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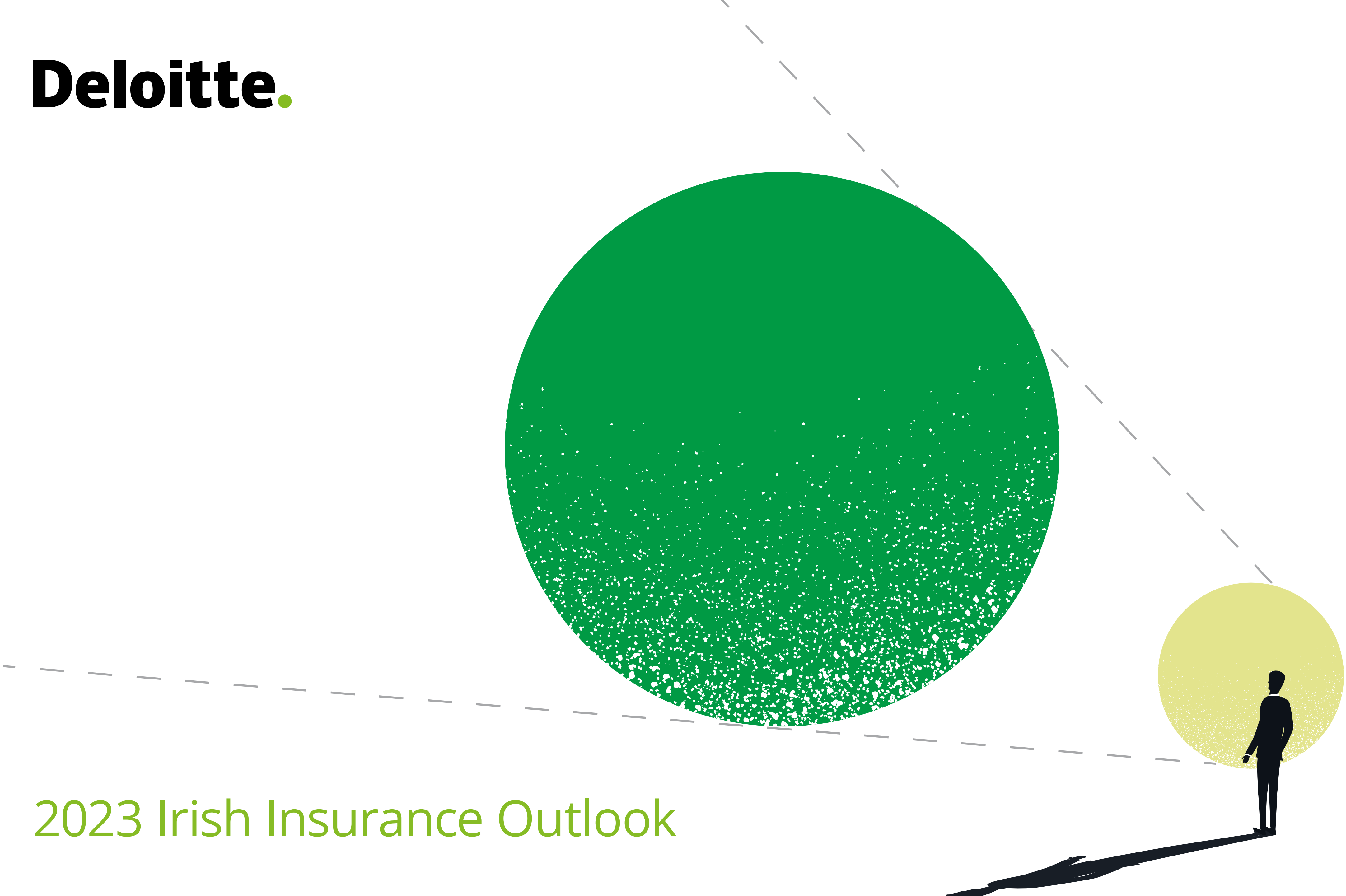


2023 Irish Insurance Outlook

Over the last few years, most insurance carriers have demonstrated remarkable flexibility and resilience in overcoming a host of obstacles, most notably the impact of COVID-19 and the economic fallout from the Russia-Ukraine conflict. Systems and capabilities were improved, while the implementation of agile talent and technology strategies paid off.

But is the industry ready for emerging challenges heading into 2023 and beyond? The road ahead is littered with multiple hurdles — rising inflation, interest rates, and loss costs; the looming threat of recession, climate change, geopolitical upheaval, and competition from InsurTechs and even non-insurance entities such as e-tailers and manufacturers, to name but a few. This is no time for existing insurance carriers to be satisfied with the adaptations they have already made. Instead, they should be building upon the momentum they have achieved to maintain a culture of innovation while making customer-centricity the focal point of their standard operating model.

Our research suggests that insurance organisations should start shifting their focus from basic operational transformation — such as transitioning to cloud — to fully realising the value and benefits of infrastructure and technological upgrades.

They need to move from responding to the requirements of regulators and other industry overseers, to more proactively anticipating and fulfilling distributor, policyholder and stakeholder expectations; and they should broaden their historical focus from risk and cost reduction to prioritise the greater levels of experimentation and risk-taking that will drive ongoing innovation, competitive differentiation, and profitable growth.

The talent question

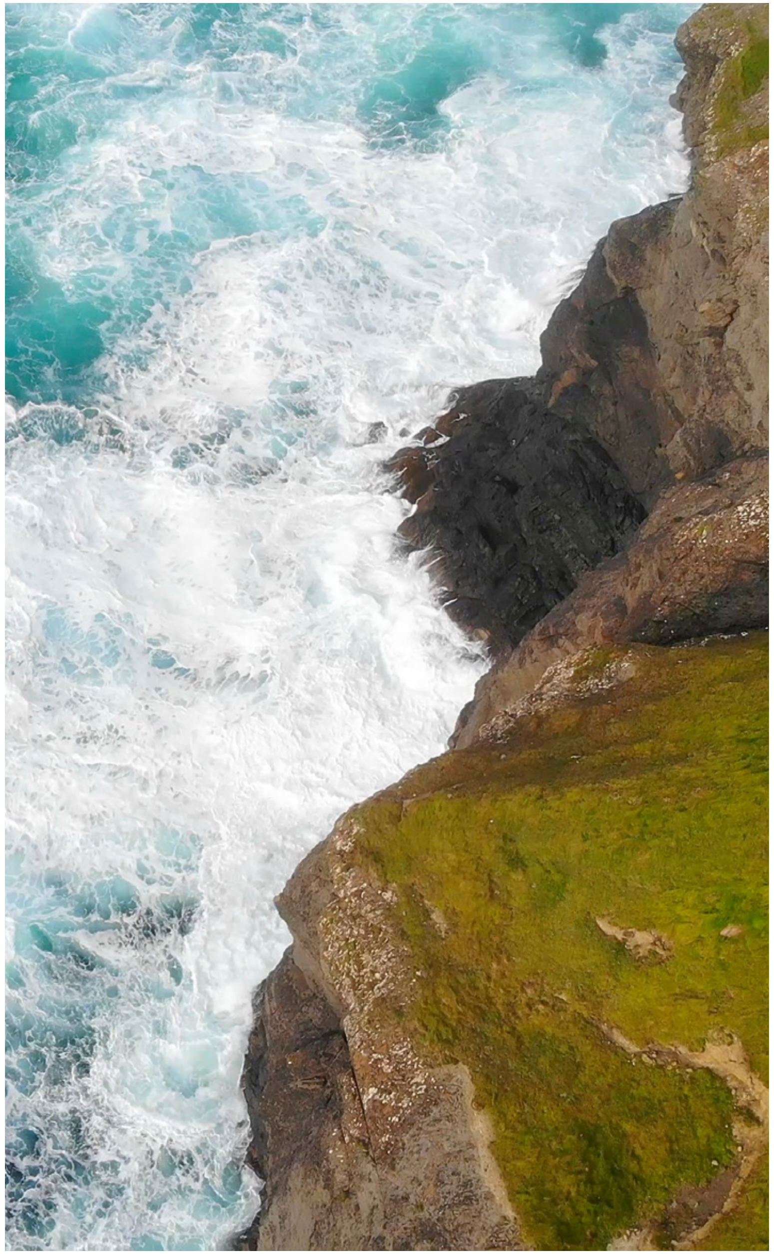
Time for a change in hearts and minds

The future of the insurance sector rests on organisations’ ability to attract and retain talent, to rethink their talent strategy to align with their business strategy, and to reconsider where and how to source talent.

The enforced shift to remote working during COVID-19 has accelerated changes in employee expectations and brought about fundamental changes in traditional workplace models. Flexibility has gone from a ‘like to have’ to a ‘must have’ for many employees, while the general increase in social consciousness and need for purpose among younger workers has been amplified by the lingering impacts of COVID-19.

These changes are presenting very real challenges to an industry with a conservative reputation which finds itself having to compete with faster moving employers in both the financial services sector and beyond for new and existing talent.

To meet these challenges, organisations need to curate an employee experience that is focused on high value ‘human’ work, and which celebrates and rewards upskilling and reskilling to complement technology as well as emphasising the insurance sector’s role as a positive force for social good. The future talent conversation we expect will likely be about shifting mindsets and company culture, not only to be able to attract and absorb new talent and skillsets, but to retain employees by offering an irresistible work environment for satisfying long-term careers.



Stepping up diversity, equity and inclusion (DEI) efforts

Companies recognise that improving DEI is not only the socially responsible thing to do but also has a significant impact on business performance. Companies with inclusive talent practices in hiring, promotion, development, leadership, and team management are six times more likely to be innovative and agile; eight times more likely to have better business outcomes; three times more likely to be high-performing; and twice more likely to meet or exceed financial targets *(Source: High-Impact Diversity & Inclusion Maturity Model and Top Findings, Bersin by Deloitte 2018).*

While many insurers are taking positive steps to diversify their workforce, large gaps remain in the industry as a whole — particularly at executive level. Much needs to be done to diversify the workforce and customer base, increase access to insurance products and services in underserved communities and market segments, make a wider range of voices heard in leadership circles, as well as in the creation of more inclusive organisational culture.

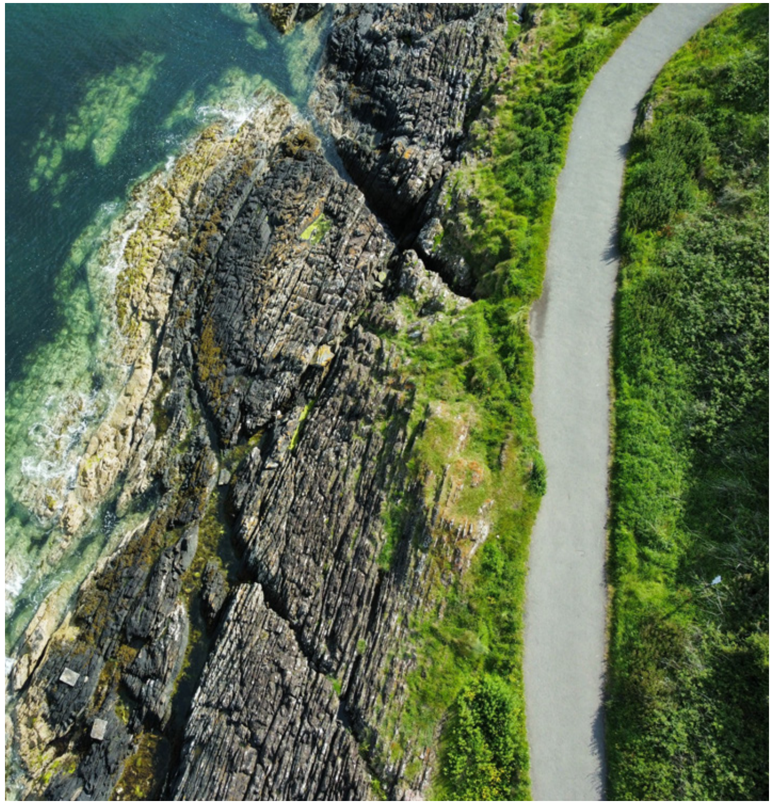
Unlocking the value of technology investments

Many insurers are benefiting from technology investments which have enabled them to become more customer centric. InsurTechs have been leading the way in that area with many technology-enabled start-ups delivering highly efficient and customer-focused point solutions in underwriting, claims, and online distribution platforms.

To realise greater value from their technology investments, insurers should start integrating their systems and data while leveraging cloud capabilities to achieve their key business objectives such as greater customer-centricity. Focusing on incremental improvements that utilise cloud applications specific to their business could be a very good next step.

The move to the cloud should also enhance the usability and effectiveness of other technologies such as artificial intelligence (AI) and advanced analytics. Indeed, using cloud services as a gateway allows organisations to easily explore and access AI’s potential with minimal upfront investment and a reduced need for in-house expertise.

However, increased use of the cloud raises questions in relation to privacy and cybersecurity. Insurers will need to put in place robust data governance, privacy policies, and security measures in advance of any cloud deployments.



Sustainability

Putting the planet first

It is now time to make environmental, social, and governance (ESG) a competitive differentiator.

Insurers' efforts to consider the impact of ESG factors is becoming as important as their traditional financial statements. They are likely to be judged not just on plans laid out in their annual sustainability reports, but on how their initiatives actually address climate change and other nascent systemic environmental risks while reducing carbon emissions at source.

In an increasingly socially conscious marketplace, factors affecting insurers' reputations and competitive positions include the diversification of their leadership and workforce; enhancing the inclusivity of their products and services; and increasing the transparency and accountability of their governance structures.

In its recently published consultation paper, "Guidance for (Re)Insurance Undertakings on Climate Change Risk", the Central Bank of Ireland (CBI) made clear its expectation of insurers in relation to considering the impact of climate change risk holistically with the aim of supporting the transition to a lower-carbon world[1]. The paper recommends the creation of a baseline climate change scenario describing insurers' view of the future impact of climate change, including a pathway to that outcome.

Among the steps insurers should consider to accelerate climate risk mitigation across the value chain are the introduction of new products, services and premium incentives, and the addition of new risk management services.

In addition, insurers are being asked to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) with a timeline of, at most,

1. ISHKA, Aviation banks partner for new sustainable aviation initiative: IMPACT, 17 January 2022

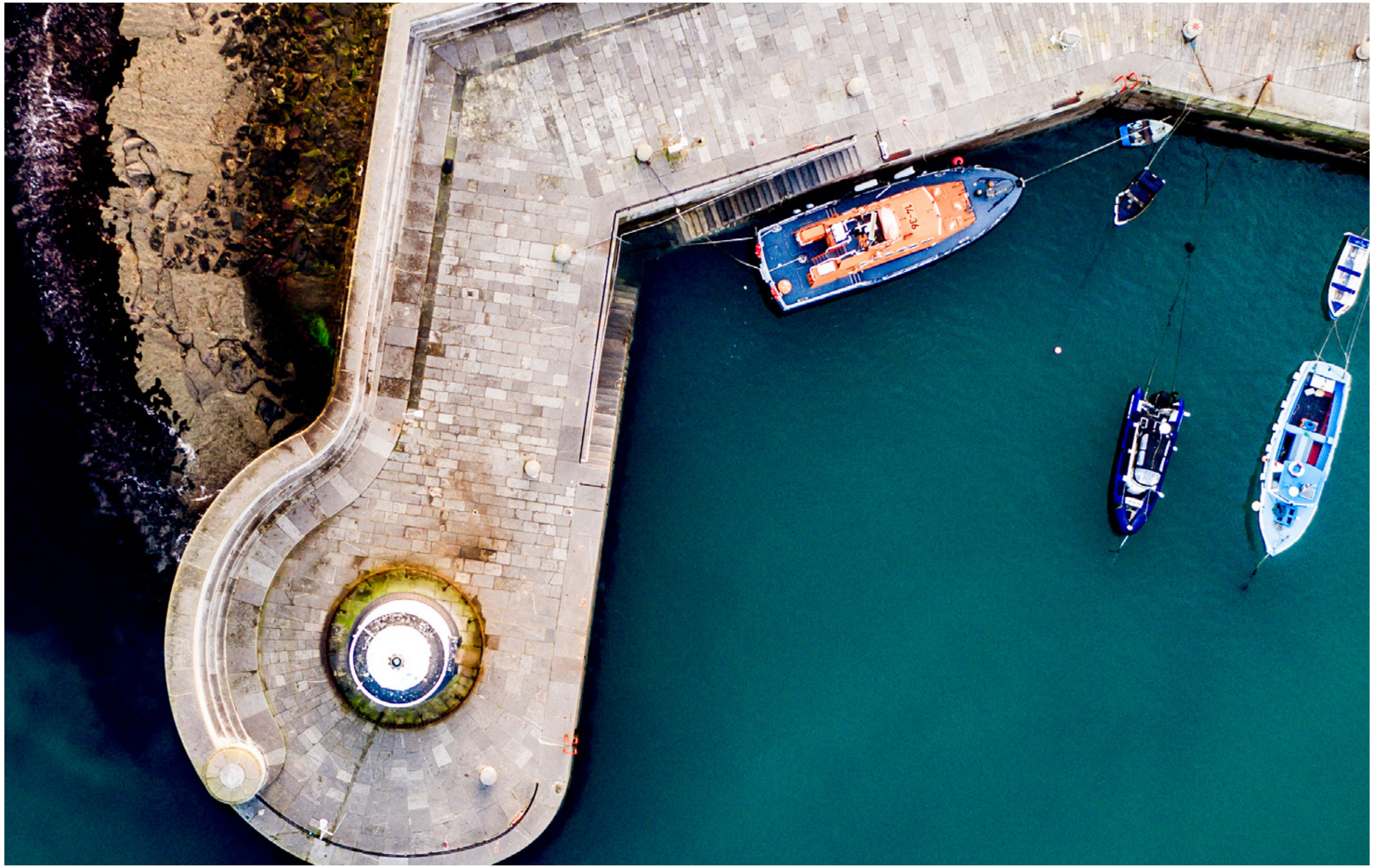
three years for full implementation. This will require the disclosure of greenhouse gas emission targets in line with the goals of the Paris Agreement.

The EU Sustainable Finance Disclosures Regulation (SFDR) was introduced to boost transparency surrounding sustainability claims made by financial market participants and to improve the market for sustainable investment products. The aim is to encourage about €1 trillion into green investments over the next 10 years and to address inconsistency in climate-related information from both financial market advisers and financial market participants, thereby giving sustainable product providers a boost. Insurance companies' activities fall within the scope of the SFDR if, (a) as a Financial Market Participant, it makes available an insurance-based investment product (IBIP), manufactures pension products, or is an institution for occupational retirement provision (IORP); or (b) as a Financial Advisor, it provides insurance advice on IBIPs as an insurer or insurance intermediary or provides investment advice to retail and/or professional investors.

Finance

New accounting rules put insurers in the spotlight

The International Financial Reporting Standards (IFRS) 17, determining how insurance contract assets and liabilities are presented on balance sheets, comes into effect on January 1, 2023. Insurers should have most, if not all, the elements required for compliance in place by now. Insurers will therefore now need to focus on having the data required to address questions about the execution and impact of these accounting changes from regulators and other stakeholders. In addition, whilst 2022 has been focussed on achieving IFRS 17 compliance, we expect that the investments put into the preparation for IFRS 17 will also serve as the foundation for other transformation initiatives - albeit recognising that the immediate focus for many companies post the effective date will be on how to improve the operational effectiveness of its IFRS 17 solution. As we look ahead to later in 2023 and further into the future, the hope is that this increased data granularity can be made more actionable through the use of advanced analytics and AI to generate greater insights and facilitate improved performance.



Domestic Non-Life sector

Opportunity knocks for the reinventors

Increasing revenue has not been an issue for most non-life insurers in the Irish market thanks to some of the highest property and casualty rate increases posted in many years. Irish non-life premium volumes increased by 5.5% to year-end 2021, the highest increase experienced in over four years. Gross Written Premium increased to nearly €3.9 billion in 2021, up 10.5% since 2017.

However, not all product lines experienced the same growth levels. Commercial lines generally saw more robust growth than personal lines. Interestingly, within personal lines, private motor was an exception to the growth trend as premiums within this segment have continued to reduce year on year since 2018. The 2023 outlook suggests premium reductions resulting from changes to the Personal Injuries Guidelines will be strongly offset by increased motor damage settlement costs due to inflationary increases.

Non-life carriers face the same economic and competitive challenges as the rest of the insurance industry. However, even in difficult economic circumstances, there are likely to be multiple opportunities to improve top and bottom-line results through organic growth as well as enhanced operational efficiencies. For example, the small business insurance market appears primed for reinvention with many buyers surveyed by Deloitte Global seeking new types of policies, greater flexibility in terms of pricing and payment options as well as holistic loss control services[2].

2. Deloitte Global (2022) 'The future of small business insurance - What do customers want?'
3. Deloitte Ireland (2022) 'The future of home and motor insurance - What do Irish customers want?'

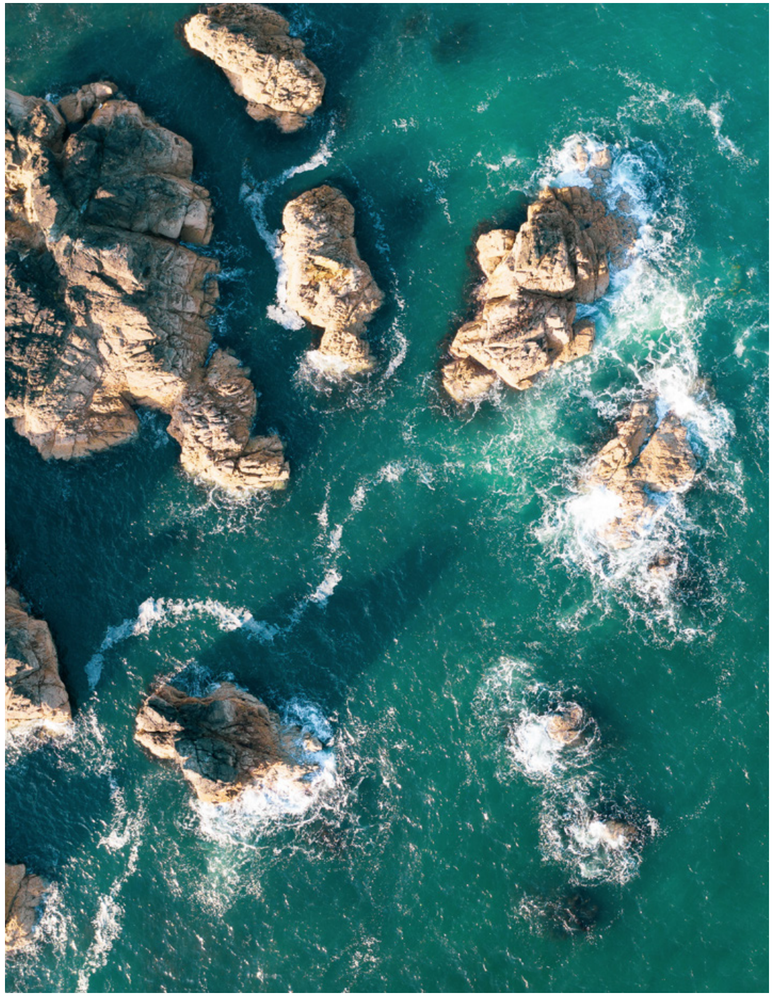
In addition, key findings from the Deloitte Home and Motor survey which sought the opinions of over 500 Irish home and motor customers, revealed that customers are seeking simplicity, flexibility, and transparency from their insurer with an increasing demand for differentiated and innovative products with a clear preference for digital as the purchasing method[3].

Beyond product innovation, we also expect insurers to focus on accelerating technology transformation initiatives to improve operational efficiencies, pricing accuracy, claims management and customer experience in parallel with efforts to enhance staff capabilities in underwriting and claims. Such initiatives, we expect, will help carriers realise the full potential of the new data analytics tools and enabling technologies, such as AI and cloud, which are now at their disposal.

Domestic Life & Pensions sector

From a retail life and pensions perspective, overall sales volumes remained strong in the first half of 2022, in particular for pension products. However, the growth in savings and investment premiums driven by the high level of cash savings during COVID-19 appears to be waning. The headwinds of increasing market volatility and rising inflation have started to impact sales of both savings and investment and protection products, and this is likely to continue until the underlying macro-economic and political issues are addressed.

While inflation presents a cost challenge and investment market volatility dampens sales, rising interest rates may be a positive for the balance sheets of insurers and allow more competitive pricing in some market segments such as annuities, although these may be offset by inflationary impacts. It should be noted that the longer-term impact on morbidity and



mortality from COVID-19 remains unclear.

Regulatory developments continue to be an important driver of activity in the pension space with the IORP II directive and the resulting introduction of Master Trusts impacting the Defined Contribution market. Auto-enrolment and its eventual impact will also be 'one to watch' once its implemented, albeit not one for 2023. Cost management is another area of focus with inflationary pressures driving increasing investment in digital enhancements, building on those already implemented during COVID-19.

Cross-Border Life & Pensions sector

Ireland continues to have a strong cross border life sector, in particular servicing the Italian market. Similar to the domestic market, key considerations are likely to be the performance of investment markets and the evolution of interest and inflation rates. Cross border firms also face similar regulatory challenges to domestic firms and their smaller footprint means that outsourcing risk and operational resilience continue to be areas of focus.

Global Life / P&C Reinsurance sector

Similar to the domestic market life and non-life equivalents, this sector will be impacted by macro-economic factors in areas such as underlying sales volumes and claims inflation; increased consideration of the future impacts of climate change on claims frequency and severity; continued focus on assessing pandemic impacts; and efforts to ensure regulatory requirements on outsourcing risk, operational resilience and ESG are addressed within the business.

Conclusion

The next 12 to 18 months will no doubt prove challenging from a macro-economic environment perspective for the insurance industry as a whole. That said, there is an opportunity to reset the narrative of the impact and importance of the insurance industry for society. There is also significant opportunity for the sector to bring investments and greater purpose initiatives together to reframe the public perception of the industry. However, that will require insurers to maintain an unwavering focus on investment in technology, the new and increasing demands of talent, their focus on ESG, the DEI agenda, and the overall impact that culture has on their business - all the while managing this in the context of an ever-changing economic, social, climate and regulatory environment.

For our Global perspective, read our **2023 Insurance Outlook**

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