02

IRISH 2021 OUTLOOK FOR INSURANCE

- DRIVING CHANGE -

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Irish insurance carriers, their customers, partners, management and employees faced significant challenges in 2020. The COVID-19 crisis had a material impact on individuals, SMEs and corporates, society and the wider economy which has had a direct impact on the industry's performance and individual insurer action plans and strategies.

However, in Deloitte's point of view, the COVID-19 crisis has accelerated many of the changing dynamics that were already underway, and this is evident both at a global and local Irish level. The Deloitte 2021 Global Insurance Outlook and Future of Home and Motor Insurance reports highlight key macro trends that are very relevant from an Irish context.

General insurance

From a General Insurance perspective, COVID-19 brought the insurance industry into the spotlight and particularly the insurance sector's response to business interruption claims. This affected public confidence in the sector, which will need to rebuild trust through 2021. On a wider perspective, although lower economic activity during the various lockdowns led to some reduction in the volume of insurance premiums, that same reduction in activity also resulted in lower claims frequency.

Although the immediate risk of a shock of a 'no deal Brexit' on the Irish economy has passed, the pandemic and its aftermath are expected to hit many of the GI lines harder than others. Recovery of premium income in 2021 will be very dependent on the vaccination rollout, opening of the economy, improved customer confidence, and a resurgence of the many retail and hospitality businesses that have been severely impacted by multiple lockdowns. As of year end 2020, while insurers were more comfortable with the impact of COVID-19 on their portfolios, there remains a significant amount of uncertainty related to certain lines of business in particular as government supports start to be removed.

Life & pensions

From a Life & Pensions perspective, our sense is that there was a limited impact on new sales of protection business but lower investment volumes in Ireland. However, the high level of cash savings by individuals during the pandemic may mean there are opportunities to attract that cash into savings products when consumers have greater confidence later in 2021 particularly with negative bank interest rates.

Indications are that there were no material increases in lapses in 2020 and that the pandemic had a limited impact on protection and income protection claims to date. The longer-term impact on the morbidity and mortality from the pandemic is unclear. We do expect that growth and profitability in both annuity and non-term life insurance products will continue to be impacted in 2021 beyond by persistently low interest rates. In

Figure 1. Global life insurance premiums written are forecast to recover to pre-pandemic levels in 2021

Markets	Advanced	Emerging	World
2009–2018A	0.6%	6.5%	1.5%
2019	1.3%	5.6%	2.2%
2020E	-8%	0%	-6%
2021F	2%	7%	3%

Note: A denotes average, E denotes estimate, and F denotes forecast.
Source: Swiss Re Institute, *sigma* No. 4/2020.

addition, while it was hoped the pandemic might at least raise consumer awareness about the value of protection products (and the importance of the health agenda), indications are that this is not the case to date. This will be an opportunity for insurers to increase consumer awareness and market penetration.

Health insurance

With regards to the health insurance sector, the impact of the HSE concentrating on supporting the pandemic surge, supported by the agreement with private hospitals which ceased activity during the year to support the HSE, together with the rolling lockdown rules, meant that elective procedures and consultations were greatly curtailed. This in turn meant that there was a reduction in health claims during 2020. This is more than likely a timing issue and expectations are that claims volumes will increase in 2021 as the pandemic starts to lift.

In addition, there may be increasing pressure on health costs in the coming year which will flow through on the health insurance economics.

However, it is worth noting that there is a new agreement with private hospitals and, coupled with the latest lockdown, the expected increase in 2021 may be slower than originally anticipated. We would expect that increasing claims volume would start to materialise as the vaccination programme gains momentum.

A focus on resilience

Irrespective of sector, the COVID-19 crisis tested overall operational resilience in 2020. The manual nature of certain processes and capabilities, as well as legacy IT infrastructure, challenged insurers' ability to respond to the initial stage of the crisis. In addition, workforce, intermediary processes and third-party provider resilience arrangements were tested. We expect that operational resilience will remain a very important area of focus for insurers – and the regulator – in the post COVID-19 era.

Brexit

Although to widespread relief the Brexit agreement between the EU and UK was reached late in 2020, the implications and planning for it had a big impact on several insurers/intermediaries during the year. Brexit's implications will only be fully felt in the years to come.

A focus on regulation

Insurers across all sectors in the coming year(s) will continue to face regulatory and compliance policy and direction. In 2020, there was increased regulatory focus and more scrutiny on a number of COVID-19 related areas including dividend payments, business interruption cover, and solvency concerns.

In addition, non-COVID-19 related regulatory themes will continue to be a focus, including diversity and inclusion, differential pricing, and data privacy. The regulatory agenda will remain a key challenge for insurers – from a cost, business model, operational, customer and channel perspectives. Insurers are also preparing for the IFRS 17 reporting standard and this is taking a significant level of management attention, budget and time.

In addition to the regulatory agenda, government policy and intervention will bring both opportunities and challenges for the industry. The recent programme for government on insurance reform, and related action plan, the Sláintecare programme, and mandatory pensions, will also shape the industry in the coming years. This combination of legislation and regulatory supervision will mean that insurers will have to dedicate significant focus to navigate the immediate and downstream implications.

What customers want

A shift in consumer behaviours and expectations has accelerated and insurers locally and globally are responding to this dynamic. Customers are favouring simplicity – products and services that they can easily understand, buy, and use. In particular, we expect that there will be an increasing demand for features such as parametric/adjustable cover. Our global home and motor survey responses (see figure 2) point to these trends in more detail. At a high level, the key reasons that consumers gave for liking or disliking a particular product or service relate to its ease of use, the ability to compare offerings, adjustability of cover, and data privacy concerns.

> The high level of cash savings by individuals during the pandemic may mean there are opportunities to attract that cash into savings products when consumers have greater confidence later in 2021.

Figure 2 part 1. Home and motor insurance customer reasons for liking or disliking products and services

Percentage product #1 choice		Likes	Dislikes
Basic	29%	Simple, most familiar Least intrusive, respects privacy Easy to compare	Not personalised or customised May be more expensive Too simple, no features
Self-controlled and adjustable	19%	Freedom to choose, more control Flexible, customisable Cost-effective	Too complicated Inconvenient, too much input Could be underinsured
Freedom to move (motor)	15%	Covers all modes of transport No need for additional cover Flexible	Do not need it Belief that it's already covered
Connected and preventative (home)	14%	Preventative, potential savings Personalised Access to a repair person	Intrusive Concern with privacy/use of personal data
Connected and cost focused (motor)	13%	Can save money, if drive less Seems fair Rewards good driving	Too invasive Lack of trust in insurer Concern with monitoring system

Diagram continued on following page

Figure 2 part 2. Home and motor insurance customer reasons for liking or disliking products and services

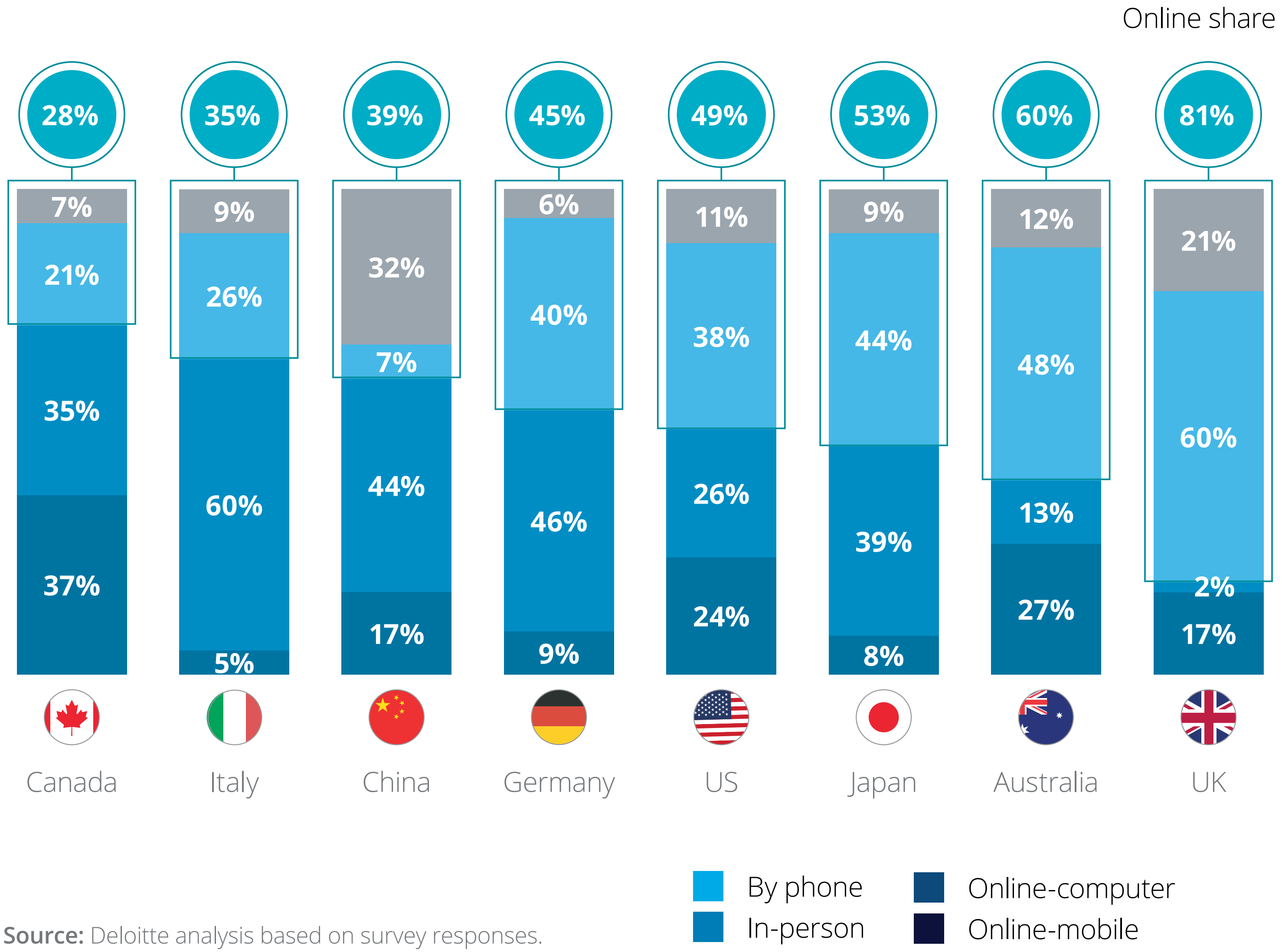
	Like	Dislike
Home concierge (home) 12%	Access to a repair person 24/7 support, peace of mind Simple	Sounds expensive Don't need a repair person
Invisible 11%	Convenient Less to worry about Repairs by car manufacturer	No control, not transparent Worried about hidden costs Don't trust bank, estate agent
Connected and broad service (motor) 11%	Tailored Potential savings, rewards safety Remote diagnostics and discounts	Concern cost outweighs benefits Lack of trust in insurer Concern with monitoring system
Connected and cost focused (home) 11%	Personalised Potential cost savings	Invasive Concern with personal data use Do not see need

Source: Deloitte analysis based on survey responses. Percentages do not total 100% because basic, self controlled and adjustable, and invisible products have each been aggregated across home and motor insurance.

While insurers need to shake up the status quo on product development, we expect their retail and distribution strategy and capabilities will be a key focus for them. The need for business agility has never been greater. Insurers will need to have a truly omni-channel capability supported by digital – including clarity on the role of branches, contact centres and social platforms.

Reimagining customer journeys that are truly customer-centric and digital across the business will continue to accelerate, including investment in direct online sales and service, enhanced digital broker/bancassurance supports and the transformation of the claims experience. The survey insights into consumers' preferred channels for buying motor insurance show these trends.

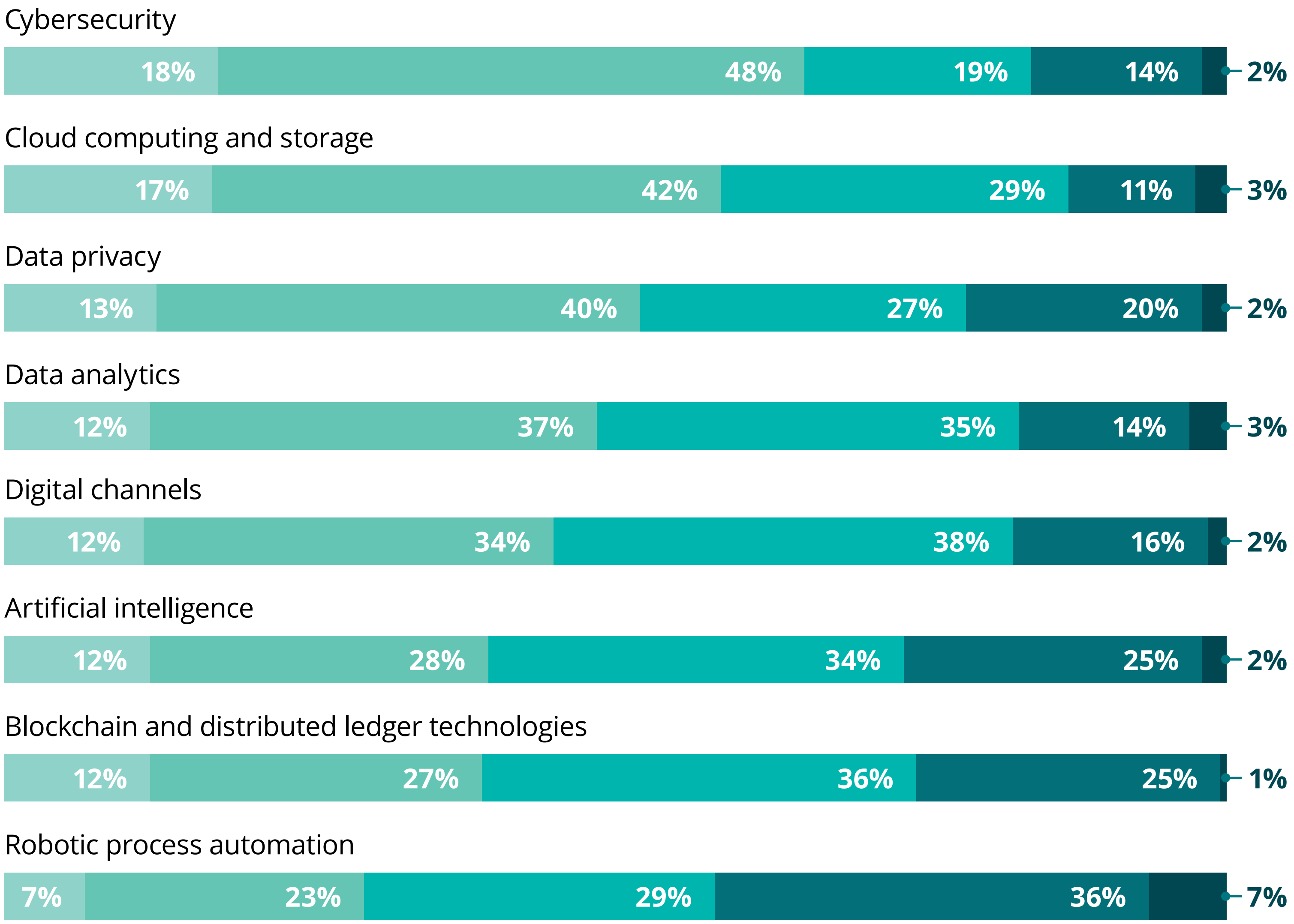
Figure 3. Preferred channel to buy motor insurance



Source: Deloitte analysis based on survey responses.

In our view, what is very important is that insurers have the ability to offer a truly differentiated value proposition for their customers. Key to maximising profitability will be not only looking at opportunities to digitise the end-to-end customer experience but identifying new growth opportunities through enhanced customer-centric value propositions that focus on driving loyalty, increasing cross-product holdings and enhancing customer lifetime value. Insurers should consider exploring new target segments and building tailored propositions to meet their needs, really understanding what drives value for them and how to win in the market.

Figure 4. Cybersecurity, cloud, data privacy, and analytics were identified as tech investment priorities



- Expect a large increase in spend
- Expect a slight increase in spend
- Expect no change
- Expect a slight decrease in spend
- Expect a large decrease in spend

Note: Percentages may add up to more than 100% due to rounding.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

Figure 5. Potential business and technology benefits of cloud

Business benefits

- On-demand self-service: pay-as-you-go, pay-as-you-grow
- Access to on-demand analytical and automation solutions
- Reduced burden of entry into new products or markets

Technology benefits

- Rapid elasticity or expansion
- Broad network access, anytime, anywhere
- IT agility/faster time to market

Source: Deloitte Consulting LLP.

Technology as an enabler

However, in the past, legacy technology infrastructure has hindered insurers' agility to respond and therefore technology will play a critical role in this journey. Insurers will need to have a clear vision of what their future technology architecture and ecosystem required to support the overall strategy – what technologies/capabilities will remain core, what will be outsourced and what partners will they work with (e.g. InsurTechs). Investment in cloud has accelerated innovation in the industry in recent years and we expect, arising from the pandemic, that this will gather further momentum in the year ahead. In tandem, enhancing cybersecurity capabilities will be a 'must' as insurers further develop their technology and digital platforms.

We expect that operational resilience will remain a very important area of focus by insurers – and the regulator – in the post COVID-19 era.

Intelligent automation and data

In addition, although the industry has invested in Robotic Process Automation (RPA) capability in recent years, it has been broadly focused on the efficiency or cost reduction agendas. We see this investment migrating to building a more sophisticated Intelligent Automation capability (leveraging a suite of tools and capabilities such as Artificial Intelligence, RPA, automation tools etc.) to support a more seamless end-to-end customer experience and assist in streamlining operations, enabling real-time decision making and the ability to manage peaks and troughs in demand more effectively. We predict that as insurers develop these capabilities, it will allow them to focus their staff on the moments that matter for their customers and partners, adding value and engaging with them rather than purely on processing tasks and/or data.

In parallel, insurers' ability to capture and harness customer and other external data sources to better target, service and support customers and intermediaries is becoming increasing important while keeping in mind data privacy concerns and ensuring customers are treated fairly. As insurers enhance their data analytical capabilities and continue to strive to maximise the value from data, they will also need to ensure that they have the appropriate governance and controls on the use and security of this data.

Talent/workforce agenda

The pandemic also has forced insurers to re-evaluate their talent/workforce strategies. Many insurers are likely to continue to have a hybrid workforce model even when the pandemic dissipates. This will shape the future workplace, workforce (talent, diversity, flexibility) and employee expectations. Therefore, insurers will need to set out a vision of what the 'future of work' looks like for the organisation and what its organisational archetype and operations model will be going forward.

As the industry is facing the impact on top-line premiums, increasing regulatory costs, changing customer and intermediary engagement models, and changing workforce dynamics insurers are inevitably looking at their overall cost base. This is driven by profitability pressures and the need to fund investments required to transform and digitise the business. It is worth noting that insurers need to strike the right balance between focusing on cost and protecting their business, making sure that they are making the right strategic decisions to drive down their cost base while not negatively impacting their customer experience – how do they use their efficiency gains to turn the dial on new growth opportunities, investing back into the core business through new revenue streams, pricing optimisation, and so on.

On a broader level and looking further ahead, insurers will also need to factor in the potential impacts of climate change on the books of business they write, their operations and funds being invested in. In addition, although there has been limited merger and acquisition activity at an Irish insurance carrier level, there has been increasing M&A activity in the broker sector in the last 18 months. We do not see this changing in the short term and insurers will need to understand the potential implications of this on their channel strategies and business models.

Read the Global
[2021 Insurance Outlook]

An analysis of the **'Future of Home and Motor Insurance'** survey.