Reinventing Insurance Series

THRIVING IN THE AGE OF ACCELERATION

10 To Do's for Insurance CEOs in 2023

We are continuing to face a very uncertain environment — war in Europe, higher inflation, the lingering effects of the pandemic, increased likelihood of recession, questions on the right direction and speed of movement on climate/ESG, evolving market pricing cycles, and moderating rates. We suggest **10 ways** CEOs should be positioning their organizations in 2023 to make the most of the **Age of Acceleration.**

10 CEO TO DOS FOR 2023:

1
BUILD MACRO RESILIENCE

Proactively build organizational capacity to withstand the coming shocks

2
CREATE RISK FLUIDITY

Massively accelerate the rate at which risk and capital can be shifted based on emerging conditions

3
MODULARIZE FOR GROWTH

Build a platform-based, modular ecosystem

4
BE THE SMART CLIMATE PLAYER

Capitalize on the retreat of capacity from energy and other sectors to enable an orderly green energy transition

5
TRIPLE DOWN ON ESCAPING LEGACY

Drive through legacy technology to enable cost and experience leadership

6
PREDICT AND PREVENT

Move beyond risk transfer to prevention to maximize customer lifetime value

7
INTEGRATE BACKWARDS

Insulate against inflation by capturing more loss expense

8
BECOME AN ASSET-MANAGEMENT-LED INSURER

Shift paradigm to compete head-on with PE-backed players

9
RUN TOWARDS THE GAPS

Be the specialist capacity provider for the growth gaps

10
DIGITIZE CUSTOMER-FIRST

Reduce digitization costs by focusing on what matters most to customers and distributors

1 BUILD MACRO RESILIENCE

Proactively build organizational capacity to withstand the coming shocks

The interplay between inflation, geopolitical conflicts, supply chain shocks, uncertain pricing cycles, climate change, and turbulent markets means that we are facing uncertain and volatile conditions in 2023. Many organizations are initiating cost programs as a response. Traditional programs, however, are blunt instruments, cutting resourcing and management bandwidth dedicated to future capabilities and jeopardizing future growth prospects and competitive positioning.

Macro Resilience programs, on the other hand, **map costs at a capability level, allowing CEOs to focus cost and capacity allocation decisions — where to double-down, where to exit or pause, and how much to then re-allocate to future-looking differentiating capabilities.** CEOs that build Macro Resilience will ensure that their organizations have the strategic headroom to weather whatever 2023 brings, while preserving important long-term investments.

2 CREATE RISK FLUIDITY

Massively accelerate the rate at which risk and capital can be shifted based on emerging conditions

There are an amazingly rich and rapidly evolving set of protection needs evident today — climate, financial stability, decentralized finance, cyber, AI, supply chain fragilities, macroeconomic instability, and future pandemic risks, to name a few. Through one lens, this suggests that we should be looking at the 'best of times' for the industry — evidenced by rapid innovation in products, new distribution channels, flourishing customer engagement and significant, profitable growth in revenue volumes from new areas. It seems, however, that the industry is still struggling with how to ignite transformative growth against these opportunities with price-earnings multiples, for example, trading in single digit territory for many incumbents (brokers excepted) and a continuing mode of returning significant capital to shareholders rather than reinvesting at scale to pursue growth.

What the industry needs is "Risk Fluidity" — an ability to rapidly and frequently adjust how risk and capital flows within an organization across products, channels, business lines, and geographies. **Achieving Risk Fluidity requires an operating model designed explicitly for rapid assimilation of market signals and speed of execution transforming organizational clock speed from months to days.**

3
MODULARIZE FOR GROWTH

Build a platform-based, modular ecosystem

An increasingly fluid market environment demands a more fluid ecosystem — inflation is forcing insurers to optimize costs, MGAs are gaining scale and traction, and plug-and-play infrastructure providers are commoditizing data and technology. These trends provide a transformative opportunity for insurers to modularize their organizations for growth.

CEOs need to focus capital and resources on their firm's "crown jewel" capabilities and build an ecosystem of partners around these core activities. **Successful modularization requires an unbiased appraisal of where one's unique advantage lies and what it takes to maximize the value from "owning" certain value chain components, while assembling a powerful ecosystem around it.** Select platform-based insurance models have emerged, including in the Web3 space, which may provide a preview of where the market may be headed… fast.

4
BE THE SMART CLIMATE PLAYER

Capitalize on the retreat of capacity from Energy and other sectors to enable an orderly green Energy Transition

Insurers have a crucial role to play in accelerating and de-risking the net-zero transition. In some cases, however, the industry is bluntly reducing its exposure to carbon intensive sectors, such as Energy, Transportation, Heavy Industry and Construction Materials. With many countries still dependent on energy from fossil fuels, along with operations from other high-emitting sectors, the swift retreat of insurance capacity is itself a risk to net-zero transition.

CEOs can ensure that their organizations set foundations for a sustainable energy strategy by dynamically providing capacity to ensure an orderly transition.

5
TRIPLE DOWN ON ESCAPING LEGACY

Drive through legacy technology to enable cost and experience leadership

An inability to escape legacy technology has been a perennial issue for most insurers. This challenge is often quoted as the biggest reason behind the industry's slow speed to market and difficulty in scaling disruptive technology. Modularization, Risk Fluidity, and Macro Resilience all require modern technology infrastructures.

As such, CEOs must triple down on sunsetting legacy through use of rapid transition solutions, which are now available.

6
PREDICT AND PREVENT

Move beyond risk transfer to prevention to maximize customer lifetime value

Moving into profitable ancillary services across risk prediction, prevention, and response is a natural evolution for the P&C industry with several insurers embracing it as the new normal. Some incumbents, for example, are introducing digital assistants with an integrated front-end combining insurance and services offerings for home, health, and travel. Digital-native players offer sensors and home maintenance services to their customers to drive customer stickiness and lower claim costs. These services can be highly profitable, have lighter balance sheet requirements than traditional insurance products, and are highly complementary to existing offerings. Given the range of competing models, the **winners will be those who effectively tie a 'Predict and Prevent' strategy to their customers' key underserved needs.**

7
INTEGRATE BACKWARDS

Insulate against inflation by capturing more loss expense

The P&C ecosystem is a complex web of goods and service providers, with P&C carriers leveraging a network of external partners to replace or repair damage instead of servicing customers themselves. For every dollar of premium, approximately 44 cents of that dollar goes directly to the external providers, most of which is focused on claims management including medical facilities, auto body shops or manufacturers, and data providers. Many of these businesses earn greater margins than most insurers, with ROEs in highly fragmented markets such as auto repair and physical therapy as high as 25 to 30%.

Insurers can capture more value from each dollar of claims spend by increasing control of downstream activities within the claims' lifecycle. When well-executed, this approach can both improve profitability and lead to better customer experience and satisfaction through the delivery of a proactive, end-to-end claims experience.

8
BECOME AN ASSET-MANAGEMENT-LED INSURER

Shift paradigm to compete head-on with PE-backed players

Over the last decade, private equity has profoundly changed the landscape of the life insurance industry. Traditional insurers view liability origination as their primary business with general account asset management seen as a supporting capability. Private equity insurers, on the other hand, see asset origination and structuring as their primary business, with insurance liability origination as an attractive source of long-term funding. This is a profound difference in business model.

Traditional insurers competing in effected areas need to consider if they too must adopt this PE mindset, or how they can preserve a more traditional model, perhaps through strategic partnerships. Irrespective of the route chosen, a different operating model, organization, and culture, may be a necessity.

9
RUN TOWARDS THE GAPS

Be the specialist capacity provider for the growth gaps

The insurance industry has suffered from constrained capacity as demand for emerging risk types, such as cyber and climate, has exploded. For these emerging risks, a lack of historical data has led to insurers falling back on first-principles expertise and heuristics leading to excessive caution and, ultimately, limited capacity.

This limited capacity represents a prime opportunity for those willing and able to seize it. **By managing exposure through emerging solutions (e.g., parametric reinsurance) and providing services beyond risk transfer, insurers can service these growth gaps without upending their own risk appetite.** In turn, they'll gain better data on these emerging risks and will underwrite them more effectively going forward.

10
DIGITIZE CUSTOMER-FIRST

Reduce digitization costs by focusing on what matters most to customers and distributors

Many insurers have often made a mistake when digitizing their operations — they have worked back from the technology and not the customer. Despite substantial investments to modernize and compete with insurtechs, too many organizations default to building an app or new system without a clear, proven link to the customer or organizational benefit. These investments are often a massive cost drain with minimal ROI when they support low-value products or operations.

When investing in digitization, insurers should focus on the customer's desired experience in a specific circumstance (or the "job-to-be-done"), shifting from an Operator's mindset to an Innovator's mindset.

In starting with problems, not products, and thinking critically about servicing customers' functional, social, and emotional needs, businesses can strategically invest in technology that enhances their value-proposition while avoiding unnecessary costs and maximizing long-term profitability.

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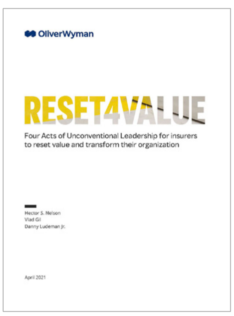

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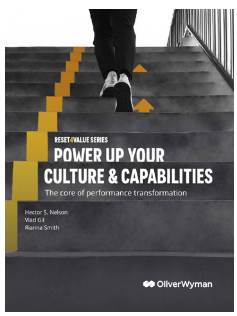

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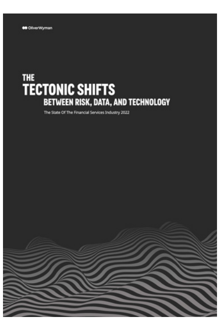

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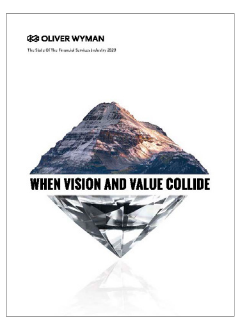

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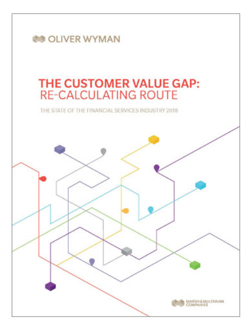

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