

# 2017 Insurance Outlook

## Tech innovation key to overcome growth challenges

With a continued struggle for top- and bottom-line growth in a slowly recovering economy, expect insurers to tighten their belts while experimenting with new products and business models. Problematic organic growth prospects could prompt a renewed focus on transformation of legacy systems and addition of InsurTech capabilities. The goal is cost cutting and operations modernization in line with changing consumer expectations for 24/7 service, amid heightening competition and emerging disruptors. Amid challenges from regulatory disruption, increasing consumer expectations, and stagnant sales, insurers will increasingly consider tech modernization to drive growth and efficiency.

### Property and Casualty Insurance

#### Renewed focus on transformation and modernization

For auto insurers, the battle for market share and profitability may depend on the expanding use of telematics.



Escalating cyber exposure creates opportunities to develop new coverages and loss control services.



Expansion of the Internet of Things (IoT) could facilitate new forms of usage-based coverages and loss mitigation services in multiple lines, while shifting many risks to product liability.

*To fuel growth, new coverages for emerging exposures and capabilities for the evolving digital, connected, and sharing economy will be developed.*

Advanced analytics can empower more precise and personalized risk selection, segmentation, and claims management.



Blockchain technology may improve data storage and protection and enable more efficient policy execution via smart contracts.



Robotic process automation will enhance routine data collection, analysis, and compliance while virtual service providers supplement or supplant lower-level client interaction.

*Tech innovation will enhance efficiency, precision, and data security to bolster underwriting, pricing, claims, regulatory compliance, and customer experience while strengthening client relationships.*

Auto insurers confront potential volume depression from safety technology, the sharing economy, and development of autonomous vehicles.



Usage-based auto insurance may face its moment of truth on underwriting and pricing impact, consumer buy-in, regulatory oversight, and data ownership.



Cyber insurance poses a paradox as consumer demand rises, but insurers struggle with risk assessment, exposure accumulation, and loss mitigation.



A rise in nontraditional competitors—including web aggregators, direct online sellers, P2P mutual entities, and insurance-linked securities—challenge traditional insurer business models.



Regulatory demands remain in flux on capital, solvency, market conduct, and the role of state vs. federal vs. global oversight.

*A number of challenges could undermine an insurer's ability to bolster market share, profitability, and innovation efforts.*

### Life and Annuity Insurance

#### Focus on innovation to drive growth

DOL fiduciary rules may be in limbo, but insurers that already made substantial changes to comply could continue moving forward and even gain a competitive advantage.



IoT can make life products more relevant on a daily basis with healthy living incentives, investment tips, and dynamic pricing.



Robo-advisors may bolster life and annuities services for middle-market prospects.



Psychological biases inhibit sales of life and annuities products. More effective messaging, tools, and products to overcome behavioral barriers should be developed.

Advanced analytics may help streamline life sales and underwriting processes to improve interaction with underserved consumers.



Wider use of genomic risk classification could bolster predictive models for those seeking higher levels of coverage.



Robotic process automation can reduce simple processing tasks, while virtual assistants could supplement routine client services.



IoT can facilitate more dynamic pricing and real-time incentives tied to exercise, diet, and lifestyle choice while enabling a more ongoing, interactive client relationship.



Blockchain technology may enhance data management and cyber security while improving execution via smart contracts.



Cybercrime poses operational, regulatory, and reputational risk.

*Legacy system modernization and process innovation could cut costs while bolstering sales, underwriting, and customer service.*

Even if interest rates rise in 2017, increases from historic lows will likely be small and spread out.



Regulatory hurdles remain. Local and international capital standards may add to compliance costs. Regulators may balk at use of genomic data or telematic information in underwriting and pricing.



Legacy systems continue to inhibit efficiency, undermine cost cutting goals, and lessen customer experience, especially with consumers judging mobile and online performance against noninsurance companies.

*Life and annuity carriers face a number of challenges, including relatively modest economic growth, low interest rates, and regulatory uncertainty.*



#### Cross-industry trends

##### Regulatory

The intersection of disruptive innovation, heightened cyber risk, and regulatory changes could compel compliance modernization amid intensified pressure to tighten expense budgets.

- Insurers face potential regulatory upheavals on the global, federal, and state levels.
- Additional regulations will likely be implemented addressing capital standards, solvency, market conduct, cyber risk management, and consumer protection.
- Efforts will continue to align the US market with global regulatory regimes and vice versa.
- Heightened regulatory compliance and cyber risk management standards require technology updates to operational risk management systems amid budget optimization efforts.

##### Mergers and Acquisitions

Industry fundamentals set the stage for heightened M&A activity, although volatility in deal volume and size among individual business segments should be expected.

- Organic growth remains difficult to generate.
- Industrywide excess capital is not earning sufficient returns.
- Interest rates remain at historically low levels.
- Increasing scale is essential to enable competitive investments.
- As the largest global market with the most growth potential, US insurers are attractive to foreign buyers.
- InsureTech firms continue reshaping the industry and are potential M&A targets for insurers.