

2022 insurance industry outlook

Strong growth
ahead for Canada

In Canada, 77% of insurance company leaders say inflation will increase in 2022 and 85% are anticipating higher interest rates.

While the pandemic and its impacts will likely continue for some time, Canada's insurers still expect economic growth to slowly recover in 2022.

As part of Deloitte's annual global financial services industry outlook, we surveyed approximately 80 insurers across Canada, split evenly between property and casualty (P&C) and life and health (L&H) insurers, to identify their focus areas for the year.

The P&C insurers believe premiums will increase as part of the broader business recovery and because more people will return physically to their work environments, while L&H insurers say that heightened consumer awareness around COVID-19-related risks will increase demand for their products and services.

Both groups also identified key trends in a variety of areas, including:

- Continued investments in digital technology, including:
 - Modernization of legacy systems for underwriting, policy administration, claims, and billing
 - Deepening of cybersecurity and data privacy capabilities
 - Forays into artificial intelligence (AI) and cloud platforms

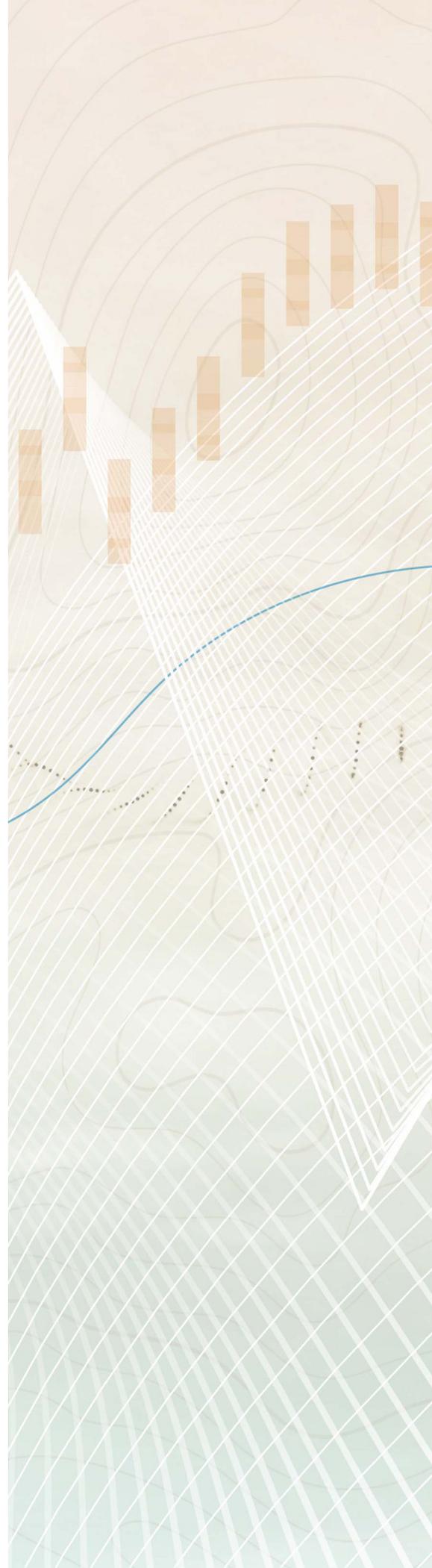
- Mergers and acquisition (M&A) activity in the InsurTechspace, which will help enhance the financial experience of their clientele
- Greater customization of products for consumers
- Increased attention on creating and meeting environmental, social, and governance (ESG) goals
- Challenges around attracting top talent, especially in IT and cybersecurity

In Canada at the conclusion of 2021, 77% of insurance company leaders expected inflation to increase in 2022 and 85% anticipated higher interest rates. Given the current interest rate environment, insurers will need to continually review their cost of settling claims to optimize pricing and profitability relative to changing market conditions.

As good as the year is predicted to be for the insurance industry, there are both opportunities and challenges that insurers should keep top of mind.

Opportunities and challenges for 2022

-  **Technology:**
Boosting innovation budgets
-  **M&A:**
Adding tech through acquisitions
-  **Operations:**
Increasing appetite for risk amid increasing costs
-  **Marketing:**
Enhancing customization for customers
-  **ESG:**
A more sustainable future
-  **Talent and people:**
Attracting top talent could prove challenging





Technology: Boosting innovation budgets

Technology budgets currently account for 28% of Canadian financial institutions' revenues—on par with global institutions—but that's expected to increase by about 11% in 2022, according to our respondents. One area of significant investment in the insurance sector will be cloud technology, with 60% of respondents saying their company is still dependent on legacy systems, compared to about a third globally. However, many also say they're in the process of switching to cloud-based platforms.

AI technology will also become a much bigger part of their business. Respondents agree that it could help their operations complete complicated tasks and make recommendations around underwriting, pricing, marketing, and claims. AI can also be used, they say, in chatbots to facilitate communication with customers, produce behavioural analytics, identify fraud or suspicious patterns, and ultimately improve the speed and accuracy of processes.

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M&A: Adding tech through acquisitions

Companies can improve their technological capabilities by partnering with insurtech operations—startups that are pushing insurance industry boundaries and creating more innovative services and experiences for both personal and business customers. While 26% of traditional insurance company leaders in Canada expect insurtech to displace or at least directly compete with them, 44% said they're good for competition and consumer choice.

However, traditional companies aren't going to sit back and let these startups eat their lunch. Many expect to buy these businesses and incorporate their technologies into their own operations. Indeed, 42% of Canadian insurers believe it is very likely that they will acquire one or more insurtech over the next 12 to 18 months. The top reasons given for doing so are to get access to new tech, explore new distribution channels, and help them scale.



Operations: Increasing appetite for risk amid increasing costs

Given the economic uncertainties experienced over the last two years, financial institutions have played it relatively safe. That's changing, with 80% of financial executives overall saying their appetite for risk is now either much stronger or slightly stronger. Nearly 60% of Canadian insurers think it's very likely that their company will include digital assets and cryptocurrency in their investment portfolio in 2022, which is consistent with their international peers.

Canadian insurers are concerned about the effect that international tax-reform proposals, such as changes in corporate or minimum tax rates, could have on their operations and M&A activities.

Many domestic companies have operations in low- or no-tax jurisdictions, so a change could impact how they do business. Just 23% of Canadian insurers say they're very prepared for any potential tax rule changes, compared to 39% globally.

When it comes to the new international financial reporting standards (IFRS 17), which will come into force in January 2023, half of all Canadian insurers say they have completed preparations for the transition. Only a third of global respondents said the same, signifying their Canadian peers' relative readiness. Nevertheless, 2022 will be a pivotal year for Canadian insurers, especially their finance functions, as unforeseen circumstances could arise during the adoption of IFRS 17 and as they manage any in-flight projects. Once implementations near completion, the industry's focus is expected to shift toward secondary priorities arising from the standards, such as KPI and management reporting, finance reporting/planning optimization, and actuarial model modernization.



Marketing: Enhancing customization for customers

Many of the ways insurance companies have interacted with their customers during the pandemic—video calls, chatbots, concierge services—are now standard business practices and that's not expected to change in the coming year. However, Canadian insurers did say they would rely more on agents and brokers to service their customers. At the same time, and unlike their global competitors, they also expect to stop outsourcing customer service to third-party providers as a means of better servicing their customers.

Insurers have identified an opportunity to create more flexible and customized products and services, too. The pandemic has emphasized the need for more personalization across all sectors, including insurance. Globally, insurers are looking for ways to differentiate beyond price and coverage, and to work with other alliances or partnerships to create more consumer-centric experiences.



ESG: A more sustainable future

Climate risk is front and centre on insurance company radars for 2022. P&C companies, which have experienced financial losses as a result of changing climate patterns, want to better quantify and address climate risk in their underwriting and investment portfolios. Insurers, more broadly, also want to create sustainability goals and make more investments in ESG-related activities, such as increasing workforce diversity and making their products and services more accessible to all communities.

Canadian and global companies alike are well on their way to becoming more sustainable organizations, with more than 90% of respondents saying they've either made progress on or completed quantification of climate-risk sustainability metrics in both their businesses and investment portfolios.



58% of Canadian insurers see their organizations pivoting to some form of hybrid home and office arrangement, with finance and information technology employees most likely to work from home.

Talent and people: Attracting top talent could prove challenging

A major risk for insurers in 2022 will be the ability to attract top talent. Issues include increasing headcounts spurred by the recovery of the economy and difficulties in acquiring talent with specialized skill sets in IT, cybersecurity, marketing, risk management, and finance.

According to the survey, 58% of Canadian insurers see their organizations pivoting to some form of hybrid home and office arrangement, with finance and information technology employees most likely to work from home. Marketing teams, however, will likely work out of the office.

More people working from home, though, has increased the threat of cybercrime, which has put IT and cybersecurity jobs in the highest demand. Unfortunately, people with these skills are hard to find; executives say that the best people are going to American technology firms, which offer higher salaries, more well-known brand names, and better career experiences. Skilled marketing, risk management, and finance talent, they add, have also been difficult to acquire.

Still, our survey shows that executives think employee retention will become easier in 2022 as the disruption of the pandemic subsides. They also expect headcounts to increase in the risk management, finance, operations, human resources, and IT functions, despite the difficulty in finding talent.

Technology could help solve some of these hiring challenges. For example, 90% of Canadian insurers believe the finance function could be enhanced by leveraging emerging AI capabilities and data analysis, an area that workers are being encouraged to become more skilled in. As well, 45% of Canadian insurers say that the compliance function may be able to realize resourcing efficiencies in 2022 because of innovations brought on by emerging tech companies. Such sentiments are not shared by global players, however, as they intend to increase their compliance headcounts in the next year.

Outlook

While there's no doubt that this year will have its share of ups and downs, it's clear that Canadian insurance companies are ready to forge ahead. With more businesses up and running again, and Canadians thinking carefully about protecting themselves and their loved ones, both the P&C and L&H segments could see strong revenue growth in 2022 and in the years ahead. As innovative technology becomes even more central their operations, at least one thing is for certain: it's an exciting time to be in the insurance business.

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