2020 Global Insurance Outlook

The drive for transformation and growth

EY

Building a better working world

A message from the EY Insurance leadership team

To borrow a famous line from literature, the current state of the insurance industry can be described as the "best of times and worst of times."

Many executives understandably focus on the latter — that is, historically low interest rates, little or no growth in most regions around the world, the increasing cost of natural catastrophes, intensifying regulation and more competition from companies offering superior customer experiences.

These are certainly formidable challenges, but we believe the industry's best days are ahead, thanks to the compelling transformative opportunities available to insurers around the world. We're also struck by how even the most severe threats offer ample upside. For instance, new competitors may be high-value collaborators in the development of industry ecosystems. Similarly, new technologies that threaten to disrupt the industry will be key enablers of future growth once they are embedded in insurance business models.

Our 2020 Global Insurance Outlook, along with the detailed regional Outlooks, highlights this unique moment for the industry: never before has such great potential been side-by-side with significant risks. It also outlines imperatives and priorities for insurers as they look to make a meaningful impact on their near-term results and prepare for long-term success. Considerable investment and effort are necessary, but we believe the upside is very much worthwhile for firms that succeed on their transformation journeys.

We welcome the opportunity to discuss your perspective on these issues and your company's unique matrix of risks and opportunities.

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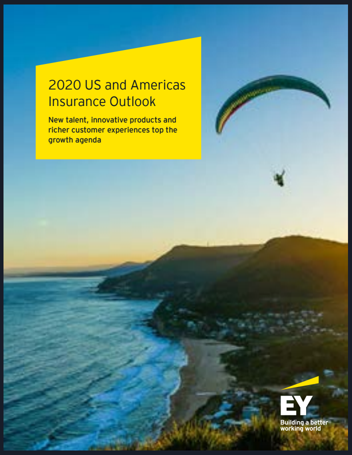
About the EY Insurance Outlooks

The annual EY Insurance Outlooks represent a perspective on key issues shaping the industry in the near term (three years). They complement the NextWave series, which takes a longer-term perspective (five years and beyond) and examines specific market scenarios that will shape the future of the industry.

Beyond this global report, regional reports are available for the Americas, Europe and the Asia-Pacific region. Individual country reports for certain markets are also available and can be accessed via the regional reports.

This year's reports were developed based on our collective sector know-how, virtual workshops with our global and regional insurance leadership, a formal internal survey of the entire global EY Insurance team, and inputs from selected clients and external analysts. We are pleased to hear that so many clients and industry stakeholders value our reports. We'd be delighted to hear from you about the other topics that are top of mind or of growing concern.



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Setting the context: The fundamentals and forces shaping the market

Low interest rates and persistent barriers to growth: Low interest rates, stagnant growth and the growing likelihood of a global recession define the challenging economic reality for insurers around the world. These dynamics place real pressure that insurers feel not only on their bottom lines, but also in their strategic plans, transformation programs and new product launches.

Low interest rates are the biggest challenge to growth, especially for life insurers. While we believe that these conditions are the new normal, the latest round of monetary easing is increasing the pressure and negative yields are now appearing in both government bonds and the corporate market. Weakening GDP growth, political uncertainty and trade tensions further complicate the macro outlook for insurers. The increasing likelihood of the next financial crisis as investors hunt for yields may push them toward increasingly riskier asset classes.

All of these forces add up to a major challenge for insurers, especially given that they derive the vast majority of their profits from investment income. The erosion of investment returns from low interest rates, tightening spreads and inverted yield curves will not only undercut this critical source of profitability, but also potentially put ratings at risk.

Proportion of industry profits derived from investment income, 2014-2018

90%

Source: Credit Suisse

In many mature markets around the world, penetration across both life and non-life segments has dropped during the last 10 years and the number of policies sold has fallen. In Europe and some other markets, there has been a pronounced shift toward fee-based products, which have provided a boost to new business. Consequently, in-force life contracts are decreasing across various European markets, though these liabilities must be monitored carefully by management. China has delivered the strongest growth of any insurance market worldwide, but that growth is also expected to slow.

In this environment, it's no surprise that insurers would turn their attention to cost optimization measures and on telling a compelling investor story. At the same time, insurers can't afford to cease investments in innovation or lose sight of the transformation imperative. The timeless business wisdom that you can't cut your way to growth certainly applies to the insurance industry circa 2020.

Life insurance policies sold, US

2018

27.7 million

2008

28.6 million

Source: National Association of Insurance Commissioners

Compound annual growth rate, gross written premium (GWP), USD, European non-life insurers

2018: 0%

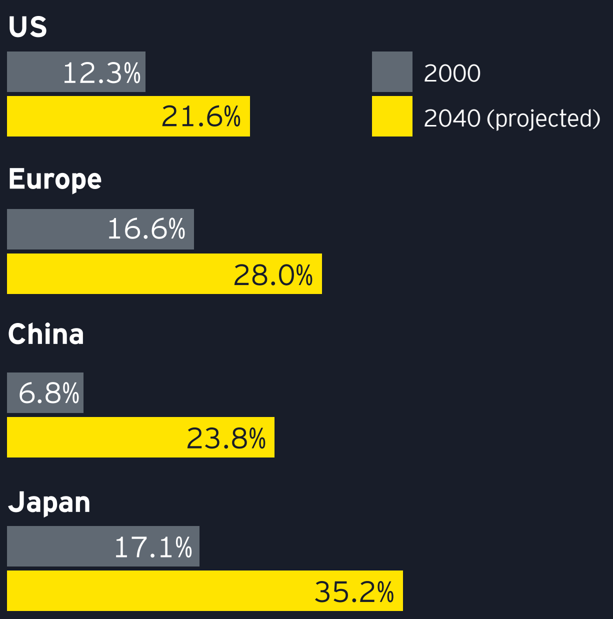
2013: 0%

Source: Swiss Re Sigma

Shifting demographics: Demographic shifts around the world present insurers with both risks and opportunities. Aging populations and low birthrates are a challenge in many markets. In contrast, growing middle classes in a number of developing countries have been a huge boon to insurers.

The mass retirement of baby boomers will challenge the balance sheets of life and health insurers in particular. On the other hand, as governments pull back from providing pensions and the retirement savings gap grows, insurers can develop new products to deliver the security many consumers are looking for. As millennials and younger generations in the developed world delay marrying, buying homes and achieving other traditional milestones, incumbent insurers will have to find new value propositions to build enduring relationships with them.

% of population 65+ years of age



Source: Oxford Economics

On the bright side, many developing markets, especially in Asia, are experiencing stronger growth and a growing middle class. Market dynamics in many of these countries are favorable to insurers. For instance, demand for insurance policies rises where consumers place a high value on savings and preparing for the future. Similarly, the importance of private insurance is elevated when government-sponsored social programs are relatively weak. Finally, as an economy develops, small to medium enterprises (SMEs) start looking for insurance coverage and larger companies need help in protecting themselves across complex value chains that often span across multiple countries or regions.

Looking out over the longer term, regions with growing populations, such as Africa, may open new markets for insurers. In the meantime, insurers must navigate a complex set of related risks and opportunities.

A growing middle class in some countries makes for favorable market conditions for insurers.

Rising customer expectations: Customer expectations — largely around digital channels and bespoke experiences — have been rising and will only get higher in the near future. Creating unique and personalized customer experiences has been a priority for many years, indicating that many companies are still playing catch-up and remain vulnerable to non-traditional players.

Insurers' success in meeting these expectations varies widely around the world, as do specific consumer preferences. Some leaders have started "green field" brands and entities to overcome the constraints of legacy systems. Others are engaging InsurTechs. Few have been able to pivot successfully and re-position themselves as technology players.

Asian insurers have shown the way forward, delivering a great deal of innovation quickly to consumers with the highest expectations for all things digital and mobile. The most successful companies will be those that can localize experiences at scale by efficiently and effectively serving customers across target markets.

Insurers need to deeply understand how customer expectations are changing and leverage the relevant technologies to deliver products, services and experiences that match those expectations. The days when customers would accept complex applications and time-consuming claims processes are numbered. The need for digitally enabled risk prevention offerings is higher than ever. This is particularly true for the millennials, the first "digital native" generation.

This shift in expectations holds true for SMEs and in the large commercial space. The need for simpler digital products embedded in relevant ecosystems, coupled with instant claims payments often based on parametric insurance, is significantly altering expectations at all phases of the customer journey.

73%

Asia-Pacific consumers who believe they should be able to accomplish any financial task on a mobile device

Source: Forrester

> Better customer experiences have been a priority for years — and will remain one for the foreseeable future.

Key themes and top priorities through 2022

1. Achieve operational excellence and cost efficiency
2. Win the war for talent
3. Manage regulatory pressures
4. Digitize distribution
5. Master emerging and disruptive technology
6. Navigate the risks and opportunities of climate change

Key themes and top priorities through 2022

The following illustration is based on a survey of EY insurance professionals around the world and follow-up collaborative workshops among global and regional EY insurance leaders. It's important to note that the trends highlighted below are rated based on their likelihood and impact during the next three years.

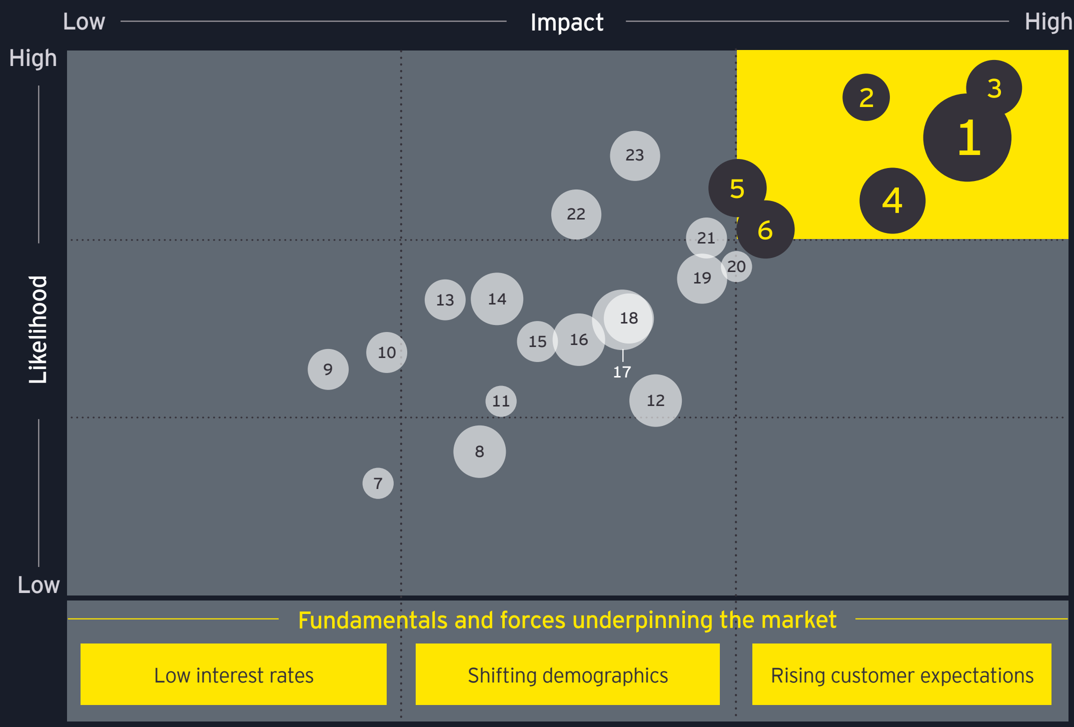
Many of these trends will influence the industry on a longer time horizon or are not as likely to come to fruition. For instance, we believe both artificial intelligence (AI) and blockchain will have a profound impact on the industry, though the full force of these technologies remains a few years out.

Others – such as the significant opportunities in commercial lines, connected insurance products and services enabled by the Internet of Things (IoT), and on-demand or subscription models – will depend on the actions of insurers in the near and mid terms. We also recognize that the impacts will be felt differently by different insurers.

For the EY perspective on these longer-term trends, please consult our ***NextWave Insurance: personal lines and small commercial report >*** Note: NextWave reports on large commercial and reinsurance and life insurance will be released in the first half of 2020.

Top trends through 2022: Highest impact, greatest likelihood

1 Achieve cost efficiency
2 Win the war for talent
3 Manage regulatory pressures
4 Digitize distribution
5 Master emerging and disruptive technology
6 Navigate the risks and opportunities of climate change



Bubble size determined by number of responses

Other surveyed trends

7 Financial inclusion
8 Blockchain for transparency
9 Insurance for sharing/gig economy
10 Risk prevention as a service
11 Emergence of subscription models
12 Commercial insurance opportunity
13 Emergence of new risk pools
14 Financial wellbeing
15 P&C M&A for scale and diversification
16 Rise of on-demand insurance
17 Growing adoption of AI
18 IoT and connected insurance
19 New health risks and aging population
20 Ethical considerations
21 Preparing for next economic crisis
22 Partner/compete with InsurTechs
23 Migration to cloud

1 Achieve operational excellence and cost efficiency

Given low interest rates, declining investment yields and limited top-line growth, insurers must continue to focus on cost efficiency. While executives in stagnant markets feel the most pressure, their counterparts in faster-growing markets are also actively seeking to reduce expenses.

Operational excellence and cost efficiency must remain a top priority. Insurers should ruthlessly focus on improving their loss ratios through a diverse set of measures, including portfolio mix diversification, improved risk selection and pricing, and stronger risk management and controls.

Cost optimization is critical, but it can’t be allowed to stifle innovation. In fact, one of the goals of cost reduction must be to free resources to invest in transformation and product innovation programs, which are necessary for insurers around the world.

In many cases, large insurers are on their second or third generation of cost-related initiatives. To hit their goals, they are applying a range of strategies and tactics:

- Process automation and cloud migration can deliver results, as long as clear and measurable goals are defined to effectively measure ROI.
- Core system transformation is underway at many insurers in a number of mature markets.
- Outsourcing and value chain disaggregation are being explored by some insurers, not only in the traditional areas of policy and claims administration systems and processes, but also around business process optimization.
- Shared services centers and centers of excellence have been established to meet the need for specific functional expertise (e.g., actuarial) and to serve as hubs for digital capabilities (e.g., AI and robotic process automation).
- Partnerships in areas such as risk management and compliance have emerged to control rising regulatory expenses.

Past cost management initiatives only maintained cost ratios. The lack of material improvement has led insurers to try new approaches. In the long run, shifting to a variable cost base requires that AI, cloud migration and automation be fully embedded into key functions and operations across the business. They will also be critical to new and different operating models, which will feature more extensive partnering across the value chain and give insurers a more sustainable cost structure. In the meantime, insurers must take a holistic approach, with long-term investments factored carefully into cost reduction plans.

Expense ratio, top US non-life insurers

2018: **30.6%**

2013: **30.9%**

Combined ratio, top European non-life insurers

2018: **95%**

2013: **95%**

Cost ratio, top Asia-Pacific life insurers

2018: **20%**

2013: **19%**

Source: S&P Global Market Intelligence

2 Win the war for talent

Talent has always been essential to the successful execution of any business strategy. In insurance today, it is more important than ever. That may seem a counterintuitive notion, given the likelihood that many back-office jobs (e.g., in claims and customer service) will soon be automated. But insurers around the world need new talent and different skills. And they must compete for these scarce resources more intensely than ever before. In fact, many forward-looking executives now view talent as the "secret sauce" for maximizing returns on all types of large-scale investments — from new technology deployments and digital transformation, to new business model development and organizational restructurings.

Insurance industry rank in 20 most attractive industries among business students

14th: Males

18th: Females

Insurers did not rank in top 20 among engineering/IT students.

Source: Universum

In transforming their workforces, life and non-life incumbents need both specific technical resources (like actuaries, data scientists and data analysts) and more "digital thinking." Generational shifts will also challenge the industry workforce; large-scale retirements will happen relatively soon in a number of markets, leading to an exodus of institutional knowledge. While talent and reskilling priorities will depend on the dynamics in each region, boards around the world will be called upon to increase their oversight and set the direction for the business.

To compound these challenges, insurers are not particularly attractive for new university graduates considering where to start their careers. The sector ranks low in surveys of the most attractive global industries. To improve their positioning, insurers must rethink their talent strategies and proactively manage not only their headcounts, but also the entire talent pipeline, from new hires and junior talent to the most senior ranks.

To attract the right talent in this competitive environment, they will need to instill a real sense of purpose that is well-aligned to the values of the generations they are trying to target. Environmental and ethical concerns are especially important issues. Insurers must communicate more effectively about why the industry matters, its societal value and why it's an appealing sector in which to develop a career.

Data skills gap, in terms of unfilled positions, Europe

2020: 769,000 (projected)

2016: 420,000

Source: European Commission

55%

Share of Asia-Pacific insurance executives citing "shortage of talent" as a prime risk

#1

Rank of talent shortage among prime risks, including low interest rates

Source: Emerging Asia Life Insurance Pulse 2019 — Peak Re

3 Manage regulatory pressures

Requirements differ across jurisdictions, though regulators everywhere are more active in addressing issues ranging from financial reporting, tax matters and capital standards to anti-money laundering, consumer protections and data privacy.

IFRS 17 is a priority concern for insurers around the globe, despite the postponement of the implementation deadline. Its impacts will be felt in multiple dimensions, including technology, data and reporting processes. There will also be strategic implications. For instance, new key performance indicators (KPIs) and reporting metrics will require insurers to articulate new storylines to explain their performance to investors.

Conduct risk is another area being addressed by regulators in multiple jurisdictions. The Haynes Royal Commission in Australia and the Financial Conduct Authority in the UK are two prominent bodies proposing new guidelines and rules in this area. The actions and recommendations around conduct risk typically involve a few common themes:

- Ensuring insurance products create value for customers
- Promoting good customer outcomes
- Setting clear limits around the collection, use and ongoing storage of customer data

Insurers should proactively consider the implications of tighter regulations around conduct risk as they think through distribution, product development and service strategies.

Emerging global standards are also influencing local regulators across markets and regions. For example, authorities in several Asian markets are using Europe's Solvency II as a template for creating their own risk-based capital regimes.

There are similar patterns around data privacy guidelines. For example, the California Consumer Privacy Act (CCPA) bears a number of similarities to the General Data Protection Regulation (GDPR) from the EU. In addition to the burden of compliance, these new regulations may prevent insurers from collecting all the data they need to launch new digital products, services and experiences. Finding new and proactive ways to access relevant customer data will be essential to ensure transformation journeys keep pace.

Lessons and leading practices from other markets around the world can be applied to increase efficiencies and lower costs in risk and compliance. Whether they are dealing with local or international regulations, insurers should aim to find those areas where compliance investments can deliver capital efficiency and competitive advantage. Instead of viewing compliance as a necessary evil, insurers should see it as an incentive to improve performance.

Insurers should proactively consider the implications of tighter regulations around conduct risk as they think through distribution, product development and service strategies.

4 Digitize distribution

Digitization is taking place across the entire value chain, including underwriting, distribution and claims. Distribution has become a clear priority for the near term, thanks to competitive factors and the clear and compelling business case for firms that can effectively digitize their sales operations.

Distribution patterns vary dramatically around the world — and even within regions. However, it's safe to say that insurers everywhere and across all lines of business are still seeking to master distribution in a predominantly digital world. Success requires not just strengthening direct channels for consumers, but also providing digital tools so agents and traditional channels work more efficiently and productively.

Even agents have changed their views. They no longer see digitization strictly as a threat, but as a means to increase efficiency and reduce stubbornly high acquisition costs. In addition, digitization will also help boost productivity and recruit new talent.

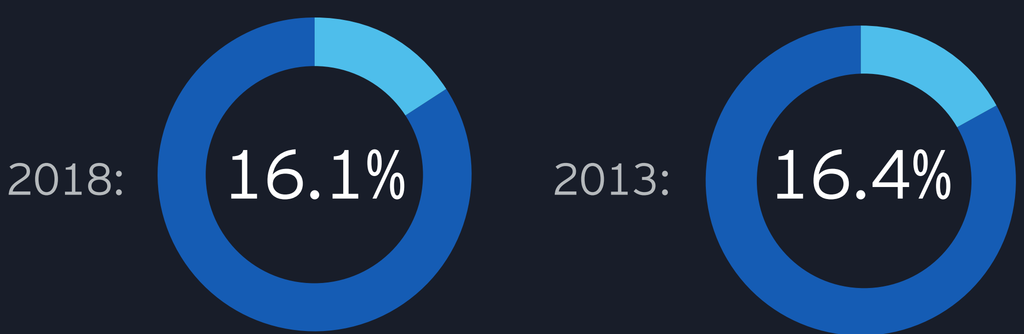
A strong digital distribution platform is essential for delivering the intuitive and personalized experiences consumers expect, as well as for reducing acquisition costs, increasing efficiency and — ultimately — selling more products. But agents still have an important role to play. The key is making human touch conveniently available when and how consumers want it and for the right products, even as most interactions happen through digital channels.

This trend is relevant across personal lines and, increasingly, small commercial. Even in the large commercial space, where personal interaction will remain more important, the ability to digitize part of the sales process to enable transparent data sharing and asset tracking will become increasingly important.

The digitization journey is also critical for insurers to fulfill their longer-term transformation plans, to drive innovation and to form and participate in industry ecosystems. Collaborations with InsurTechs can help accelerate digitization journeys, in distribution and elsewhere in the business.

Genuine omni-channel propositions, with a perfect mix of digital and human, are the ultimate goal. They require seamless transitions, consistent experiences and synchronized data across channels. It will take considerable effort and investment to make that a reality, but the benefits of stronger engagement and higher efficiency are worthwhile.

Average policy acquisition costs (as a % of net premiums earned), top US non-life insurers



Source: S&P Global Market Intelligence

>2.5X

Non-life market share growth, China's first online-only insurer, 2016-2018

Source: China Banking and Insurance Regulatory Commission (CBIRC)

5 Master emerging and disruptive technology

Disruptive new technologies and the availability of massive data sets will continue to shape the global insurance industry. Top insurers will be able to generate real-time risk insights and proactively meet customer needs.

Adoption of IoT, drones and connected insurance models is mostly in the experimentation stage, though a few early adopters have already seen promising results. Blockchain has begun to make inroads as an enabler of increased transparency and more efficient data sharing. First-generation deployments in commercial shipping insurance have largely achieved their goals.

Robotic process automation is more deeply embedded in claims and basic administrative processes. AI use is growing. In China, AI-driven distribution is transforming how customers engage and products are sold. On-demand and usage-based insurance are gaining traction in Asia-Pacific markets. Europe has seen broad use of telematics and IoT-connected sensors.

Insurers must have the right talent in place to fully leverage their technology investments. Now is the time to define the necessary skills and expertise for the next few years. InsurTechs may help address talent gaps and establish new capabilities, especially at specific links in the value chain.

Looking ahead, these new technologies will revolutionize the customer experience across the board. In personal lines, underwriting will be seamless, with only a few data points necessary to obtain a quote in many cases. The claims process will be streamlined dramatically. Fraud detection will be greatly enhanced, too.

In addition, the effective use of advanced tech is necessary for insurers to develop new value propositions (especially those related to financial wellbeing) and new business models (such as on-demand subscriptions) that can strengthen customer relationships. These are the keys to ensure the ongoing relevance of the industry and its attractiveness to investors.

5%

Insurers rating themselves effective in harvesting results from digitization, 2018

Source: Gartner

Estimated premiums underwritten by AI

2024: **$20.0 billion**

2019: **$1.3 billion**

Source: Juniper Research

6 Navigate the risks and opportunities of climate change

The impact of climate change on insurers will be measured in the hundreds of billions, even trillions, of dollars. While there are serious downside risks to be managed, the potential upside in terms of premium growth is huge.

Despite increased awareness of the threats of climate change, there has been no change in catastrophe loss insurance penetration over the last two decades. Some improvement should be expected in the coming years as the climate change discussion becomes more urgent, even though under-penetration remains acute outside of North America and advanced European markets.

To be clear, it's not difficult to price the individual risk, but it is extremely difficult to manage the aggregate impact to the portfolio in terms of overall pricing, accumulation and reinsurance. Plus, a major climate event could have a devastating impact on both insurers and reinsurers.

The stakes will only get higher, especially as insurers gain increased insight into "second-order" implications, such as wildfires, crop yield losses, shifting disease patterns and pandemics. In the future, insurers must assess these effects to comprehensively model potential scenarios and develop relevant products.

Insurers are uniquely positioned to help people, companies and communities recognize the need for more protection and to close the massive protection gap that currently exists. In addition to risk coverage, insurers can provide both preventive and recovery (or post-event) services. New products that deliver "risk prevention as a service" will be one area of innovation.

As the effects of climate change become more evident, insurers will be pushed to raise premiums, which may make some market segments uninsurable. This may also increase the protection gap. Advanced technologies, such as satellites, sensors and drones, combined with existing geographic information systems, will also help streamline the claims processes, with faster assessments of damage and quicker reimbursements. Currently, the process for catastrophe claims can take months.

At the same time, insights provided by these technologies will help make risks that are uninsurable today insurable in the future. For example, the private flood market is becoming viable in areas that weren't viable before, thanks to new data and advanced computing.

European insurers have demonstrated leadership in the realm of environmental, social and governance (ESG) policies, thanks in part to retail and institutional investor preference. Some of the largest European insurers and reinsurers are signatories to the UN Sustainable Principles and are taking bold actions in this space (e.g., declining to provide coverage to coal-burning power plants).

Climate change has become a major strategic issue for the industry in the last few years. The next few years will only see its importance increase, in terms of both risk profiles and revenue streams.

In the near term, senior insurance leaders should carefully assess climate change impact and plan initial steps in developing risk models and policy frameworks. They should also start working with governments and international institutions to tackle the widening protection gap that is likely to emerge as more and more areas around the world become uninsurable due to climate change.

Total cost of insured natural catastrophes, USD, 2017-2018

$237 billion

Source: Aon Benfield

Global protection gap for natural catastrophe risks, USD, 2018

$221 billion

Source: Swiss Re Sigma

Average percentage of catastrophe losses covered by insurance

2010-2018: **29%**

2000-2009: **29%**

Source: Aon Benfield

How insurers can move forward

The insurance industry has a critical role in helping the world navigate a range of powerful forces and megatrends — from globalization and demographic shifts to climate change and cyber crime.

To do so, insurers need to improve their financial performance and manage through harsh economic conditions. They must also embrace disruptive technologies and big data to develop new business models, new value propositions and new product offerings necessary to re-ignite growth.

Individual insurers in every global region will need to take a different path to reach a prosperous future. The regional EY Insurance Outlooks provide more detail on market conditions and opportunities around the world. However, we believe insurers must address a few key areas as they move toward a brighter, more profitable future.

Keep pushing on digital with a focus on experimenting to scale: Everyone talks about digital transformation and the size of the investments is generally huge. In reality, though, digital is often not properly embedded in business strategies. Even when it is part of the strategy, transformations can be extremely difficult to execute. That's one reason the benefits have yet to materialize. Digital transformation is a long-term journey and many firms have established foundations in some parts of the business. But what has worked in the past will not necessary win today or tomorrow.

In the immediate term, insurers should keep experimenting with digital — including automation, AI and the cloud — at specific points in the value chain. Specifically, they should leverage these new technologies to streamline the underwriting process and offer a seamless and efficient claims process.

They must also be prepared to rapidly scale what works and extend their digital capabilities in the context of connected products, propositions, as well as broader ecosystems that offer genuinely unique customer experiences. Engaging with third parties, including tech players and InsurTechs, will be an effective move for many insurers.

At the same time, the industry needs to remain cognizant of its core purpose when implementing these new technologies. For example, individual underwriting, if taken to its extreme, will pose an existential threat to the principle of risk pooling and may price out of the market individuals who need insurance the most. This moral dilemma should feature in future strategic planning discussions. Ideally, insurers will develop a proactive approach to address it, rather than wait for regulators to intervene.

> In the immediate term, insurers should keep experimenting with digital — including automation, AI and the cloud — at specific points in the value chain.

How insurers can move forward (cont.)

Prepare for new risks and liabilities with new products and business models: Risk and assets are changing rapidly. A full 90% of S&P 500 market share is driven by intangibles, and yet most insurance products only cover physical assets.

This shift is opening significant opportunities. Cyber security represents both a serious threat and huge opportunity for the insurance industry. At the same time, the evolution in consumer preference from buying and owning to renting and using affects multiple lines of business. Autonomous vehicles will change the game in automotive lines.

All of these new risks are prompts for new product development. New data, advanced analytics and sophisticated models may make unprecedented risk manageable and present significant market opportunity. New products and services for the sharing and P2P economy, usage-based insurance and subscription models are all viable — and potentially profitable — responses to these changes.

New propositions will prevent risks, as well as manage them. Telematics devices are already providing real-time feedback to promote driver and vehicle safety. Fitness trackers and wearable technology are nudging individuals to increased physical activity, often decreasing health insurance premiums.

Such programs are still in the early stages, but increasing adoption of connected devices and other technology will inevitably lead to advanced offerings. Beyond effective deployment, insurers will need to strengthen their customer relationships and navigate strict regulations around data and conduct risk if they are to take full advantage of these technologies.

New regulations may even open doors. For example, data privacy and consumer protection are largely viewed through the regulatory lens, but they offer upside in terms of engaging customers in strong, trust-based relationships. Insurers must design new standards directly into products and embed privacy and security principles deeply into key operations.

17%

Insurers rating themselves effective in making digital an integral part of business strategy, 2018

Source: Gartner

How insurers can move forward (cont.)

Focus on the fundamentals, including stronger cultures and better storytelling: In such a transformative age for the industry, it is more important than ever for insurance executives to remain focused on the long-term profitability and develop a compelling investor story. Cost optimization is critical, but capital markets understand the need for ongoing investments in transformation and will reward companies that build the right business case and can execute effectively. Yes, the baseline economics are challenging. But the industry's historical strengths — strong balance sheets and a history of resilience — will serve it well going forward.

People — including the talent gap — should also be viewed as a business fundamental. The top insurers of the future will be those that are able to attract a diverse talent pool to create cultures that are digital-first, committed to agility and open to risk taking. This, too, is a matter of effective storytelling — that is, insurers must offer a clear purpose to a new generation of workers and persuasively communicate why the industry is an attractive place to work.

Talent often takes a backseat to technology in terms of generating headlines in the trade media, but we believe strong leadership, collaborative teams and inclusive, purpose-led cultures will be the hallmarks of tomorrow's top performers.

Even more broadly, the insurance industry needs to articulate its purpose at a societal level, which can help restore trust in the industry, as well as relevance and profitability. With a growing protection gap and new risks from climate change and cyber crime, the industry is uniquely positioned to lead the development of solutions to protect more people, communities and businesses around the world.

The same is true of the retirement savings gap, which is exacerbated by low interest rates that make traditional life insurance policies unattractive. Insurers with products that address the growing protection and savings gap will do well by doing good. Helping societies around the world address some of the biggest challenges of the 21st century is likely to help insurers' bottom lines.

> The top insurers of the future will be those that attract a diverse talent pool and create cultures that are digital-first, committed to agility and open to risk taking.

Soundbites: What we heard across the industry this year

The EY Insurance team greatly values the quality and confidentiality of the many conversations we have with industry stakeholders throughout the year. In many cases, the most interesting observations about the future of the industry come in candid conversations about specific circumstances. The following insights reflect some of the more intriguing comments we heard since releasing our last Insurance Outlook.

“

A single insurer will come to dominate the small commercial sector in the next few years, seizing up to 30% of the market, up from 5%-10% today.

“

An innovative and groundbreaking new product will be launched in the near term, but whether it materially improves financial performance by 2022 is debatable.

“

If InsurTechs can overcome regulatory restrictions, the industry is poised for its own industrial revolution.

“

The impact of geopolitical uncertainty (e.g., Brexit and trade wars) and environmental issues (e.g., climate change) are being grossly underestimated.

“

The industry will face a crisis for consumer relevance as the move away from ownership leads to radically different pricing models and a shift to more commercial policies.

“

A chief disruption officer reporting to the CEO or board is the most important new position for insurers.

“

Within 10 years, a tech company will be a top five insurer.

“

Everyone says they’re doing digital underwriting and thinks everyone else is doing it, but few — if any — insurers are doing it effectively.

“

As jobs are digitized and new talent joins the workforce, the scope of the cultural challenges will surprise many insurers.

EY Insurance: Our focus areas for 2020

The entire EY Insurance team is energized by what's possible for the insurance industry. We are engaged across all levels of the industry to help insurers reignite growth and shape a more profitable future. Our immediate-term priorities are highlighted below:

Ongoing investments in platforms and innovations:

- EY Nexus™ for Insurance: a broad, cloud-based offering to help enable faster speed to market for new insurance products and brands by automating and replatforming core operations
- Insurwave: the world's first blockchain-enabled platform, developed with Guardtime to integrate and secure disparate data and reduce the fluidity of risk in marine insurance
- SME Growth Platform: a blockchain-enabled platform to support a digital insurance marketplace for small and mid-sized enterprises and an ecosystem of ancillary services

Facilitating connections across the industry: We have vetted more than 400 different InsurTechs around the world and started important conversations with many incumbents. We participate in many industry events worldwide and host the Insurance Executive Forum annually.

Fostering regulatory dialogue: We continue to engage with regulators around the world on matters ranging from capital standards and risk management, to financial reporting and IFRS 17, to cyber security and data privacy guidelines.

Envisioning the future: The EY NextWave vision represents the EY perspective on the most powerful trends and forces shaping the industry's future. The process brings together strategic EY thought leaders, industry and functional professionals and technologists, as well as outside experts and academics. In collaborative ideation workshops, these groups help clients envision a brighter future and map out the road ahead.

Global insurance leadership

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