IRISH 2022 OUTLOOK FOR INSURANCE

- Assuring growth -

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THIS REPORT STRUCTURE IS AS FOLLOWS:

This report was drafted before the invasion of Ukraine. However, the trends outlined in the following pages still hold true. To understand the potential impact of the invasion on Financial Services specifically, please refer to the foreword at the beginning of our magazine.

The insurance industry across the globe, has in the main, navigated the upheaval of COVID-19 reasonably well. Insurers are looking forward with a sense of opportunity in relation to potential growth across many of their business lines. This cautious optimism is reflected in our recent global survey of insurers and supporting Global 2022 Insurance Industry Outlook report.

From working across the insurance industry locally, we believe the sector in Ireland has real post-pandemic growth opportunities to focus on. We can see insurers are adapting their plans to ensure that they are prioritising, organising, and adapting (in some cases developing) their internal capabilities to respond to both the size of the prize in front of them and the headwinds facing them in 2022 and beyond. This twin dynamic of growth and challenges – both within the industry and macro/global dynamics – make it a really interesting time for the industry.

The macro perspective

At a global level, there are multiple forces at play. The January 2022 IMF World Economic Outlook forecast indicates "multiple challenges"[1] standing in the path of a global economic recovery. It expects that although there will be growth in 2022 and 2023, forecasts are being lowered. Key factors include global supply chains still being problematic, higher inflation rates, geopolitical tensions in Eastern Europe, and nervousness that the pandemic across the globe may not be fully behind us.

From an Irish perspective, there is room for optimism. The EU recently upgraded Ireland's GDP growth forecast, citing a rapidly recovering labour market, release of some of the pent-up savings through consumption, and stability in the corporate sector. However, inflation levels will and are already increasing, although market implied inflation curves suggest that the spike in inflation is very much a short-term issue. These dynamics will ultimately impact on insurers, their customers and the overall value chain. In addition, global and European interest rates are trending upwards which will feed through into investment returns and performance of the industry, but will still remain very low in relative terms.

As economic activity accelerates, this will positively feed through to insurer business lines. So will government policies and spending over the next decade which have an indirect impact on the industry – from the government's 'Housing for All' policy to the recently announced National Retrofitting Scheme. In addition, the impact of government policies such as the Action Plan for Insurance Reform and policy areas including pension auto-enrolment will continue to play out in the coming years.

Regulatory policy, oversight, and expectations (CBI and European) will continue to be a key driver for change in the industry. Insurers will need to

1. International Monetary Fund, World Economic Outlook Briefing Transcript, January 25, 2022

not only learn lessons from other industries such as banking but also ensure that the appropriate cultural mindset is established from the top. Culture, customer centricity and protection, and regulatory considerations must be fully integrated into their overall strategic transformational change agenda – they can no longer be an afterthought.

In the short term, population trends in Ireland will have limited impact. There are, however, several key trends that will impact the industry in the medium to long term. Under a moderate CSO 2016-2051 projection, the population is expected to reach close to six million by 2051[2] (up from just over five million today) . At the same time, the population is ageing. Indications are that there will be a significantly higher percentage of over 65's in the population by 2051.

In addition to a growing and aging population although there have been anecdotal signs of an increased appetite for citizens to move back to their 'home' or region and take advantage of 'future of work' flexibility, it is unclear whether this will continue in the medium to long term. Indications are that the major city/urban areas will continue to grow proportionally higher than the rest of the country. These population trends will clearly have significant implications on society and the insurance industry including pensions, savings, healthcare insurance, and mobility. We will return to this theme later in our article.

What about customers? The danger is that we can focus on the forces of economic activity, inflation and interest rates, the regulatory agenda, government policy and macro population trends. Fundamentally however, customer needs and preferences – and how insurers respond to them – have and will remain the key determining factor of how individual insurers will perform in the long run. Customers' expectations and preferences are changing – and not just within younger segments. This will affect who, why, when, what, and how they

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2. Central Statistics Office, Population and Labour Force Projections 2017 – 2051, 20 June 2018

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want to interact with insurers. As we discuss in the 'Customer and transformation' section below, this also affects the nature of investment in digital technology that insurers will need to make.

Insurers and the value chain (e.g., intermediaries) will need to transform to respond to these changes and legacy capabilities will just not cut it. In our experience, insurers have realised this and are either on or starting the journey of digital transformation. The key challenge for many is, with so many areas they need to invest in, how to prioritise and sequence investments to maximise long-term value. Later, in our segment on 'Lean digital operations', we look closer at what's involved in becoming an 'insurer of the future'.

In addition, ESG has now become an extremely important topic not just at board and executive level but with customers, regulators, and shareholders. As the penultimate section in this article covers, ESG has now moved centre stage. The fundamental question insurers need to consider and be able to respond to is how they can ensure their engagement with ESG is meaningful as opposed to it being optics or 'greenwashing'.

Finally, the overall brand of the industry remains important. The industry's contribution to the economy, society, retail and business customers remains extremely important and that has not always cut through. There have been challenges in recent years on topics such as cost of insurance, business interruption, and availability of insurance coverage. These are being addressed by a combination of the industry responding to the issues, government policy and the regulatory agenda. However, the pandemic has reminded many customers of the benefits of having appropriate insurance coverage - across life and pensions, general and health - and may indeed have reinforced those benefits with them.

Ireland faces the same challenges as other developed countries with Organisation for Economic Co-operation and Development (OECD) tax reform, shifting demographics, and increasing inflation. However, with expectations for double-digit economic growth, a strong pool of talent and the nervousness of Brexit on the wane, Ireland Inc. remains a strong and attractive location for international insurers to maintain and establish their businesses.

Below, we examine some of these topics in more detail – categorising them into market segment perspectives and cross-industry perspectives – recognising that this is not an exhaustive list of opportunities and/or challenges.

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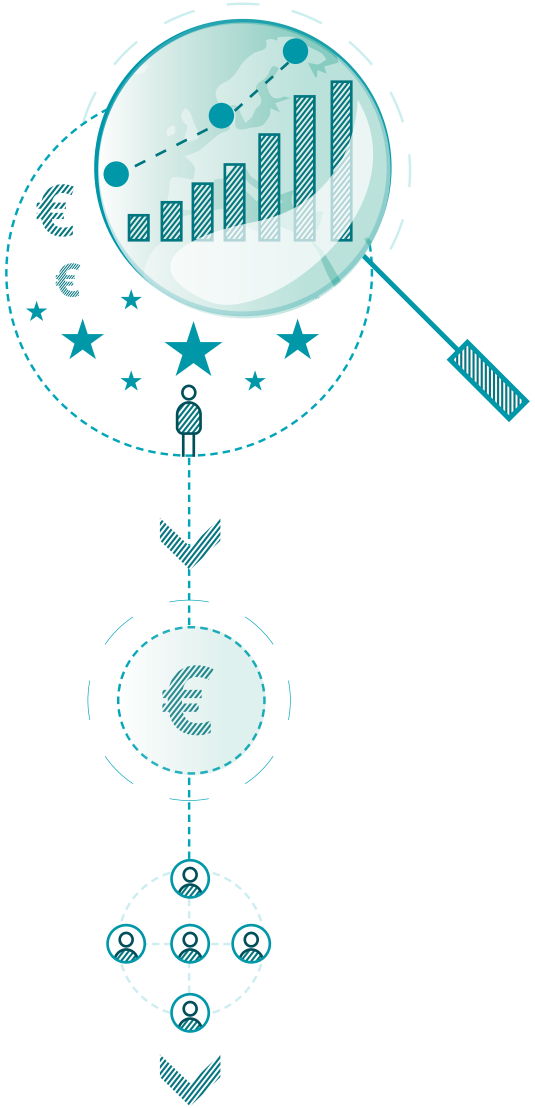


Market segment perspectives

Domestic life and pensions

From a retail life and pensions perspective, the Irish market experienced strong sales volumes during 2021, underpinned by investment market gains which drove sales of investment, savings, and pension products. The high level of cash savings accumulated during the pandemic may also have driven this sales growth. The impact of COVID-19 on experience continued to be limited similar to 2020, with lapse rates remaining stable and protection claims relatively in line with historic levels. However, the longer-term impact on the morbidity and mortality from the pandemic still remains unclear.

Going forward, increased investment volatility and widely reported increases in the cost of living may dampen sales. Ongoing low interest rates continue to present both growth and profitability challenges in some market segments (e.g., annuities) whilst presenting great opportunities to others such as the savings and investment segments.

The implementation of the IORP II Directive during 2021 saw the first in a series of pension reforms expected over the coming years. However, providers are still grappling with uncertain timelines on this. There will be additional governance requirements including mandating risk management and internal audit functions. In addition, the introduction of auto-enrolment is now expected at the end of 2023 at the earliest and debates continue over pension retirement age – all of which reflect significant opportunities for the industry down the line.

Insurers are also entering the final stretch in preparing for the introduction of the IFRS 17 reporting standard which comes into effect in January 2023 and is taking a significant level of management attention, time, and budget. The wider regulatory agenda also continues to take up significant resources including the finalisation of recovery plans, the introduction of the Senior Executive Accountability Regime (SEAR), addressing feedback on measuring customer outcomes, CBI guidance on operational resilience and outsourcing, and assessing the challenges arising from new ESG regulations – more to follow on this in our 'Compliance' section.

Cross-border life and pensions

Ireland continues to have a strong cross-border life industry, in particular servicing the Italian market. Similar to the domestic market, the positive performance of investment markets and continued relatively low deposit interest rates, despite upward pressures, has supported strong sales volumes for cross-border providers based in Ireland. This is a trend we would expect to see continuing through 2022. Cross-border firms also face similar regulatory challenges to domestic firms and their smaller footprint means that outsourcing risk continues to be a key area of focus.

Personal lines general insurance

There are many reasons to be positive for the domestic general insurance market in 2022 with expectations of top-line growth as the

economy emerges from a prolonged COVID-19 disruption. Of course, many challenges remain, key amongst them being the impact of rising inflation on claims costs.

Positive impacts from the adoption of Personal Injury Guidelines during 2021 will offset inflation to some degree and we expect private motor premium rates to remain soft during 2022. Household, on the other hand, is likely to see significant rate increases to combat higher building materials' prices and labour costs.

We expect insurers to continue reinforcing their brand and product differentiation but Central Bank proposals to strengthen the consumer protection framework, including a ban on price walking, may result in increases to the already high level of switching rates.

As we referred to in the introduction, future of work considerations have also multiplied. Insurers are seeking to create flexible return-to-office policies while at the same time struggling to retain and recruit top talent in a very competitive job market – particularly for advanced technology and data analytics skills.

Six months after the implementation of the Consumer Insurance Contracts Legislation which aimed to increase levels of transparency and rebalance contractual obligations in favour of the consumer, there is no current evidence pointing at resulting increased claims volumes. The cost to GI insurers of implementing the legislation, however, has been significant and has contributed to increased operating costs.

Commercial lines general insurance

Deloitte has conducted one of the largest surveys of Irish small and medium-sized enterprises to understand their future attitudes and behaviours towards insurance. Despite the negativity surrounding business interruption cover throughout the pandemic, trust levels have increased – largely driven by the provision of services and forbearance measures by GI insurers to support SMEs through pandemic challenges.

Demand and interest in insurance has increased post pandemic, with business owners saying that they are now more "risk aware and concerned" and are seeking to better understand their level of cover with a shift to "protection over price" being the dominant emerging trend.

SMEs have also voiced a need for increased value offerings such as risk management, cash flow management and cybersecurity services and are seeking an optimised product and partnership approach from GI providers. A more flexible approach from underwriters and a strengthening of customer relationships and engagement levels via digital content is expected to be high on the agenda in terms of satisfying customer needs across the SME segment.

Due to the complex nature of risk assessment, the broker channel remains the dominant channel of choice for over 90% of business owners in Ireland (based on a recent Deloitte Ireland SME Post Pandemic Insurance Survey). To strengthen engagement and loyalty levels, commercial insurers will benefit from re-evaluating their retention and growth strategies for core customers. We will return to the subject of customer focus in our section on cross-industry perspectives.

Health insurance

In the health insurance sector, COVID-19 surges impacted elective procedures and consultations throughout 2021. The HSE put a surge capacity agreement in place with the private hospitals to alleviate strain on the public health system although this was not fully utilised. This meant that, although overall claims volumes remained down, claims volumes in the private hospitals began to trend upwards towards more normalised levels. With the rollout of the vaccination programme and the lifting of restrictions, claims volumes are expected to increase in 2022 as the pandemic starts to lift.

> Insurers' data was already an area of increasing regulatory focus and [the HSE cyber-attack] has heightened the importance of operational resilience and cybersecurity across not only health insurance but the wider insurance market.

Recent reports for 2022 have shown record-breaking numbers presenting at emergency departments. It remains to be seen if this is indicative of unaddressed procedures from the pandemic coming through or a delayed winter surge.

Health insurance premium rates are expected to increase during 2022 as the favourable claims experience during 2020-2021, policyholder premium rebates and discounts are unlikely to be repeated during 2022. Increased pressure on healthcare costs in the coming year will also flow through to insurance premiums and this will drive increased uncertainty around customer behaviour and selected cover levels. This year also sees changes to the Risk Equalisation Scheme with the introduction of a high-cost claims credit. This is viewed as positive by the health insurance market.

The HSE's cyber-attack during 2021 caused massive disruption to insurers' data and this will have ongoing implications for health insurer management during 2022. This was already an area of increasing regulatory focus and this incident has heightened the importance of operational resilience and cybersecurity across not only health insurance but the wider insurance market. As our section on data and cloud below draws a connection between those firms using the technology appropriately and benefiting from higher levels of protection against cyber risks.

International reinsurance

International reinsurers continue to have a strong presence in Dublin writing both life and property and casualty (P&C) business.

The impact of the pandemic on life reinsurers has been greater than their domestic counterparts although the extent depends on the geographic concentration of their risks. Overall, however, the reinsured population has suffered lower mortality than the general population. Looking forward, many reinsurers are aiming to capitalise on the potential for changing market dynamics post the pandemic with greater customer awareness of risk and willingness to share data with (re)insurers through the use of wearable technology.

The global P&C market has continued to harden with global premiums up 18.5% in the first half of 2021[3]. Cyber risk continues to be a growth area globally; however, the market has hardened considerably with more claims being seen.

Across both life and P&C, we have seen reinsurers looking to partner with insurtech firms to a greater extent than direct writers and an ongoing focus on ESG issues.

3. 2022 Insurance Industry Outlook, Deloitte, November 2021

Cross-industry perspectives

In addition to market segment perspectives, there are several cross-industry themes at play both locally and internationally. These include: market consolidation, the regulatory agenda, talent/workforce shifts, customer behaviours and preferences, data and cloud, lean operation opportunities, the wider ESG focus, and tax considerations.

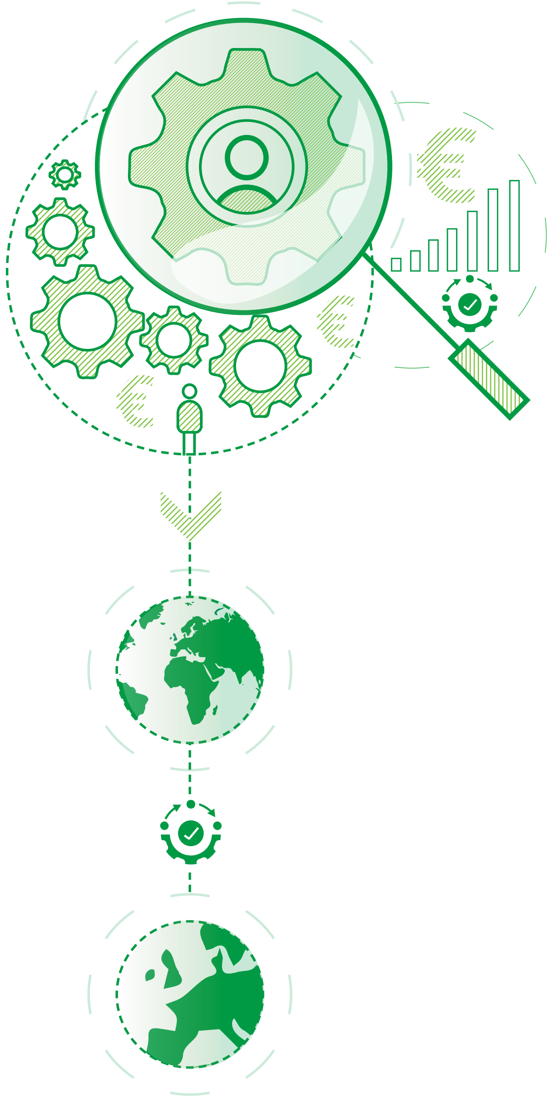
Consolidation in the insurance sector

Over the past 24 months, we have seen the pace of consolidation in the insurance space accelerate, encompassing global insurers and reinsurers as well as smaller, local brokers. Driven by low bond yields, increasing regulation costs and an aim to boost income from premiums, insurers have been trying to grab scale in markets where they may have a chance to boost pricing.

The £7.2bn takeover of RSA by Intact and Tryg, the $4bn acquisition of National General by Allstate Corp, Farmers' acquisition of MetLife's property and casualty unit for just under $4bn and the Allianz acquisition of Westpac's general insurance unit in Australia are just a few examples of mega-mergers which have taken place, demonstrating the trend of insurance companies focusing on the areas where they are strongest and where they will have scale and competitive advantage.

The Irish market has not missed out on the M&A trend with consolidators such as Monument, Athora and Utmost acquiring various insurance books of business. Of note we saw the Phoenix Group seeking to sell both Standard Life International and Ark Life over the first half of 2021, with Great-West Lifeco's Irish Life ultimately agreeing to purchase the Ark Life book and Standard Life International remaining within the Phoenix Group following a subsequent decision not to sell.

In addition, Great-West Lifeco's Canada Life Irish Holding company agreed to form a 50/50 joint venture with AIB to create a life insurance



undertaking which will focus on bancassurance distribution through AIB's bank network from the start of 2023. There were also a number of M&A deals brokered across the international reinsurance market, with SCOR and Covea agreeing to a large life retrocession deal and Covea entering into an agreement to acquire the PartnerRe Group from EXOR at the end of 2021.

We have also seen consolidation at the broker level where we have seen various acquirers attempt to consolidate a fragmented marketplace. Private equity-backed vehicles such as Howden, Arachas/Ardonagh, GRP, Innovu and PIB have been busy adding to their platforms with numerous acquisitions. International players such as Brown & Brown have taken a foothold and we have also seen privately owned brokers acquire competitors to gain scale before then being acquired themselves. While the number of larger independent brokers has reduced as a consequence of this consolidation, we would see their recurring revenues, strong cash flows, and the chance to create scale and thereby negotiate improved positions with insurers as factors which will continue to drive acquisitions during 2022. From the other side, we would see a strong valuation environment encouraging would-be-sellers to entertain their approaches.

Regulatory compliance agenda

Following on from 2021, the regulatory landscape and regulatory change continue to be top of insurance boards' agendas for 2022. We expect that customer outcomes and value for money will continue to be a strong focus for regulators in the insurance sector in Ireland during 2022 on the back of scrutiny paid to differential pricing strategies and the payment of business interruption claims in 2020 and 2021. Another area high on the regulatory agenda for insurers will be building and executing on operational resilience plans in line with regulatory expectations, new regulatory requirements and taking account of lessons learned over the last two years.

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Diversity and inclusion initiatives in 2022 are likely to see a drive towards building more diverse representation on boards, in senior executive positions and within succession plans to achieve committed targets and enhance decision making within firms' governance structures. Any diversity and inclusion initiatives in train will also need to align to SEAR, and Individual Accountability Framework (IAF) implementation is expected to pick up pace in 2022.

Talent and people

Talent is the key to win in a digital insurance industry. As insurers anticipate accelerated growth in 2022, they are boldly investing in technology to further their digital agenda. Although technology has proven to be a game changer during the pandemic, it will never replace the human touch required in a customer-facing industry. This makes sourcing and retaining the right talent one of the biggest challenges insurers will face this year. (It also plays into the lean digital operations agenda which we cover below.)

The increased focus on technology skills will amplify the pressure as insurers will compete for talent against all industries that are undergoing digital transformation. In this competitive market, insurers need to diversify their talent pools and cast a wider net. By adopting hybrid/remote working models, organisations can expand their reach beyond the office location and even look for talent on a global scale. Insurers can up their game further through the open talent market or alternative delivery models by using gig workers, crowdsourcing, contractors, and partnerships to source critical skills.

Expanding the talent scope is only the first step. The real challenge is creating an organisation that the best talent wants to work for. To attract and retain the right talent, organisations need to put their people first and use data-driven insights to design solutions that will meet their unique needs. The good news is that insurers already have the tools to do this. By repurposing their existing skillset of understanding and creating best-in-class customer experiences, organisations can turn the focus to their own people to create workforce experiences that compel people to join, stay and thrive.

Customer and transformation

COVID-19 has emerged as the catalyst for digital transformation. The insurance industry up to now has gotten away, to an extent, with maintaining the status quo. However, customers' expectations have evolved dramatically in recent years. There has been an enforced shift in demand for digital and self-service experiences which has in turn focused the mind of the insurance industry to shore up its digital capabilities.

However, while digitisation is clearly a priority that must be invested in, it can't be at the expense of building and fostering the customer relationship. The reality is that the way customers purchase their insurance is changing. Embedded insurance, for example, combines the convenience and ideal timing of selling insurance at the point of sale. Although it presents a new path of distribution for the incumbent insurer, it also risks the incumbent becoming more and more irrelevant in the customer's eyes. Insurers will have to work hard to use every opportunity to engage with customers in meaningful and personalised ways to maintain the relationship and have the opportunity to fulfil all of the customer's insurance needs. As such, investing in a strategy and architecture that will unlock the power of your data while considering how you bring your marketing, sales, and distributions arms closer together as one integrated journey will be critical in delivering impactful engagements and interactions with your customers.

While the industry is clearly investing in its direct-to-consumer capabilities to regain some balance, the broker relationship remains a critical component to prospecting, sales and service of a large population of the market. Digital broker engagement experiences through CRM platforms and portals should be optimised to improve the efficiency and experience of the engagement for the broker.

The industry is also starting to grapple with employing innovative treatments to drive differentiation in the value proposition beyond just price and coverage. As propositions become more real time and nuanced, and more demands start to heap onto the traditional delivery models and creaking legacy architectures, it will become increasingly more difficult for insurers to deliver such complex and customised experiences on their own and in their current state. Incumbents will be forced to look at new ways to get product to market quickly by establishing alliances and partnerships with strategic targets who can complement the capability set while also reimagining the current technology architecture to be more modular and agile.

Data and cloud

In the Irish insurance market, the pace and scale of digitisation in the industry has yielded larger more complex data sets than ever before. Consequently, efforts to capture, analyse, and extract insight from the data have become correspondingly sophisticated. This, combined with increasing customer demands, means insurance companies will lag behind if they don't act faster to streamline their processes in order to extract valuable insights into customer churn and purchasing behaviours.

Historically, we were seeing an underinvestment in this capability but now with technologies such as cloud offering leaner ways to integrate existing systems in new and innovative ways, we are seeing a major change. It is no longer when, but how fast can we transform; how can we unlock data so we can drive digital engagement and transform the policyholder experience. Those behind their peers are now left with no choice but to make urgent decisions on prioritising value areas such as campaign management, quotes renewal or call centre analytics to use cloud to ingest, store, process and visualise in order to support the scale of customer demands.

We are seeing those that have invested in an appropriate cloud strategy (i.e., they understand security by design and the value of the data platform) are no longer only benefiting from the customer's digital experience. They are also more protected against cyber risk as well as having a more agile response to tougher regulation and policy.

Lean digital operations

For the last five years or more, the focus was on putting digital into the channel. This outside-in perspective worked on one level insofar as it started with, and prioritised, the customer needs and experience. However, where firms struggled is that without the necessary end-to-end simplification and digitisation of the full-service delivery, the roadblocks just move downstream. The end result is inefficiencies, waste, and – ironically – poor customer experience. The take-away for insurers is: for your ambition, re-engineering analogue business processes is not enough.

The 'insurer of the future' is cloud- and platform-based, data-rich, multi-channel, and nimble in terms of their workforce and ways of working. They see cloud and automation tools for what they are: enablers of simplification and hence enablers of business growth, rather than simplistic ways of moving workloads to reduce cost. They are flexible and adaptable so as to manage a changing environment and exploit opportunities for growth. They see operational and business agility as a means to provide crisis resilience and competitive edge. To get there requires a complete rethink about process intelligence as a capability, embedded into service operations that drives continuous innovation from customer through front to back office.

Simplification, digitalisation, and automation allow organisations to improve and grow sustainably instead of simply moving workloads around to reach simplistic cost reduction targets. They are both founded on and act as enablers of the intelligence in operations. Simplification, for example, can mean using a purpose-led approach to sustainably disentangle siloed operations to allow true customer centricity. Digitalisation enables the creation and use of the required data across operational and customer processes – in addition to providing an improved customer journey. Finally, intelligent automation (e.g., RPA, process and communication mining, voice and sentiment analysis and 'conversational' AI) will bridge the gap between intelligence in the channel and legacy systems. Automation can be seen as an additional layer of intelligence across operations; when used strategically, it can be leveraged in tasks of ever-growing complexity, simultaneously pushing the human workforce up the value chain.

Where does this leave operational staff? Employees liberated from the commute will expect greater flexibility in terms of contracts, and continuous learning will become an expectation on both sides as rapid upskilling is needed. Therefore, in theory, insurers should be able to access increasingly diverse workforces through virtual working (location is de facto no longer a constraint). However, to tap into the extended workforce (STEM, remote or niche talent networks, crowd) will need both investment in digital tools to aid remote working, collaboration, and connectivity but more challenging will be to reboot the culture within insurance to be digital.

As the traditional full-service business model comes under scrutiny, the sector needs to make fundamental choices about 'where to play' and 'how to win'. Then, it must make conscious decisions about which capabilities are core and should be invested in; and where would the enterprise be better serviced in seeking collaboration to leverage strengths and capabilities it does not possess. These partnerships may come from outside the Financial Services sector (e.g., big tech, auto, home and health) especially if firms tilt their business models to capture complimentary or alternative revenue streams. These opportunities may also exist by investing in and collaborating across industry utilities in non-competitive or differentiated services.

Insurers will likely expand their offerings from helping customers simply transfer risk to mitigating, preventing, or recovering more quickly from climate-related catastrophes.

A re-evaluation of offshoring/delivery partnership models in light of delivery disruptions in the crisis is warranted. Insurance has been a flagship sector for the digital entrepreneurs. The much-vaunted insurtech movement has had mixed results to date, mainly in the distribution space. COVID-19 is likely to accelerate innovation and open the doors to new partnerships up and across value chains.

ESG

Insurers, with their often longer-term time horizons, hold a unique position in the climate change debate because, unlike any other sector, climate change risk affects both the asset and liability sides of the insurance balance sheet.

The prospect of extreme climate events will require insurers to develop more dynamic modelling approaches that rely on past loss experience and uncover non-linear effects, including correlations between climate hazards, social impacts and economic activity. Climate-centred insurers will likely offer products that cover climate risk more directly, expanding into other ESG effects.

In addition, insurers will likely expand their offerings from helping customers simply transfer risk to mitigating, preventing, or recovering more quickly from climate-related catastrophes. For example, insurers could offer lower premiums to encourage the use of more resilient construction methods. Following COP26, finance ministers and regulators have clarified and extended their expectations and requirements, signalling a marked shift in the intensity of the work insurance companies must do. Most notably, there is a new regulatory focus on net zero commitments and the scrutiny of transition plans.

In 2022, insurers are expected to incorporate climate risk and the results of climate stress tests into their ORSA, building on work already done in 2021. Supervisors will also begin to examine whether climate risk considerations should also be incorporated into Pillar 1 capital requirements. More generally, industry collaboration will be crucial to navigate the years ahead. The industry needs to think outwards through collaborative initiatives such as ClimateWise, which represents a growing global network of leading insurance industry organisations.

A global tax reset

A global tax reset is taking place as a result of the convergence of OECD tax initiatives, reactive country legislation, increased media attention on tax matters and the increased sharing of information between tax authorities. Insurers across all sectors will continue to face challenges arising from this global tax reset in the near term. Recent years have seen the focus on increased tax transparency via the introduction of country-by-country reporting, enhanced transfer pricing requirements, and a new EU mandatory disclosure regime for certain cross-border arrangements. This has been coupled with significant domestic legislative change in Ireland to comply with EU anti-tax avoidance measures. These changes have seen the introduction of, for instance, controlled foreign company rules, anti-hybrid rules and most recently interest limitation rules in Ireland which

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also places a significantly increased compliance and administrative burden on insurers.

In addition, the OECD released its pillar two 15% minimum effective tax rate model rules at the end of December 2021, just days before the release of a draft EU Directive seeking to implement these rules in a streamlined fashion across the EU. There remains an ambitious planned effective date of 2023. The same month also saw the publication of a draft directive on EU public country-by-country reporting which may come into force by mid-2024. This would require relevant companies to publicly disclose certain information including the entity's activities, revenue, number of employees and the tax the entity pays.

The level of change in tax matters is unprecedented and continues unabated. There is no doubt that the tax reform agenda will remain a key challenge for insurers in the coming years. Insurers will need to consider the impact these changes will have. Do their internal systems and processes have the capability to manage the enhanced compliance and administrative burden? Can they contend with the commercial and potential reputational implications arising from increased transparency? What is clear is that success for insurers in dealing with increasing tax change in an evolving international environment will depend on developing an ability to respond to new compliance requirements and evolving a business and tax strategy and associated procedures to mitigate risk.

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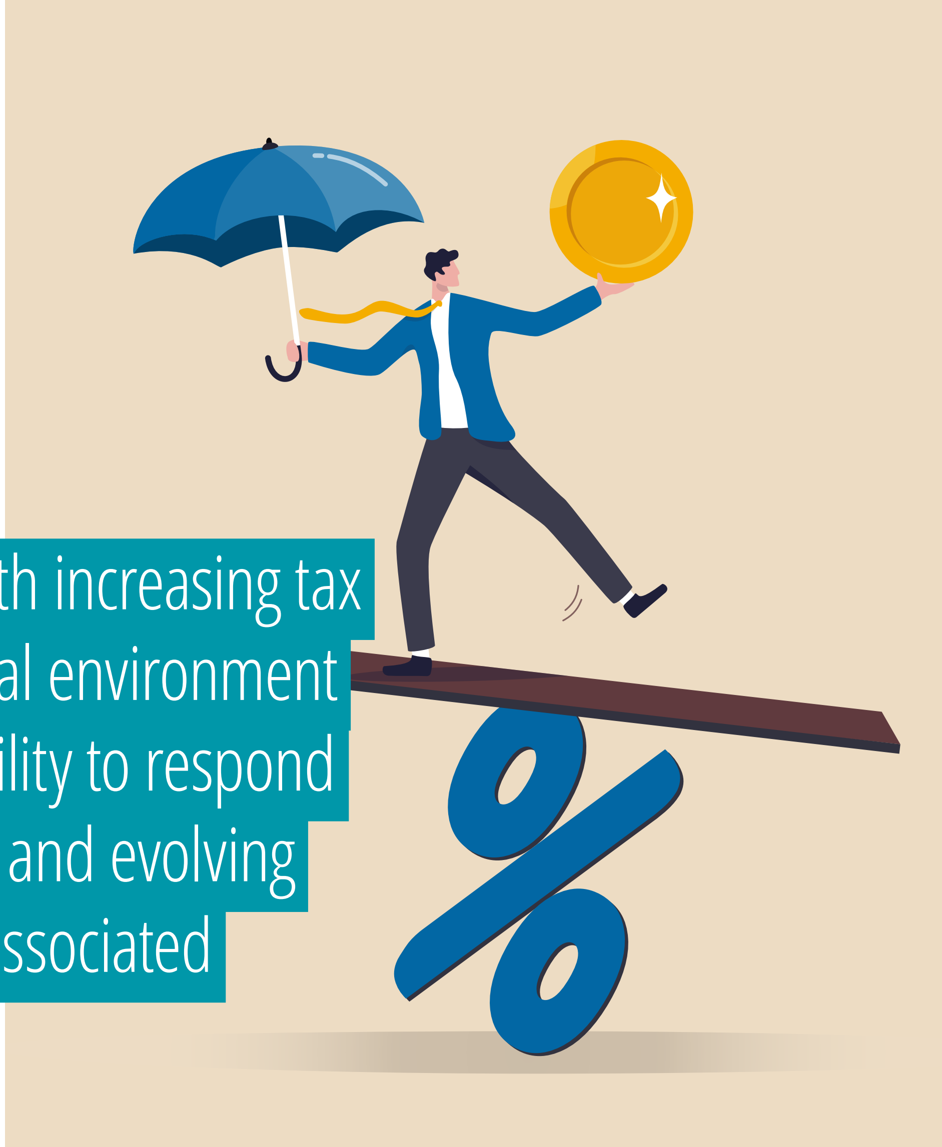

Conclusion

With so many competing forces at play, insurers must decide what opportunities to focus on, in what priority, and adapt their resources accordingly. Despite a temptation to look inwards, they also need to stay mindful of the customer and how best to serve them in an increasingly digital-first world. At the same time, they also need to engage with ESG issues in a meaningful way.

Across the various market segments, customer demand remains strong, which is positive for the industry as a whole. However, some trends that insurers will need to watch closely include rising inflation, pension reforms, and the IFRS 17 reporting standards that will come into effect from next year. Zooming the lens out for a wider view, the industry also needs to stay on top of macro trends. Consolidation looks set to continue, while regulatory change will remain high on the agenda for boards. Talent and technology must also remain top of mind for insurers. Their talent strategies need to ensure both the right mix of skills within their operations and also make them attractive to new recruits. The industry must also transform how it uses technology to serve customers, optimise business processes. Harnessed correctly – and possibly through partnerships – digital technology can give insurers a platform for sustainable business growth. It may also help them to manage and mitigate the effects of the global tax reset, which look set to dominate the industry in the years ahead.