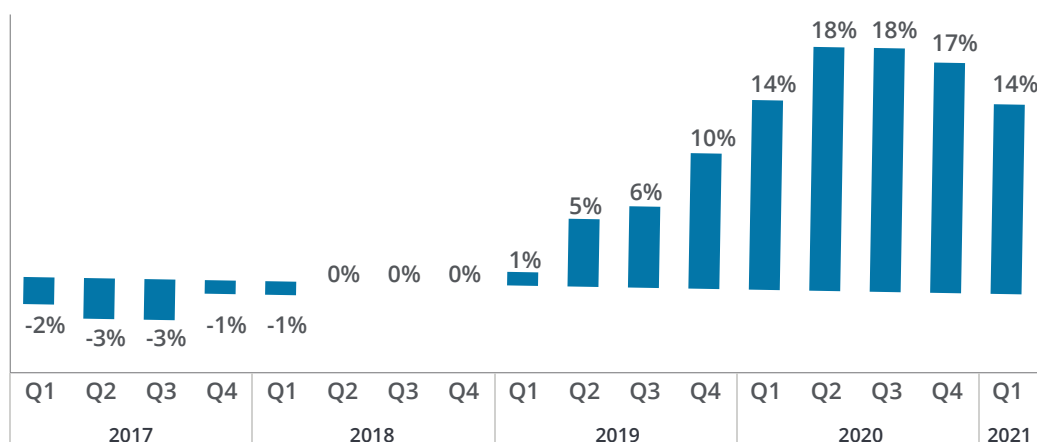
The industry overall posted a 2.4% increase in net written premiums in 2020,²¹ primarily driven by rate increases in most lines—particularly significant on the commercial side (figure 11). Net income, on the other hand, fell by 3.7% to US\$60.7 billion due mostly to lower investment income, which will likely remain under pressure in this low interest rate environment.²²

In the first quarter of 2021, P&C industry net income was up 11.4% to US\$20.2 billion compared to the same period a year ago, thanks in part to a 2.3% gain in net earned premiums and a bump in capital gains of US\$4.1 billion, according to figures compiled by AM Best.²³ Net underwriting income, however, fell 53%, as higher incurred losses and loss adjustment expenses pushed the industry's first quarter combined ratio to 96.4 % from 95.0 % in 2020's opening period, mostly due to higher catastrophe claims and a sharp 72% rise in policyholder dividends.²⁴

FIGURE 11

Big 2020 commercial insurance price hikes continuing into 2021

US insurance composite renewal rate change



Source: Marsh, "Global Insurance Market Index—2021 Q1," May 2021.

As the impact of the pandemic begins to wind down across the United States, P&C carriers will likely look to refocus their energies to addressing several longer-term challenges, including customer expectations for more product flexibility, climate-related risks, calls for greater social equity in underserved markets, and coverage for intangible assets (such as cryptocurrency—with more carriers covering losses for investors and trading firms due to theft, fraud, and hacking²⁵).

What's next for the rest of 2021?

Given the low interest rate environment and the drop in underwriting income in 2021's first quarter, insurers should continue their focus on expense management and profitable underwriting. However, the current pace of rate hikes will likely be harder to maintain in an increasingly competitive market given the industry's positive underwriting results in 2020—which, when combined with a reboot of the economy, could put pressure on performance for the rest of 2021.²⁶

To continue to grow profitably, more insurers may seek to identify and target promising microsegments for different business lines, such as a particular demography, industry, or geographic area, with the help of more data sources, advanced predictive models, and customized messaging.

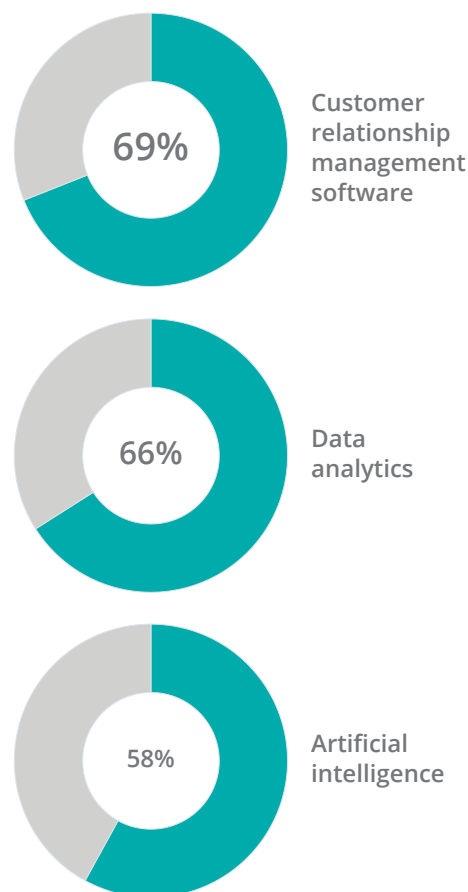
Given this emphasis across the industry, it is no surprise that Deloitte's midyear outlook survey found about two-thirds of P&C respondents expecting to increase spending on customer relationship management solutions as well as data analytics (figure 12).

In personal lines, carriers should consider how to alter products and platforms to reach demographic growth segments such as millennials and Generation Z, with a focus on digital marketing,

FIGURE 12

Where are P&C insurers most likely to place their bets in tech?

Top three technologies in which respondents expect to increase spending this year



Source: The Deloitte Center for Financial Services Midyear Insurance Outlook Survey, 2021.

personalized messaging, and do-it-yourself service. Meanwhile, in commercial lines there is an opportunity for insurers to mend fences, given that business interruption policies did not cover most pandemic-related losses. The small-business segment seems particularly primed for disruption, especially with the potential rise of partnership models with online retailers, manufacturers, and other noninsurance parties.

That said, for microsegmenting to be profitable, insurers should look to maintain a nimbler operating model, providing the product flexibility and operational efficiency to enable customization for narrower targets. Insurers should therefore continue to invest in modernization of core platforms, migration to cloud, as well as process reengineering, both to save on costs and expand capabilities.

Overall, the industry is faced with several opportunities and challenges as they pivot to thrive in 2021 (figure 13). However, they might start by focusing on customer-centricity, seeking to engage more directly and frequently with their ultimate policyholders, rather than the more traditional business model of often treating intermediaries as their primary customers.

FIGURE 13

Potential opportunities and challenges for P&C carriers

Potential opportunities	Potential challenges
Microsegmenting using data analytics and CRM: Insurers can assess risks at a more granular level using new data sets and target customer microsegments using personalized messaging.	Increased dependence on underwriting income: With investment income likely to be depressed, insurers will have to exercise underwriting prudence, which might get tougher with the pace of rate hikes expected to slow, potentially putting insurers in a pricing bind.
Taking more functions to the cloud: The cloud's consumption-linked cost model should allow insurers to be more operationally flexible. Cloud-based systems may also allow insurers to quickly and cost-effectively implement advanced analytics and automation tools.	Availability of talent with emerging skill sets: Insurers will have to compete for emerging high-tech skill sets not only with rival carriers, but most other industries, making workplace flexibility and an innovative culture two key differentiators.

Source: Analysis by The Deloitte Center for Financial Services.

Pandemic raised the bar for insurer stakeholder engagement

TREMENDOUS PROGRESS HAS been made during the most difficult of times, setting the stage for significant growth and transformation if insurers remain bold and proactive.

It was encouraging to see that 97% of those surveyed by Deloitte believed they maintained strong engagement with existing policyholders during the pandemic—including 40% who strongly agreed with that sentiment.

However, 38% of respondents did not feel engaged with new sales prospects, and only half felt adequately connected with their distribution force. This likely indicates insurers still have to work on digitizing operations without losing their personal connection with customers and other stakeholders.

If nothing else, the pandemic demonstrated how adaptive the insurance industry can be when the chips are down. That lesson should not be forgotten as insurers consider how they might alter product design, underwriting, and pricing methods, as well as distribution and service platforms to address emerging customer needs and societal problems. Innovative thinking and decisive action should be front and center, not just during a pandemic or some other crisis, but as part of an insurer's core culture and operating model.

The insurance industry should therefore capitalize on the innovations and operational flexibility adopted during the pandemic while accelerating their transformation to a more omnichannel, user-friendly, stakeholder-centric business.



Aspiring to a “higher bottom line”

Meanwhile, with the pandemic raising awareness of underserved segments (such as those without basic life insurance mortality coverage) and glaring gaps in commercial policies (for example, infectious disease coverage for business interruption), insurers should also reassess how their companies and the industry might adapt to meet the emerging sustainability expectations of a wide range of stakeholders—including customers, investors, regulators, legislators, and analysts.

Insurers—along with other financial institutions—are likely to be increasingly called upon 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.²⁷

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.”²⁸

Insurers already have a leg up in this regard, often characterizing their role as being the economy’s financial first responders and dedicating significant resources to risk management and loss mitigation. The challenge going forward, however, will likely be how to accomplish the laudable goals involved in aspiring to a “higher bottom line” without sacrificing profitability and/or shortchanging shareholders.

Deloitte’s report—citing the confluence of recent US and global events altering social, economic, and political priorities—asserts that this “imperative for change” represents an historic opportunity to “positively affect society without negatively affecting profits. This belief guides our vision for the future and inspires us to redefine the bottom line.”²⁹

METHODOLOGY

The Deloitte Center for Financial Services surveyed 100 chief financial officers and senior finance executives at US insurers in May 2021 to learn about their companies’ expectations for the remainder of 2021 in terms of top-line revenue, net income, operating investment priorities, and talent management.

About half of the respondents were property-casualty insurers (with nearly all writing both personal and commercial lines). About 39% wrote individual life insurance, while 32% did group coverage. Thirty-six percent were in the reinsurance business. (The figures add up to over 100% because respondent companies often wrote multiple lines of business.)

In terms of revenue, 25% generated more than US\$500 million but less than US\$1 billion; 25% did between US\$1 billion and US\$5 billion; 20% had revenues from US\$5–10 billion; 17% had more than US\$10 billion but less than US\$25 billion; and the remaining 13% generated more than US\$25 billion.

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