

# 2024 Global Insurance Outlook

Strengthening trust to unlock  
innovation and growth



Building a better  
working world

---

# A message from the EY Insurance leadership team

The 2024 edition of the annual EY Global Insurance Outlook explores the unique and evolving industry landscape to inform the perspectives of senior leaders.

The market continues to be shaped by multiple disruptive forces – from technology advancement and new competition, to increased regulatory scrutiny and evolving customer behaviors, to diversifying risk exposures. The pace of change is not likely to abate any time soon.

Within the turbulence, however, there are clear indicators of future growth, including strong demand signals, new business models and expanding data access that promises to transform risk assessment and pricing. Firms that take bold and creative action will be able to harness the power of these trends and convert it to value for customers, society as a whole and their own bottom lines.

Restoring trust holds the key to long-term success. Trust isn't an end goal in itself, but rather a means to strengthen customer relationships, collaborate productively with regulators, business partners and other stakeholders, and reframe the industry's core value proposition.

This year's report focuses on the rise of artificial intelligence (AI), opportunities to create societal value and the need for innovation as changing customer needs and behaviors spark competition across traditional industry lines. Pursuing differentiated, purposeful strategies in each of these areas will help insurers achieve sustainable performance gains and reduce the huge protection and savings gaps.

In times of change and uncertainty, individuals, families, businesses and communities look to buy anything that makes them feel safer and more confident about the future. Is there another industry that's better positioned than insurance to deliver such products and services?

We welcome the opportunity to discuss your perspective on these issues and their impacts on your company.



**Isabelle Santenac**  
EY Global Insurance Leader



**Ed Majkowski**  
EY Americas Insurance Sector  
and Consulting Leader



**Anita Sun-Young Bong**  
EY Asia-Pacific Insurance Leader



**Philip Vermeulen**  
EY EMEA Insurance Leader

# Executive summary

This year's Global Insurance Outlook focuses on three issues that are driving the strategic agenda in markets around the world and for every line of business. These forces are playing out against a turbulent financial background and an uncertain future outlook.

## 1 Preparing for the transformative impact of AI

Generative AI (GenAI) promises to revolutionize risk assessment, claims processing, marketing, sales and service and other essential aspects of the business. But for all the pressure to deploy now, senior leaders must take the time to establish sufficiently robust governance models and policies that ensure responsible and ethical use of AI.

Identifying the full range of risks – from data breaches to reputational issues – and designing the right framework for managing them are the first priorities. Firms that move quickly (in exploring use cases) yet methodically (in standing up governance) will be best positioned to win in the GenAI era. [See page 7](#)

## 2 Spotlight on delivering societal value

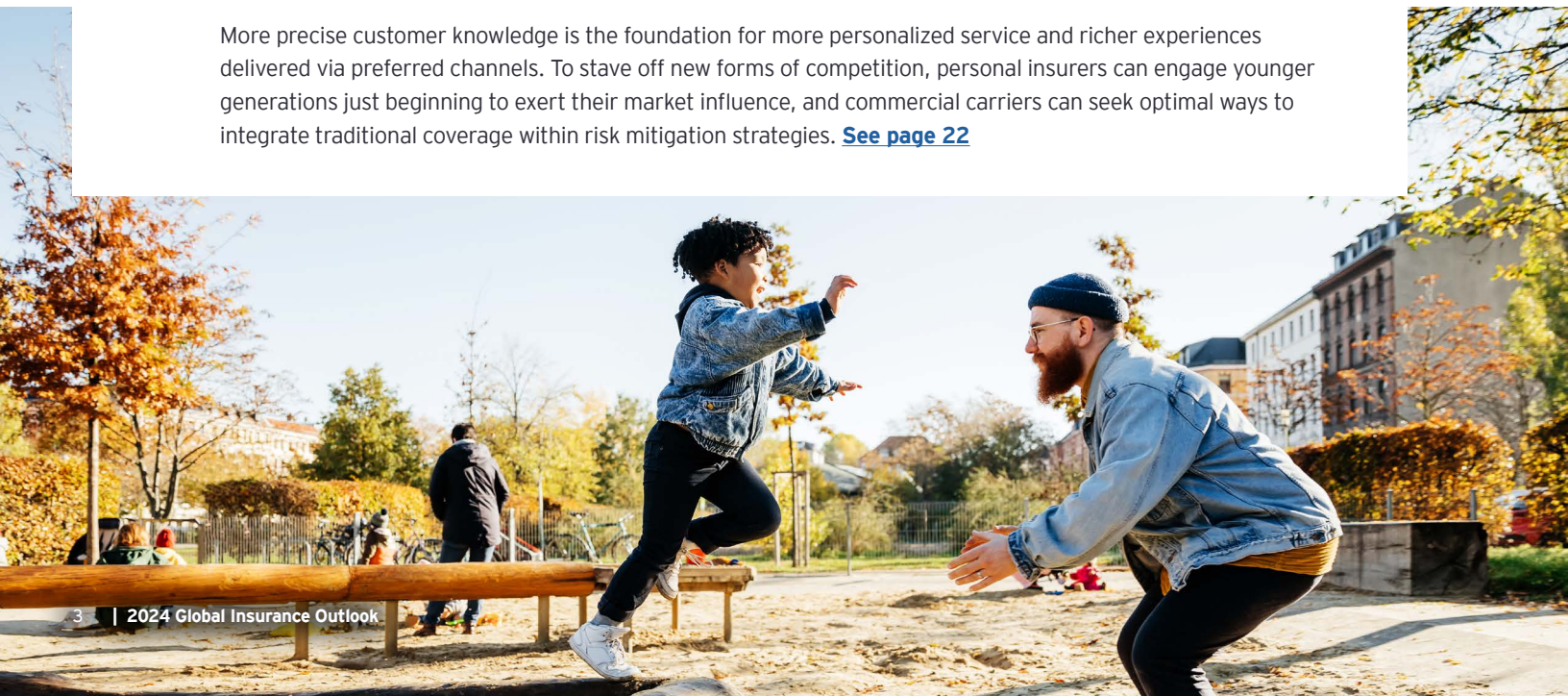
An ever-expanding savings and protection gap, macroeconomic uncertainty and greater awareness of more severe risks have prompted regulators and public authorities to revisit long-standing rules and guidelines for the industry. They are also engaging all kinds of private enterprises – insurers very much included – to devise strategies that address serious threats to societal stability and prosperity.

But the moment calls for more than compliance-driven thinking and expanded philanthropic endeavors. Rather, product innovation, new business models and purposeful investments can help insurers unlock growth even as they strengthen protections against climate risk, promote financial well-being and encourage physical and mental health. All of these steps would deliver what customers want and important benefits to communities around the world. [See page 15](#)

## 3 Ever-evolving customer needs and blurring industry lines

If change is the only constant, then changing customer needs can be the strategic “north star” for all types of insurance companies. Achieving true customer-centricity necessitates changes to everything from technology architectures and product portfolios to organizational models and cultural norms.

More precise customer knowledge is the foundation for more personalized service and richer experiences delivered via preferred channels. To stave off new forms of competition, personal insurers can engage younger generations just beginning to exert their market influence, and commercial carriers can seek optimal ways to integrate traditional coverage within risk mitigation strategies. [See page 22](#)



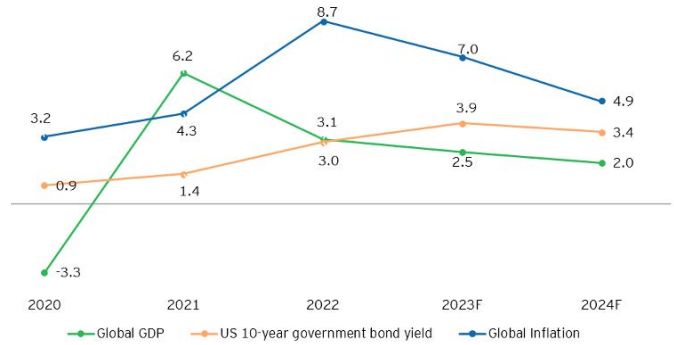
## The impacts and opportunities of macroeconomic uncertainty

Multiple macroeconomic and geopolitical trends – inflation, interest rates, regulatory factors, supply chain disruptions, skills gaps in key areas, trade tensions and war in Europe and the Middle East – continue to create widespread uncertainty for the industry. As a result, individual insurers must prepare for a broad range of outcomes and developments in all markets where they operate. Expecting the unexpected is in order.

At the time of publication, many of the macroeconomic issues we highlighted in last year’s Global Insurance Outlook are still playing out. Interest rates and inflation, which were rising dramatically at the beginning of last year, appear to have peaked. Indeed, the worst-case fears for recession have not been realized and the softer-than-expected financial landing in many advanced economies has freed some insurers to accelerate their transformation journeys and pursue the growth opportunities that exist in specific markets and lines of business. Still, much macroeconomic uncertainty remains, which means business resilience remains a critical goal.

**Limited GDP growth:** The global average GDP is expected to grow at a rate of ~2.4% during FY23-FY25, with India and China projected to outpace other major economies. Various rating agencies and economists recently downgraded China’s GDP outlook.

Global GDP, global inflation and 10-year US government bonds

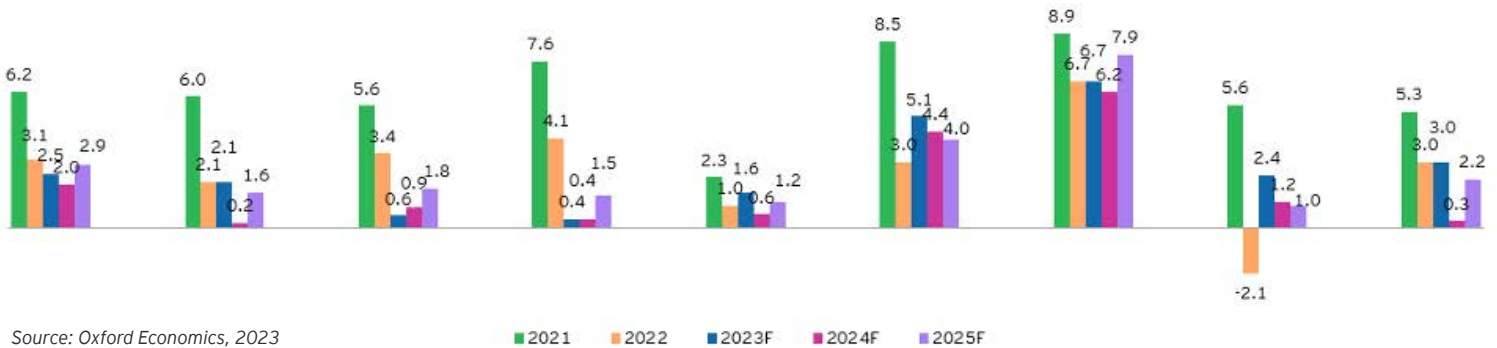


Source: IMF, Oxford Economics, 2023

GDP outlook in key markets  
Average forecasted GDP growth, 2023-25



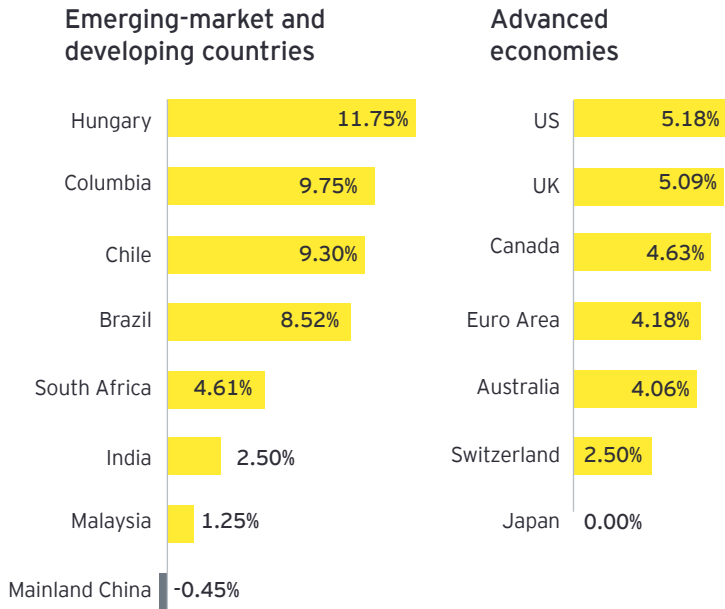
Year-on-year percent change in real GDP, 2021-25



Source: Oxford Economics, 2023

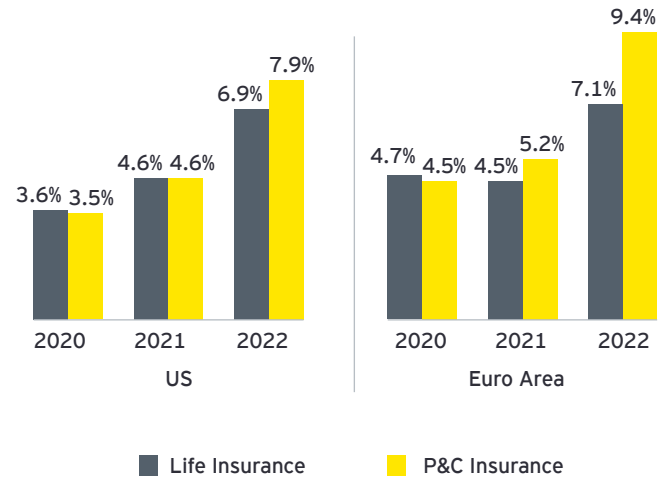
**Inflation and systemic instability:** A monetary policy focused on reducing demand and lowering inflation increases the likelihood of sluggish growth and higher unemployment rates. Rising costs (including higher capital costs) and falling demand are a dangerous combination, especially in the context of stagnating premium growth during the last few decades.

### Central bank rate changes, 3Q21 to 3Q23



Source: Central bank websites of nations, Oxford Economics

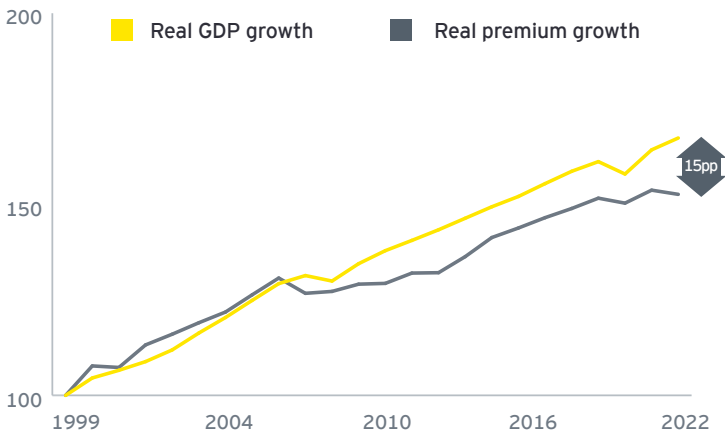
### Cost of capital, US and Euro area, 2020-22



Source: NYU Stern database

### Global GDP growth vs. insurance premium growth

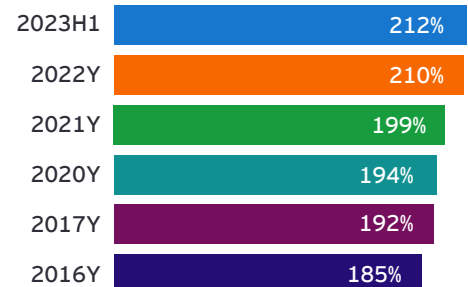
(1999 values indexed to 100)



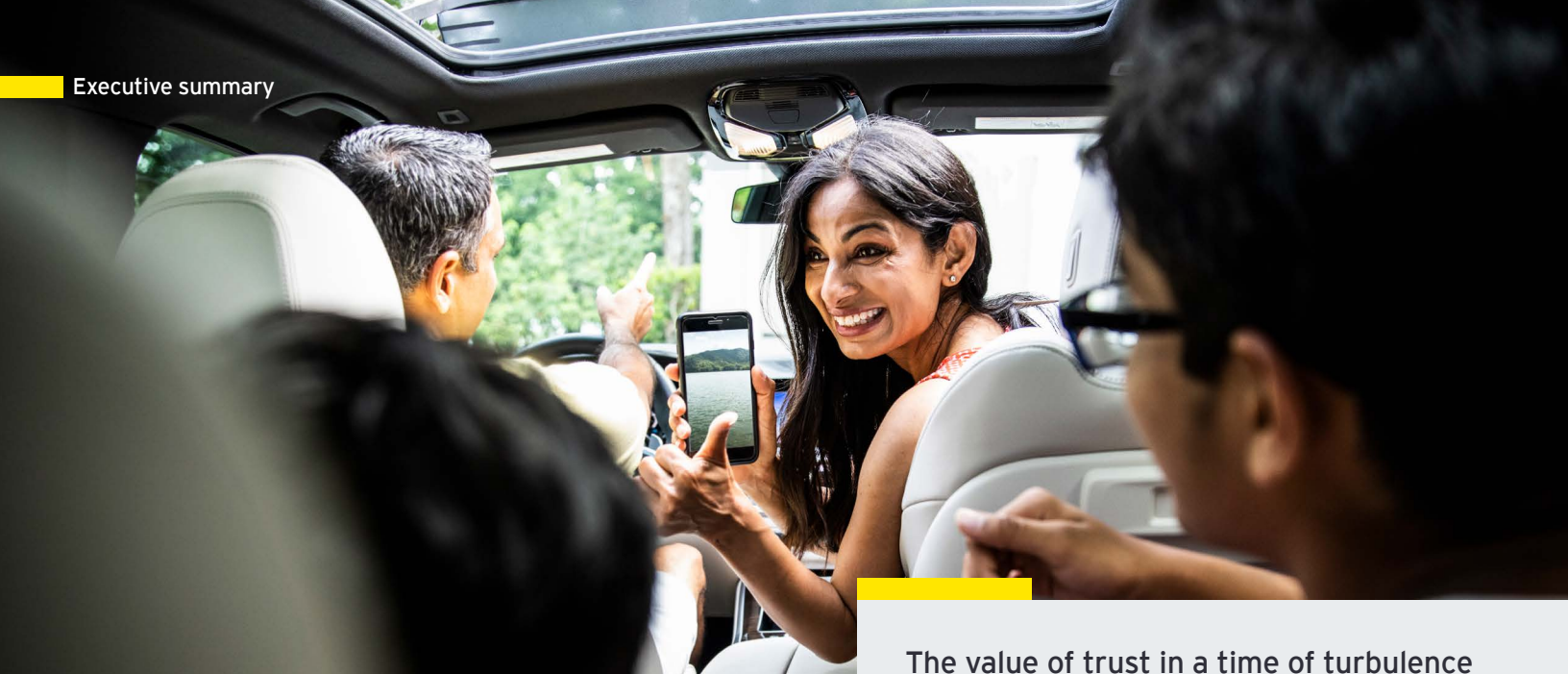
Source: Oxford Economics

### Solvency ratios

Average solvency ratio of 20 large European insurers (by market capitalization)



Source: S&P Market Intelligence



### The impact on non-life carriers

Non-life insurers are already adjusting strategies to offset higher claims costs and expanding climate risk. As inflation stabilizes, more predictable claims cycles and improved returns on interest-rate-sensitive investments are expected to enhance profitability. Higher premiums may provide some relief, but could result in lower customer satisfaction, loyalty and trust.

The maintenance of reserves has become more important due to sustained shocks from high inflation and sluggish economic growth. Given the volatility, regulators are keeping a close eye on reserves; despite ample buffers, the pace of reserve releases has decelerated, influenced by delayed settlements and other uncertainties. As inflation shifts from goods to services, liability exposures across the industry could be affected.

### The impact on life carriers

The cycle of interest-rate hikes, along with rising wages in advanced markets, is contributing to growth and profitability. Opportunities for annuity businesses and for pension risk transfer deals are on the rise, thanks to higher rates, elevated crediting rates and funding ratios.

However, the low-growth and high-inflation environment presents threats to profitability. Credit downgrades can influence solvency requirements and escalate unrealized losses. Elevated risks of lapses and surrenders could necessitate asset sales and trigger capital losses to meet redemption demands. Presently, both credit-related and lapse-related risks appear to be contained. Here again, scenario modeling that accounts for the unexpected would be useful.

After decades of stagnation – due to the focus on managing earnings from back books during a period of low interest rates and stringent regulations – rising rates can provide relief and spur growth. But demand will be tempered by cost of living issues and the cost of insurance solutions versus those provided by asset managers.

### The value of trust in a time of turbulence

A dynamic market presents insurers with many opportunities and incentives to build trust through transparency, personalization and stronger value propositions. Trust should be the foundation of the insurance sector, the bedrock of all relationships and the core of every interaction, communication and policy. In that sense, trustworthiness must be an active cultural attribute that guides product development, the automation of customer-facing processes, the evaluation and selection of ecosystem partners and the adoption of enabling technologies.

Certainly, high degrees of trust are a hallmark of the world's top insurance brands. The greater the trust insurers gain, the more they stand to benefit in terms of a larger and more loyal client base, increased profitability and more productive relationships with partners and regulators.

Conversely, those firms that don't improve on today's historically low levels of customer trust will be vulnerable to rising competition from outside the industry, including firms from the technology, automotive, retail, consumer goods and banking sectors. An insurance industry that lacks trust will struggle to build strong customer relationships or grow its market share.



# 1 Preparing for the transformative impact of AI

**A truly transformative technology arrived before many companies and regulators were fully prepared, meaning urgent action is necessary to build strong and transparent control and governance frameworks.**

Senior leaders across industries – along with pundits, futurists and philosophers – are thinking deeply about the full range of impacts and implications of AI, including GenAI. At the same time, the rapid adoption of ChatGPT and other applications has forced businesses to act quickly in identifying the right use cases for immediate-term performance gains and charting a course to longer-term transformation.

CEOs seem to understand the unique combination of risk and opportunity, with their mix of optimism and concern. With consumers ready and willing to use AI more frequently and for a wider range of tasks, a strong foundation of governance, oversight and controls will be necessary for safe and successful implementation of AI in insurance.

Given the urgency to move forward, it's important to remember that these are very early days for AI – roughly equivalent to 1995 in terms of Internet adoption. This chapter highlights how leading insurers are approaching their first-generation deployments and establishing governance and risk management priorities. It also outlines the complex regulatory landscape.

What insurance CEOs think about AI

**59%**

Say jobs impacted by AI will be counterbalanced by new roles

**58%**

Say AI is a force for good

**52%**

Plan significant investments in AI in the next year

*Source: EY CEO Outlook Pulse global survey, July 2023*

What global consumers think about AI

**60%**

Say they are optimistic in using AI for routine/repetitive tasks and to analyze data

**>60%**

Feel comfortable when AI is used for community safety, crime detection and workplace efficiencies

*Source: EY Future Consumer Index, 2023*

## Integrating AI into the business

While many technologies are described as transformative, not all of them live up to the hype. GenAI most certainly does, as the dramatic consumer uptake of the most intuitive apps has demonstrated. Democratized access to a hugely powerful technology has launched countless creative applications, with many more on the horizon.

### The most high-impact AI use cases in the insurance market are likely to include:

**Actuarial and underwriting:** Streamlining the ingestion and integration of data to free underwriters to focus on high-value work that leads to stronger risk selection and more profitable pricing; enhancing product benchmarking.

**Claims:** Automating first-notification-of-loss processes and enhancing fraud detection efforts.

**Information technology:** Strengthening cybersecurity by analyzing operations data for attempted fraud, monitoring for external attacks and documenting such attacks for regulatory reporting; generating code across languages (e.g., to update COBOL applications) and documenting infrastructure and software upgrades.

**Marketing and customer service:** Capturing customer feedback, analyzing behavioral patterns and conducting sentiment analysis; tailoring interactions with virtual sales and service representatives; strengthening chatbots' credibility and ability to resolve complex issues.

**Finance, accounting and risk:** Preserving organizational knowledge; enabling real-time analysis and summarization of documents; monitoring market and investment trends; producing more granular insights into financial and operational performance; creating educational content and interactive training for compliance and risk-management teams to keep current on the latest regulations.

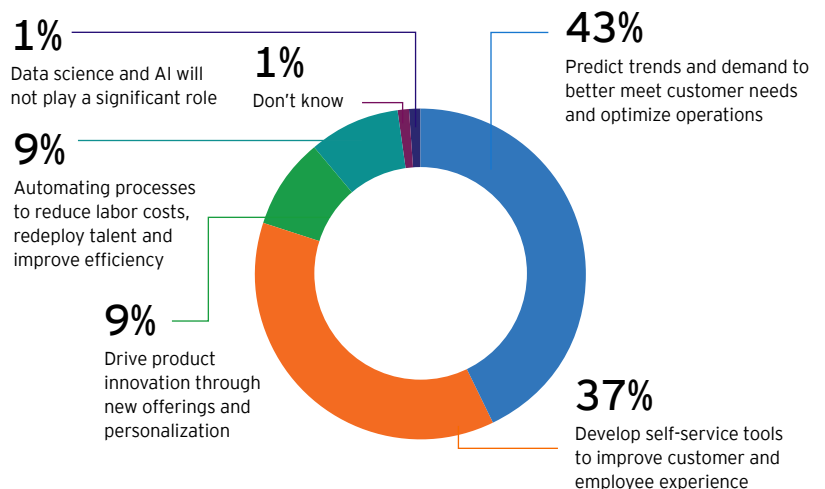
**Human resources:** Enriching workforce training and development curricula and materials; streamlining performance management and generating internal ratings; strengthening knowledge management and policy search.

For more detail on compelling use cases, see [How insurers can leverage the power of generative AI](#)

Early adopters are also exploring “human-in-the-loop” applications. For instance, GenAI-based copilots or co-bots can enhance the productivity and value of knowledge workers across the business.

Insurers remain somewhat cautious about adopting AI for customer-facing activities. That’s no surprise given the lack of regulatory clarity. However, the opportunities to use AI to differentiate the value proposition and enrich customer experiences (e.g., virtual “white-glove” service for high-net-worth individuals, high-value commercial customers and other key segments) can’t be overlooked. In the future, more ambitious applications will help shrink the protection gap. For instance, data flows from satellites and other sensors will create detailed models of key infrastructure and digital twins for communities to run ongoing simulations for stronger and more precise protections.

### Top ways global insurers plan to use AI and data science



Source: EY Tech Horizon global survey, 2022




## Understanding AI's risks

AI promises to deliver considerable benefits, from increased operational effectiveness and reduced costs, to elevated customer experiences and greater predictive intelligence. But the risks – both financial and otherwise – are every bit as significant as the potential benefits and closely intertwined. Consider the novel ability of GenAI to personalize product offerings and customer communications; with that high degree of customization comes greater risk of privacy, suitability and discrimination violations.

Maximizing AI ROI requires a comprehensive understanding of these risks, including those that are unique to individual businesses or specific parts of the organization. Those risks include:

- ▶ **Sensitive data:** the potential misuse or mishandling of sensitive data, including personally identifiable information (e.g., to fine tune large language models, or LLMs) can lead to breaches of privacy, a risk intensified by the vast amounts of data AI systems process.
- ▶ **Transparency issues:** the black-box nature of some AI models makes it difficult to explain or understand their decision-making processes, raising concerns about accountability.
- ▶ **Biased and false outcomes:** AI models, when trained on biased data, can spread or even worsen existing prejudices, leading to unfair policy terms and pricing or claims denials; hallucinations, where AI applications present false information or fabricate outputs from LLMs, are another concern.
- ▶ **Balanced human-AI collaboration:** knowing when to apply human judgment versus following AI-generated recommendations can be challenging.
- ▶ **Privacy concerns:** continuous monitoring (e.g., through telematics and wearable devices) may be seen as invasive by consumers worried about constant surveillance.
- ▶ **Reliability and replicability:** if not properly maintained or updated as conditions change, AI systems could produce inaccurate or outdated results that affect policy decisions and claim outcomes. Further, outcomes may begin to vary as inputs and LLMs change and the use of AI tools within workflows is adjusted.
- ▶ **Cyber:** adversarial prompt engineering, manipulation of inputs and other attacks can lead to unintended fraudulent activities and the loss of training data or even a trained LLM model. Because LLMs are built on third-party data streams, insurers may be affected by external data breaches.

Legal liabilities and regulatory exposures are also significant, from potential copyright and IP infringement, to data-use infractions, to compliance with the General Data Protection Regulation and other rules. Widespread uncertainty about what is allowed and what companies will be required to report is a major concern. *See next page for more on the regulatory outlook for AI.* Overall, the lack of insight into how AI systems use data and make decisions can erode confidence among customers, especially if outputs are not as expected or override human judgment. To a large degree, future consumer confidence will depend on the ethical deployment of AI and delivery of unbiased results, a challenge that will be faced by many firms, not just insurers.



Ethical use of AI  
will impact future  
consumer confidence.

## The regulatory outlook for AI – and how existing rules apply

Regulators worldwide are actively working on guidelines and initial legislation for AI adoption. The widespread availability of GenAI apps in 2022 made the task more urgent. Industry groups would like to see the development of cross-jurisdictional standards, but regional variations – and a fragmented compliance landscape – seem more likely in the near term. The US is likely to go slow in adopting only limited regulation, while European insurers are preparing for comprehensive legislation in the form of the EU AI Act.

Common themes, including transparency and explainability in model design and outputs, have emerged. Many regulators are looking to existing regulatory regimes, including those designed to be technology-agnostic, to frame AI guidelines. The OECD and UNESCO have made efforts to coordinate responses from across the industry. The G7 has also called for greater cooperation and consistency, largely through an agreement to promote AI governance that aligns with “shared democratic values” and the creation of the Hiroshima AI Process, a forum for cooperation.



### Europe

- ▶ Leading tech companies and venture capitalists have warned that comprehensive regulation could dampen innovation and hurt competitiveness.
- ▶ Ethics guidelines for AI are already in place in the EU, which will apply to future insurance use cases, including those from the European Commission’s High-Level Expert Group on AI (HLEG) and from various banking authorities.
- ▶ The European Commission’s proposed AI Act divides AI systems into four categories, which determine whether systems can be used freely, are prohibited or are subject to safety and transparency requirements.



### United Kingdom

- ▶ Signed by 28 countries and the European Union at the UK-hosted AI Safety Summit, the Bletchley Declaration outlined the need for international collaboration to plan for and manage “frontier” AI risks.
- ▶ Proposals introduce a set of non-statutory, risk-based principles to guide policy implementation for industry-specific regulators.
- ▶ A discussion paper in 2022 pointed to several applicable regulations, including the FCA’s Principles for Business, the Senior Manager and Certification Regime (SMCR) and data protection rules.
- ▶ Regulators have suggested how AI-driven pricing could violate the Consumer Duty.



### Italy

- ▶ Authorities banned ChatGPT immediately over concerns about data privacy, demanding age verification protocols and explanations of personal data use, which OpenAI provided.



### China

- ▶ Multiple regulatory agencies have published new requirements since 2017's Next-Gen AI Development Plan.
- ▶ Draft rules governing GenAI are more restrictive than measures in the US or Europe, and generally focus on the social impact of AI.
- ▶ New legislation requires AI-generated media content (text, video and audio) to be labeled as synthetic, and that providers ensure training data and content are "true and accurate."



### India

- ▶ After an initial "hands-off" position, the IT Ministry announced legislation to protect citizens from harm.



### Australia

- ▶ In June 2023, the Australian Government outlined measures for responsible and safe use of AI, while regulators are drafting AI regulations for the insurance industry.



### United States

- ▶ Despite high-profile calls for AI regulation (including from high-profile industry leaders), US lawmakers are moving slowly, and limited Federal guidance is expected.
- ▶ The US Consumer Financial Protection Bureau (CFPB) expects that existing laws will apply to the use of AI chatbots for customer service.
- ▶ A sweeping executive order from the Biden administration set a goal to promote "safe, secure, and trustworthy development and use of artificial intelligence."
- ▶ Several states are looking to apply guidelines from the National Association of Insurance Commissioners (NAIC) that emphasize the prevention of biased and unfair decisions.
- ▶ The Federal Trade Commission (FTC) can order firms to delete algorithms trained on data they should not have collected.



### Canada

- ▶ Authorities have investigated OpenAI's use of personal information and consent policies and created a voluntary code of conduct for responsible generative AI systems.
- ▶ The proposed AI and Data Act builds on existing legislation mandating algorithmic impact assessments and includes risk mitigation and management obligations for high-impact use cases.



### Brazil

- ▶ Proposed regulation similar to the European Commission's AI Act outlines requirements based on perceived risks.

For more on AI regulation, see [How to navigate global trends in Artificial Intelligence regulation](#)

## Seeking transformation in both the short and long terms

Forward-looking leaders are thinking broadly about the possibilities of AI. “AI will have a profound impact on the industry along two dimensions, near-term operational improvements and long-term strategic impacts, such as expanding access to insurance,” said Frank Schmid, chief technology officer (CTO) of General Reinsurance Corporation (Gen Re). “Given the technology’s power, the biggest AI risk for insurers and reinsurers is not to incorporate it in their operations and business models.” See sidebar for more on Gen Re’s approach to AI.

### Gen Re expects AI to broaden access to insurance

Gen Re’s strategy for expanding insurance accessibility through AI is characterized by a gradual, people-focused approach to augment professional experience and decision making. While some industry experts have expressed concerns that AI might lead insurers to limit coverage to only the most straightforward and safest risks, Gen Re’s CTO, Frank Schmid, remains optimistic about the possibilities for broadening insurance access.

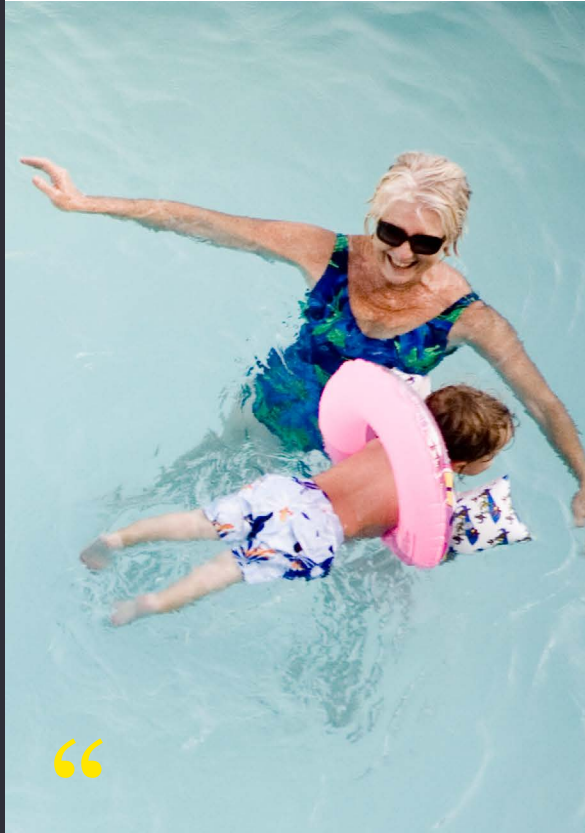
“When combined with granular data, AI has the potential to broaden the market for existing products and enable new offerings by diminishing the information asymmetry between insurance buyers and providers,” Schmid asserts. “AI will allow insurers to assess more accurately where individual customers are located on the risk spectrum and set premiums accordingly.”

Reducing the risk of adverse selection overcomes a major impediment to expanding the market for insurance and closing of the coverage gap. By means of more granular pricing, lower-risk customers may be able to secure coverage at more affordable rates, while higher-risk policyholders may pay rates commensurate with their risk profiles. This is unlike a situation of material information asymmetry where insurers are left pricing to the average risk and only the high-risk customers are willing to purchase coverage. Schmid identifies this reduction of friction in the insurance market as a primary societal benefit of the adoption of AI by insurers.

In the short term, Gen Re plans to leverage AI to enhance employee productivity, streamline processes, and reduce operating expenses. However, these advantages are contingent on having the appropriate technological infrastructure, particularly modernized cloud-based architecture, which includes data storage and engineering. It is this architecture that provides the foundation for the effective deployment and orchestration of AI services.

To oversee the implementation of AI, Gen Re has established a Responsible AI (RAI) Committee tasked with examining the regulatory, legal and ethical implications, setting AI usage guidelines and supervising education and training. The RAI Committee reports to the Group Risk Committee.

Managing organizational change poses a significant challenge for technology leaders striving to implement AI on a large scale. Educating employees about the capabilities and limitations of GenAI is essential. “With training and clear communication regarding permitted use, making AI tools generally available will instill a sense of competence and agency among workers, as well as promoting accountability for work products,” said Schmid. “This is how AI can amplify workers’ problem-solving skills, adaptability and creativity, as well as their emotional intelligence, good judgment and leadership.”



“

When combined with granular data, AI has the potential to broaden the market for existing products and enable new offerings by diminishing the information asymmetry between insurance buyers and providers.

**Frank Schmid**  
CTO, Gen Re

## Spotlight on ethical and responsible use through effective governance

Concerns about the ethical use of AI in decision-making processes are well-founded. For insurers, the priority must be protecting against the introduction of bias and unfair outcomes in coverage, pricing and claims decisions. Transparency in AI-driven processes – particularly when sensitive customer data is involved – is essential to building trust among customers, partners and regulators.

The goal is to validate that data model inputs and outputs are accurate and traceable. Appropriately labeling all outputs produced by GenAI apps and interfaces is another priority. Robust due diligence on sources is necessary because the public training data can increase the risk of inaccurate results, unfair outcomes and bias toward sub-groups. The source of such bias can be hard to identify and control, considering the huge amount of data – up to 100 billion parameters – used to train complex LLMs. Existing data management capabilities (e.g., modeling, storage, processing) and data governance (e.g., lineage and traceability) may not be sufficient to manage these GenAI-related risks.

Most carriers are still in the early phases of defining their governance models and control environments to address these risks. At early adopters, senior leaders recognize that effective risk management is critical to realizing the full business value of GenAI, not just for avoiding regulatory penalties and negative brand impacts.

Ideally, chief risk officers (CROs), chief information officers (CIOs) and chief compliance officers (CCOs) can work together in creating a framework necessary to realize the promise of AI in a safe and controlled way.

A few leading practices have emerged, including:

- ▶ Establishment of an AI ethics committee with experienced professionals to set policies for ethical use and adjudicate sensitive disputes
- ▶ Ensuring the organization has a comprehensive risk management framework in line with new requirements, with clearly defined accountability for the entire AI lifecycle
- ▶ Educating and training the workforce regarding the benefits and risks of AI in different functions and processes
- ▶ Maintaining a comprehensive database of AI applications across the business, including ones provided by external suppliers, that fully documents the data and processes used to train models
- ▶ Vigilance regarding “shadow AI,” or applications that have been deployed without proper vetting and sign-off
- ▶ Close monitoring of regulatory developments and anticipation of their impact and the requirements for timely compliance across jurisdictions

Systematically applying such changes can be a challenging and lengthy process. Thus, it’s crucial to act with urgency. The sooner the governance and control environment is established, the sooner insurers will be able to comply with new regulations and – more importantly – begin generating returns on their AI investments.

Top three concerns among European insurance executives around the ethics of GenAI

**31%**

Privacy

**26%**

Discrimination, bias and fairness

**21%**

Transparency and explainability

Source: EY European Financial Services AI Survey, 2023



## Insurance Europe's view on the AI opportunity and the regulatory outlook

Insurance Europe (IE), the federation of European insurers and reinsurers, has clear visibility into both the state of AI adoption and the prospects for regulation. AI uptake still varies across the EU, with some insurers leading the charge and others in the early stages. But interest is high, given AI's potential to "enhance insurers' role as risk-absorbers in society," according to Michaela Koller, IE's Director General. "By helping to reduce the frequency and severity of losses over time, AI can benefit both individual policyholders and society as whole."

Those benefits include more accurate pricing, tailored protection, faster claims processing and round-the-clock customer support (through the use of AI-powered chatbots and virtual assistants). But AI can also open up new avenues for innovative products and services.

The likelihood of widespread adoption has attracted the attention of government and regulators, which perceive a need to write new rules for the use of new technologies, as the pending AI Act demonstrates. "Ideally, new regulations will blend smoothly with existing laws, like the General Data Protection Regulation, and sector-specific conduct rules," said Koller. "Balancing the risks and benefits of new technology within a comprehensive impact assessment, the best regulation promotes effective risk management controls, as well as product governance and transparency."

Koller notes that insurers have natural incentives to protect the vast amount of sensitive personal data customers entrust to them. "Ensuring fairness and protecting the privacy of consumer data are not only legal and regulatory matters, but also fundamental components of consumer trust," she added. "By prioritizing data privacy and fairness, insurers can not only comply with regulatory requirements but also show their commitment to delivering fair and trustworthy services to all."

## Imperative actions for insurers

### Establishing the strategies, capabilities and controls to harness the power of AI

- ▶ Shape AI strategies around the highest-priority and lowest-risk use cases, emphasizing human-in-the-loop and copiloting applications
- ▶ Build business cases that balance middle- and back-office implementations to increase operational efficiency with transformative bets on new business models and product innovation
- ▶ Identify talent and workforce impacts, including both productivity gains and potential reductions in force, and explore external sourcing and partnership strategies to fill skills gaps
- ▶ Promote collaboration between CIOs and CROs in defining enterprise-wide risks, creating strong and transparent governance models and updating risk-management and control frameworks
- ▶ Closely monitor regulatory developments and determine where regulators are most likely to apply existing laws and rules
- ▶ Engage with industry groups and government authorities to shape potential standards for the industry
- ▶ Consider risk-based governance models, with flexibility to adjust as the technology matures



# 2

## Spotlight on delivering societal value

**Regulators, political leaders, individual citizens, investors and other stakeholders are looking to the industry to address the complex and urgent challenges faced by countries, communities and customers around the world.**

From pandemics and natural disasters to economic inequality and demographic shifts, the events of recent years have caused more people to think about the societal role of business and the responsibilities that large companies have to citizens and communities around the world. The advent of the environmental, social and governance (ESG) movement raised the bar on all types of businesses to make purposeful commitments, take meaningful action to execute them and report out their results.

The strain on public resources means even more will be asked of private enterprise in the future. Expanding regulatory requirements and new disclosure standards blend the E and S aspects of ESG, while placing new emphasis on the G – or firms' ability to accurately track and report on a range of key metrics.

But this isn't strictly about compliance. Indeed, there is growing consensus among consumers and investors that insurers can and must deliver societal value. Insurers are in the spotlight because of their deep risk expertise and unique ability to protect people, families and businesses of all shapes and sizes.

As regulators shape the agenda in key areas, they are providing incentives for innovation and collaboration. Insurers that embrace "impact by design" strategies can increase their societal contributions and realize substantial benefits, including stronger customer acquisition and loyalty, higher employee satisfaction and retention and improved access to capital.

As highlighted in the rest of this chapter, the highest priorities for making a positive societal impact include:

- ▶ More understandable, affordable and accessible products
- ▶ Collaborations for increased financial security and wellness for more citizens
- ▶ Enhanced protection from climate risk and services to facilitate the transition to a greener economy
- ▶ Support for gig workers and others in non-traditional employment
- ▶ Hiring practices that promote a more diverse, equitable and inclusive workforce
- ▶ Increased engagement with regulators and more detailed ESG reporting

## The regulatory push for transparency

Broader and more detailed sustainability disclosure standards are coming soon to insurance and other major industries. These standards will challenge insurers, but also present strategic opportunities for firms that adopt the right holistic approach. The most visible initiatives include:

- ▶ The **International Sustainability Standards Board (ISSB)** has proposed a single consistent standard for sustainability disclosures to provide material information for capital markets. This baseline would provide a foundation for additional jurisdictional requirements.
- ▶ The **Task Force for Nature-related Financial Disclosures (TNFD)** recommends that organizations report on their activities, risks and impacts relative to biodiversity to “support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.”
- ▶ The **Corporate Sustainability Reporting Directive (CSRD)**, in force as of January 2023, requires detailed social and environmental reporting in Europe for insurers that meet specific financial or workforce criteria.

These are not the only standards and guidelines that investors, consumers and other stakeholders will use to assess the sustainability performance of insurers and other businesses. EY researchers have identified more than 2,500 proposed ESG-related guidelines, frameworks, standards and regulations worldwide, though insurers will not be subject to all of them. The standards that apply will be challenging, however, with requirements that insurers capture and validate a huge amount of data.

# 1,400

Approximate number of data points required for compliance with ISSB

# >2,600

Proposed ESG-related guidelines, frameworks, standards and regulations worldwide

Source: EY analysis, 2023

Given the overlap in these directives and their broad impact on the business, insurers need to approach them holistically. Reporting will need to cover products, services, investments, underwriting and claims. Developing the necessary capabilities will be a big task, but one which can help boost trust through increased transparency. Firms that embrace distinct change-management strategies will have the smoothest path to adoption.

Looking beyond the tactics of compliance, business leaders and boards should explore how they want to position the company relative to societal needs. Setting the right strategy will do more than satisfy regulatory requirements; it can also attract new customers to the business and thus spark growth. In contrast, a defensive, reactive posture to regulatory activity is unlikely to produce value for society or growth for insurers.

## Shrinking the protection and savings gaps

Driving growth by generating societal value starts with addressing the extensive and pervasive global protection and savings gaps. Retirement savings and pensions shortfalls and increasingly expensive homeowners' coverage affect more people every day. Growing numbers of gig, contract and freelance workers, start-ups and home-based businesses lack access to basic health coverage and savings and investment opportunities. All types of businesses, non-profit organizations and government agencies, as well as individuals and families, need more protection against cyber threats.

Seizing the opportunity requires a fundamental shift from solely covering clearly defined and known risks for discrete periods of time

to devising flexible solutions that help people manage uncertainty throughout their lives. A portfolio strategy could help insurers understand the sustainability preferences of target customers and identify the segments with the strongest appetite, including those that would switch providers or pay a premium for sustainable and socially oriented insurance products.

In many jurisdictions, these gaps have become too big for any one group or entity to cover alone. Public-private risk-sharing programs can combine (re)insurers' underwriting capacities with risk reduction efforts, including steps to avoid moral hazards, to enhance resilience and reduce the cost of coverage.



>US\$2.8t

Total global insurance protection gap, 2022, equivalent to at least 3% of global GDP

Pension gap: US\$1t

Cyber protection gap: US\$900b

Health protection gap: US\$800b

NatCat protection gap: US\$100b

Source: Global Federation of Insurance Associations

**Collaborations to enhance financial security and wellness**

Collaborations hold the key to solving the retirement savings and financial security gaps. Ecosystem partnerships can present traditional insurance policies alongside annuities, financial planning services and other complementary offerings. They can help insurers optimize the supply costs for sustainable insurance propositions and capture more demand. Group insurers in the US are working directly with large employers to develop more holistic solutions incorporating financial, physical and mental wellness. They are also seeking ways to provide coverage for gig, free-lance and contract workers.

Authorities are seeking to create incentives for innovation. In the UK, regulators have signaled their strong preference for financial services firms to help close the pensions gap, encouraging innovation that aligns to firms' fiduciary duty and promotes better outcomes for customers. For example, long-term – or “slow-money” – strategies that direct pension assets into public infrastructure investments are seen as ways to improve returns for savers and smooth the transition to a lower-carbon future that benefits all citizens.

**Athora embraces the “prerequisite” of societal impact**

European retirement savings and services provider Athora recognizes how it can promote sustainability in multiple ways – as an insurer, an employer, an investor and a corporate citizen. According to CEO Mike Wells, societal impact is a “prerequisite” in today’s market. “We aim to ensure that our work genuinely generates value for all our investors, and enables our customers, employees, community and planet to thrive, without compromising the means of future generations,” he said.

Athora is committed to guaranteed products, regardless of the low interest rate environment and the persistent regulatory drag of current capital requirements. Guarantees are central to the company’s social purpose of “providing savings and retirement services” and “taking care of future income provisions for customers.”

“The guaranteed product is the one that consumers want,” Wells pointed out. “We can deliver on it because we bring very long-term capital to very long-term promises.” The company executes on its ambitions by investing in the real economy through direct loans, private equity and infrastructure.

Athora’s societal contributions take multiple forms. It has been recognized for its sustainability initiatives in the Netherlands, including investing in an environmentally sensitive office building that offers housing for immigrants.

Athora takes an integrated approach to embedding sustainability in all its activities. “You need to demonstrate that you are doing the right thing and offer tangible proof that you are contributing socially,” said Wells. “If you don’t, you’re not going to get the right workforce or the right business partners.”



### Addressing climate risks with protections and green incentives

The climate risk protection gap has grown in recent years, as the frequency and severity of floods, freezes, heat waves, droughts, wildfires, winter and tropical storms and other natural catastrophes (NatCats) have increased. They now occur in more places and on a larger scale than many in the industry could have predicted. It's understandable that insurers would reduce their exposure in some markets, especially when regulators cap premium increases. But the industry's historical purpose of protecting people, businesses and communities from serious risks suggests it has a duty to be part of the solution. Plus, exiting high-risk markets (e.g., Florida, California) may open the door to new market entrants that are motivated to take on climate risk and better equipped with new technology, data streams and sophisticated predictive models.

Further, there's ample growth for companies – and not just incumbent carriers – that commit to developing a new generation of climate risk solutions. That upside is now within reach as the data and technology needed to accurately assess and protect against climate risks are widely available today. Advanced analytics, internet of things (IoT) sensors and other digital technologies enable insurers to predict, manage and monetize a range of climate risks. Dynamic underwriting and micro-segmentation of risks, real-time pricing, intelligent risk prevention, fully automated claims processing – these capabilities have all matured.

Several European insurers are using new data streams (e.g., satellites, drones, terrestrial sensors) to create new options for protection against droughts, earthquakes and landslides. Others have adopted advanced AI toolsets to model and predict storm damage and quickly assess damage after catastrophes occur. Variable pricing models and risk awareness programs based on transparent information sharing can also create incentives for clients to reduce their exposures, while digital distribution can expand access to coverage.

Public-private partnerships that promote collaboration, innovation and long-term solutions can help shrink the NatCat protection gap, too. There are many promising collaborations in place worldwide:

- ▶ The InsuResilience Global Partnership for Climate and Disaster Risk Finance and Insurance (CDRFI) has brought together more than 120 governments, civil society organizations, academic institutions and non-profits, and businesses, including many leading European insurers and reinsurers, to better protect vulnerable populations from climate disasters.
- ▶ In the US, the National Flood Insurance Program (NFIP), managed by the Federal Emergency Management Agency (FEMA), collaborates with more than 50 insurance companies and many communities for effective flood mitigation. Coverage is available via digital portals.
- ▶ In Asia, MS&AD has developed a dashboard that utilizes real-time weather data, flood prediction and post-disaster damage estimation to support local governments in visualizing and mitigating regional disaster risks and losses.
- ▶ In Japan, Tokio Marine and Nichido Fire Insurance are leading the Disaster Prevention Consortium (CORE) to prevent disasters and mitigate their impacts in line with the Fundamental Plan for National Resilience. A total of 13 companies are participating.

The transition to a greener economy is another area where the industry can exert leadership. Commercial and P&C insurers can directly influence consumer behavior via product features and incentives. As large institutional investors, life insurers can support the development of green infrastructure and promote eco-friendly investment options for sustainability-minded customers. Some forward-looking life carriers are performing stress and scenario tests to assess the long-term impacts of extreme heat waves, flooding and tropical storms on life spans and mortality rates. All of these steps simultaneously deliver value for individual customers and society as a whole.

A new generation of climate risk solutions can unlock significant growth.

## Enhanced employee value propositions that benefit everyone

Employees are another constituency that will benefit from insurers' societal impact strategies. As insurers continue to struggle to find the talent they need, a purposeful commitment to societal value can be a powerful tool to attract and retain talent. That's especially true now that Gen Z and Millennials represent a large proportion of the workforce.

Additionally, insurers can contribute to a more equitable society by going beyond biases in building a truly diverse talent base and an inclusive work environment. That includes not only hiring people of all races and ethnicities, ages, genders and sexual orientations, but also hiring for neurodiversity. Conditions such as dyslexia and ADHD are increasingly viewed not so much as disabilities but as alternative mindsets that can produce unique ideas for and contributions to the business. More engaged workers can also provide a productivity boost.

As competition for workers remains intense, insurers must look to engage talent in all its forms. By aiming to become "post-bias" employers and leveraging unique attributes, insurers will foster competition in the workplace and help all individuals progress, regardless of their starting points. And they should not overlook how diverse hiring may have financial implications in terms of reduced turnover and lower recruiting costs.

### The future of (non-traditional) work

The large and growing cohort of people in non-traditional working arrangements is well attuned to the need for financial security and would be open to a range of solutions from insurers, including income protection, retirement savings and healthcare solutions. Gig workers also want policies that allow them to toggle between personal and professional coverage. Here again, an underserved segment represents a clear growth opportunity.

These groups also have competitive implications. Employee benefit firms and tech providers want to spark growth by serving gig workers. Differentiated solutions will be easy to understand and buy, and flexible enough to make easy adjustments as consumer needs change over time, as they inevitably will.

### Proportion of global population

**30%**  
Gen Z

**23%**  
Millennials

Source: World Economic Forum, 2023

**25%**

Proportion of top 500 US companies by revenue that will actively recruit neurodivergent talent by 2027

Source: Gartner, 2023



## How Swiss Re unlocks social impact

Swiss Re, one of the world's leading providers of reinsurance, insurance and insurance-based risk transfer, takes seriously its societal commitments. Building societal resilience is one of the two ambitions of its sustainability strategy. The focus is on climate adaptation, as well as enhancing disaster resilience, fostering financial inclusion and improving healthcare protection in both advanced and emerging economies, with the goal to make the world more resilient.

"The nature of the reinsurance business helps drive societal change by offering protection against risks, providing access to capital, and making insurance more accessible and affordable," said Ute Michaelson, Swiss Re's Head of P&C Facultative in North America. "Today, younger generations expect corporations to do their part for society and want to work at firms that embrace a higher purpose."

Swiss Re believes that transparent reporting and communication on the efforts to deliver societal value are important for companies to build trust and attract investment. Those activities can include onboarding diverse business partners, participating in more public-private partnerships and developing innovative products and solutions.

"Our vision to make the world more resilient and our commitment to ESG goals are ingrained in everything we do," said Michaelson. This commitment is reflected in Swiss Re's sustainability mission: "we insure, invest, operate and share our knowledge in a way that tackles sustainability challenges and creates long-term value."

An ESG Risk Management Framework enables Swiss Re's sustainability strategy. The framework is based on three overarching principles – protecting the environment, respecting human rights and promoting good corporate governance. It also has seven sector-specific policies where it perceives major ESG risks. The Framework applies across all areas of the business and is updated regularly. The company's reporting tracks other sustainability measures across the organization. Swiss Re is included in high-profile investment indexes, including the Bloomberg gender equality index, MSCI world industry leader index, and Dow Jones sustainability index.

Swiss Re launched Public Sector Solutions a decade ago to strengthen its sovereign protections. It specializes and continues to invest in nontraditional insurance products, including parametric products and insurance-linked securities. The company is also notable for enabling Nepal's renewable energy project financing via parametric insurance, leading the reinsurance of the Mexican government's natural disaster fund to protect climate vulnerable farmers, and supporting flood protection for low-income New York City residents.

## Strategizing for (and reporting on) societal value

Too often in the past, insurers have focused ESG and other societal value programs on the realms of corporate social responsibility units or regulatory teams. Societal value objectives should be factored into insurers' overall growth strategies. Attractive products and a brand that resonates with customers are also key. Indeed, insurers would be well served by considering entire communities as actual customers, rather than as just important constituencies. The strongest brands in the future will be built around specific practices (e.g., transparent reporting, progressive sourcing) that are verified by third parties.

Reporting of metrics under mandatory and voluntary standards – according to jurisdiction – reinforce an insurer's commitment to closing the retirement savings and protection gaps, engaging previously underserved customer segments and reducing carbon emissions. Operational and performance metrics can complement other ESG numbers (e.g., workforce and board diversity). More detailed disclosures will also make clear to regulators, investors and consumers that insurers are fully committed to and effectively executing their ESG strategies.

Senior leaders will need a crisp and persuasive narrative regarding the relationship between profitability targets and social impact. Capital markets will want to know that the two are not in conflict. New reporting standards may help in this regard: the CSRD's "double materiality" concept requires companies to specify how sustainability issues can create financial risks (financial materiality) and the company's own impacts on people and the environment (impact materiality).

These objectives often require a long-term perspective, which can make it challenging for insurers under pressure to deliver short-term results. Significant operational changes, from underwriting to claims processing, may be necessary, which can strain budgets and divert resources from established revenue-generating activities. And there's a risk of being perceived as insincere or engaging in "greenwashing" if ESG initiatives are poorly implemented or insufficiently communicated. Conversely, insurers should not overcompensate to the point of "greenblushing," where they are accused of downplaying their environmental commitments. It will be a difficult balance to strike.

Still, we believe the rewards will more than justify substantial investments because they can unlock breakthrough growth. After all, the huge number of uninsured and underinsured customers and the variety and extent of coverage they need suggests the size of the opportunity.

Ultimately, embracing societal value as a worthy goal also requires making purposeful strategic choices about what type of business an insurer wants to be. Many organizations in many sectors like to view themselves as technology companies. But that doesn't mean every firm should aim to replicate the valuation patterns and growth trajectories of the biggest tech companies. Stable, predictable, consistent returns, like those typically produced by utilities, are a financial aspiration better aligned to the nature of the insurance business, as well as its traditional purpose and brand positioning (i.e., as reliable partners in times of need). The ability to produce significant benefits for all parts of society should be a pillar of the industry's value proposition – for customers, investors and regulators alike.

## Imperative actions for insurers:

### Defining new capabilities and offerings for greater societal contribution

- ▶ Identify specific market needs and emerging risks where societal needs intersect with the goals of the business
- ▶ Explore "impact-by-design" strategies where business objectives align with positive social outcomes
- ▶ Target underserved customer segments open to new offerings (e.g., climate risk prevention services for small businesses)
- ▶ Codify why and how products deliver value and find ways to point customers to those with the most appropriate features and costs
- ▶ Emphasize prevention services to be seen as a proactive partner rather than simply a payer when damage occurs
- ▶ Devise hybrid products that balance unique customer objectives (e.g., financial protection, long-term income generation, life coverage) with wellness features
- ▶ Orient branding, marketing and communication programs around an organizational purpose linked to human and societal needs
- ▶ Identify metrics to measure the business value of societal impact strategies (e.g., employee satisfaction, customer loyalty, brand equity)
- ▶ Engage regulators to promote greater risk awareness and specific outcomes (e.g., retirement readiness)



# 3 Ever-evolving customer needs and blurring industry lines

For all the external forces reshaping the insurance industry, changing customer bases are the most powerful impetus for innovation, growth and increased competition from non-traditional players.

Changing customer behavior is affecting every line of business and dissolving industry boundaries, causing direct competition among firms that previously operated mainly on their own turf. With more consumers seeking holistic solutions for wellness, security and protection, more types of firms – wealth and asset managers, financial planners, pensions and annuity providers, and traditional carriers, plus health systems, banks, InsurTechs, tech platforms and other disrupters – are fighting for the hearts, minds and wallets of the same buyers, intermediaries and influencers.

As with the adoption of AI and societal impact strategies, trust and confidence play a key role. Given the way products and services are evolving and the high stakes around protection and savings, consumers are going to turn to providers they trust. And they will trust those firms that provide the right advice, have the right solutions and do the right thing.

The pursuit of more value is the common motivation for changing customer behavior across lines of business. That typically means tailored products that are easy to purchase and affordable, have modular features and can be enhanced with complementary services and personalized recommendations.



## 30%

Proportion of all global insurance transactions that will happen in embedded channels by 2028

*Source: EY analysis, 2023*

This is what digital leaders in retail, ecommerce and technology have taught customers to expect. And if insurers don't deliver what they want – precisely when, where and how they want it – customers will take their business elsewhere, including to more trusted brands now entering the insurance market.

This shifting balance of power helps explain why embedded insurance and ecosystem plays are gaining traction, and why captive insurers continue to grow at impressive rates. Designed to satisfy individual customer needs at scale, these business models point the way forward to the future.

## The expansion of ecosystems and embedded insurance

Two of the most powerful innovations in the industry – ecosystems and embedded insurance – have emerged primarily because they deliver what customers want. Ecosystems provide convenient, one-stop access to a broader set of complementary products. Embedded insurance appeals to consumers who want to safeguard important purchases and seamlessly integrate protections into their daily lives. The next generation of embedded goes far beyond the simple mobile phone coverage, travel insurance and product warranties of the past.

Trust and brand awareness play crucial roles in ecosystems because roughly 75% of the profit is typically made by the orchestrator. Insurers entering ecosystems led by others must take a balanced view of benefits and risks. Access to new customers is important, but adverse selection is a concern; when partnering with major brands, insurers may face pressure to accept all business, which could compromise their control of risks flowing into their portfolios.

Significant regional differences exist, but ecosystem development is accelerating worldwide. The Asia-Pacific region has seen the most dramatic growth in embedded offerings, because consumers are more accustomed to direct distribution and the prevalence of single apps that embed commerce, banking and other services. Ecosystems may grow more slowly because consumers aren't used to choosing from a range of branded options.

In Europe, adoption has been slower than expected, largely due to more stringent data privacy and conduct regulation, though Open Insurance rules could boost adoption. For now, European insurers remain cautious about compromising their brand equity in channels led by other firms. There is, however, growing interest in more extensive collaborations and in positioning as the "engine" behind product offerings. More insurers also recognize the impacts beyond distribution. Embedded insurance can transform underwriting and claims by merging protection and risk prevention directly with covered assets.

### What global insurance leaders say about ecosystems



Existing ecosystems are very important to their company's current success

52%  
North America

87%  
EMEIA

54%  
APAC



Ecosystems provide higher growth opportunities over traditional business approaches

63%  
North America

64%  
EMEIA

60%  
APAC

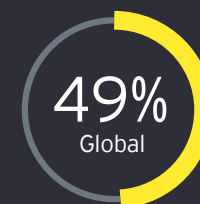


High-performing ecosystems increase efficiency and reduce costs

88%  
North America

55%  
EMEIA

20%  
APAC



Ecosystems foster creativity and innovation

38%  
North America

59%  
EMEIA

20%  
APAC

Source: EY Ecosystem Study, 2021-22

As ecosystem adoption grows worldwide, balanced strategies help insurers capture value and mitigate risks.

## How Global Atlantic seeks growth through digital enablement

In a time when customer expectations are defined by digital leaders, US-based life insurance and retirement company Global Atlantic Financial Group (GAFG) is focused on delivering simple and engaging digital experiences to both advisors and policyholders.

Because annuities and other insurance products are often perceived as complex, Global Atlantic aims to communicate clearly what its products offer and how to purchase them. “We design a client experience that provides transparency and effective education in a user-friendly way,” said Emily LeMay, GAFG’s chief operations officer.

Insight generation and data sharing are at the core of the company’s customer-centric transformation. Rigorous quantitative analysis on widely sourced data helps GAFG understand what customers and financial professionals are looking for. Business leaders also rely on qualitative feedback, including inputs from a board of advisors and intelligence from sales teams that interact directly with clients and advisors. “We set our agenda based on what consumer and financial professional behavior tells us,” said LeMay. “Customer input is the primary driver for solution design.”

GAFG’s goal is to cultivate strong relationships with top distribution partners via ongoing dialogue about their clients’ needs and their own growth strategies. Collectively, the company undertakes these actions to help it compete with emerging and non-traditional players.

The company is investing in legacy system modernization and new technology deployments with the goal of increasing operational agility, another critical competitive consideration. “Because of evolving market dynamics, there’s always a risk of falling behind,” LeMay added. “We have to operate flexibly and attentively to meet the changing dynamics for success.”

## wefox enables embedded insurance

Berlin-based InsurTech wefox connects carriers, brokers and distributors and customers via a B2B2C business model and modular tech platform. With the wefox suite of solutions, non-insurers can launch entirely new insurance products - including embedded offerings - in a few months.

“Our global solutions help companies make affinity insurance a strategic and core business vertical, opening new revenue streams and strengthening customer loyalty,” said Pierfrancesco Ricca, global affinity leader, wefox Group. “We think native technology and seamless digital journeys will enable success in embedded insurance.”

wefox provides its affinity partners - including some of the most recognizable brands in the industry - exactly the services they need to develop their own unique insurance offerings. Regardless of the complexity of their business, product solutions and distribution networks, partners can launch a technically unlimited portfolio of insurance products across channels and markets.

The focus is always on simplicity and scalability. A seamless experience for insurance business management provides an advantage to affinity partners’ sales teams. Further, wefox is product-agnostic and able to work locally and internationally with any insurer or reinsurer.

The company’s modular technology platform is designed for flexibility and easy integration. Partners can activate the specific insurance services and processes they need, from product design, to sales training and distribution, to claims and policy administration. Affinity partners retain complete control and, through detailed analytics, can track the performance of their embedded programs. Robust reporting tools help streamline compliance processes.

With a vision to make digital insurance easier for everyone, wefox has attracted two million customers to date, with partners in bancassurance, automotive, energy and utilities. They plan to expand into additional sectors in the future.



**Rising competitive stakes in every line of business**

Ecosystems and embedded plays are prompting competition from non-traditional players, which is forcing insurers to act. Carriers that move too slowly risk losing more business to these insurgents. Those that invest in product innovation and new partnerships can still seize the moment to spark growth.

The threats and opportunities are present in every line of business. Automotive and commercial property insurance are likely to see the most dramatic disruption in the near term. First-movers in these sectors are aggressively executing bold strategies in pursuit of stronger and deeper customer relationships. They have made large investments to build out the technology, operational capacity and specialty expertise they need to build significant insurance businesses.

Life insurance, annuities and income replacement products may be embedded in employee benefit plans and mortgage offerings. Ecosystems are particularly well suited for the holistic well-being

solutions that more consumers are looking for. Carriers are certainly capable of creating such offerings and crafting intuitive purchase and consumption experiences, but they must keep in mind that informed and empowered customers are more focused on what they want than on whom they buy it from.

Embedded and ecosystem plays are making headway in reinsurance and large commercial lines, too:

- ▶ Pharmaceuticals use embedded insurance to protect their partners in developing and trialing new medications
- ▶ Cloud computing platforms offer cyber coverage and other protections as automatic features in standard contracts
- ▶ Large brokerages are launching ecosystems for a range of advisory services (e.g., provision of risk engineering, coverage benchmarking, legal services, data and analytics services)

Again, all of these efforts are in direct response to shifts in market demand.

Core technology must be modernized to handle larger volumes and more varieties of data and to connect seamlessly and securely with partners. Why? Because that's what's necessary to deliver what customers want. Product development processes should be overhauled based on modern platforms that provide pre-built components and advanced APIs to integrate with partners. By increasing their use of IoT sensors within embedded offerings, insurers will equip themselves to manage their loss curves down to a significant degree. Culturally, leaders must emphasize the need to collaborate freely and iteratively. Design thinking, rapid prototyping and Agile ways of working will be hallmarks of embedded and ecosystem leaders.

**Seizing the growth opportunity**

Although there is consensus among industry analysts and research groups that embedded and ecosystem growth will be significant and sustained, the change won't happen overnight. After all, few, if any, non-insurance brands have a great deal of experience in distribution. None of them yet know how to underwrite. Regulatory barriers also remain significant, particularly in Europe and the US.

But insurers should be careful to avoid underestimating the threat posed by leading brands – especially automotive manufacturers and tech companies – with their ample capital, large and loyal customer bases and strong track records of innovation. These attributes will make them formidable competitors.

To take full advantage of the growth potential, insurers will need to define strategies that recognize embedded insurance and ecosystems are more than distribution channels. Finding the right partners is critical because trust and brand awareness will be key success factors in the embedded era.

**Among new car buyers in US**

**85%**

Are more satisfied with dealerships that provide multiple insurance quotes and immediate purchase options

**72%**

Prefer to have insurance presented at the time of purchase

*Source: 2023 Polly Car and Insurance Buying report*

**Among consumers in UK and top four European markets**

**>80%**

Cite instant payouts as the number one reason for purchasing embedded insurance

**63%**

Would opt for embedded insurance if available at point-of-sale

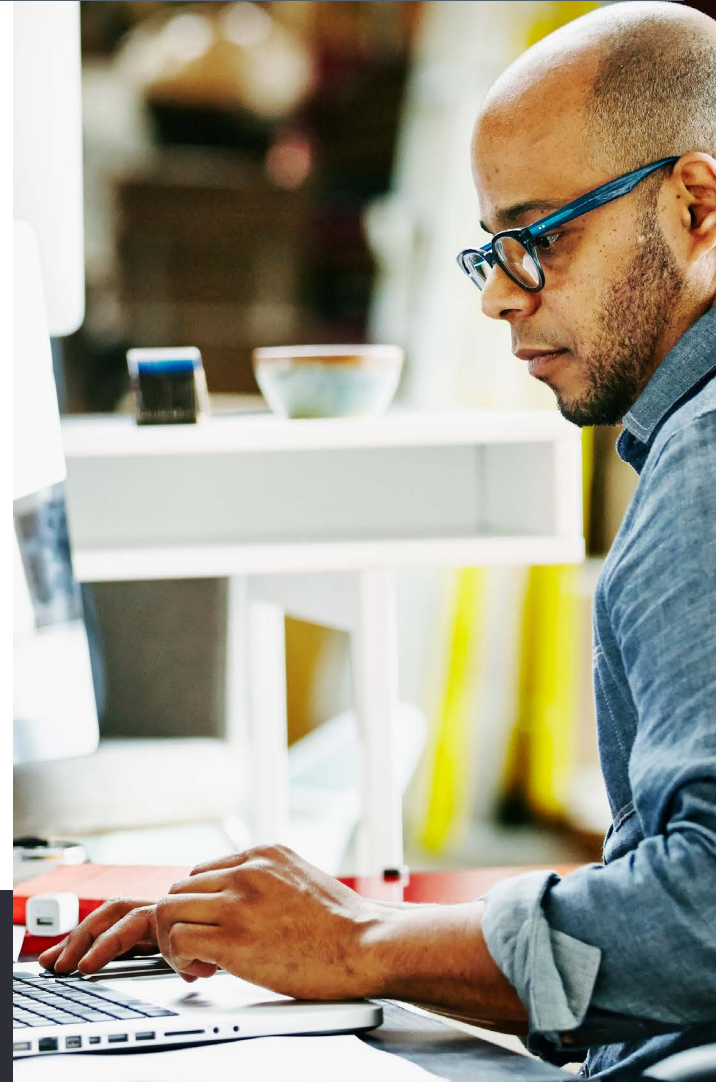
*Source: Companjon Embedded Insurance Study, 2022*

## The relentless growth of captives, and what it means to traditional insurers

With a hard market continuing in commercial insurance, captives have become a fixture on the industry landscape. Up until a few years ago, captives were rightly considered to be part of an alternative risk transfer market. That is no longer the case. Nearly every *Fortune* 500 firm owns and operates its own captive insurer. Captives now represent nearly 25% of the overall commercial insurance market, having diverted hundreds of billions of dollars in premiums from traditional channels in the last decade. The European captive market is also growing, thanks to a friendly legislative and regulatory environment in multiple jurisdictions.

Captives have grown because companies weren't finding what they wanted on the open market. They came to believe they could devise more effective risk solutions in more direct alignment with their needs than could traditional carriers. Their outperformance on key metrics confirms they were right. Superior combined ratios have not only led to remarkable growth in captives' retained earnings and surplus, but also translated into billions of dollars in savings for captive owners. As a result, more companies are more comfortable putting more risk on their balance sheets and keeping it there.

Super captives are now capable of assuming huge amounts of risk, for example by covering their own supplier networks. They've matured their use of reinsurance to reduce portfolio risks and volatility. And they're well positioned to build out ecosystem platforms and unique forms of embedded insurance.



# 90%

Proportion of 500 largest US companies by revenue owning captive insurers

Source: *Captive Review's World Domicile Update, 2023*

# 58%

Increase in premiums written by captives with Asia-based parents, 2020-22

Source: *Marsh Captive Landscape Report, 2023*

# 13

New captives established in France since 2020

# 50

French firms planning to establish captives

Source: *AM Best, 2023*

# US\$176b

Global premiums written through captives, 2022

Source: *Captive Review's World Domicile Update, 2023*

## Average combined ratios, US-domiciled insurers, 2018-22

# 98%

Commercial casualty carriers

# 83.9%

Captives

Source: *AM Best, 2023*

### How carriers can collaborate with captives

For all the competitive threat presented by captives, there are opportunities for carriers to engage and innovate with solutions that cover strategic, functional or geographic gaps in captives' operations:

- ▶ **Fronting:** insurers can issue policies to captives covering certain risks or offering protection in specific geographies in exchange for a percentage of premium.
- ▶ **Reinsurance:** more commercial insurers are acting as reinsurers for the captive market, particularly in the Middle East and sometimes in combination with fronting strategies, allowing captives to reduce risk exposure and gain capacity and stability.
- ▶ **Geographic coverage:** insurers with a global presence can offer coverage solutions that cater to the needs of multinational companies, helping them manage risks across different jurisdictions.
- ▶ **Management support:** these services may include feasibility studies, operational reviews, accounting, regulatory filings and in-domicile administration, as well as acting as licensed managers in multiple locations and delivering local market expertise.
- ▶ **Analytics and insight generation:** some carriers may be able to leverage sector-specific knowledge and generate insights to help captives sharpen their risk management capabilities.
- ▶ **Claims management:** many captives seek support for their claim operations or other functions, making third-party administration a growth opportunity for some carriers.

# 2x

Increase in volume of premiums managed, by top five global captive managers, 2017-22

*Source: company websites, EY analysis, 2023*

With captive insurers typically focused on their parents' main risks, traditional insurers can offer complementary services. For instance, solutions and expertise that address mortality and health-related risks for employees can improve captives' approach to risk mitigation. For insurers looking to diversify their portfolios, entering the captive insurance market can provide exposure to different industries and risk profiles.

## Imperative actions for insurers

### Engaging customers where they are and delivering what they want

- ▶ Find ways to balance the twin imperatives of cost efficiency and rich customer experiences
- ▶ Communicate clearly that the use of customer data is intended to enhance products and services
- ▶ Look for ways to help financially stressed consumers with tight budgets, including flexible payment options, level or graduated premiums or premium holidays
- ▶ Evaluate carefully (but quickly) options for embedded insurance – operating independently to leverage brand equity or partnering with others
- ▶ Explore more flexible product design, with modular, add-on features that allow customers to add or remove components as their needs evolve
- ▶ Identify potential captive partners and the specific consulting and advisory services that would benefit their businesses



# Conclusion

In today's market, insurance executives must be prepared to manage higher costs, tight labor markets, macroeconomic uncertainty, increased protectionism and more extensive regulatory requirements. But forward-looking insurance leaders can identify many areas where societal needs intersect with core business strategies and growth plans. They also see how AI can advance their ambition to create more value, in terms of both near-term operational improvements and longer-term business model innovations.

The large and still-growing savings and protection gaps, as well as the industry's trust shortfall, can be focal points for organizations seeking to live their purpose by making a bigger societal contribution. Indeed, insurers' traditional purpose and differentiating expertise are uniquely suited to deliver what customers and communities are looking for today. And that's why we remain optimistic about the industry's prospects over the next few years and in the longer term.

# Authors

Isabelle Santenac  
EY Global Insurance Leader



Philip Vermeulen  
EY EMEA Insurance Leader



Anita Sun-Young Bong  
EY Asia-Pacific Insurance Leader



Lorenzo Fattibene  
EY Global Sustainable Insurance Leader



Ed Majkowski  
EY Americas Insurance Sector and Consulting Leader



Anna Hurynovich  
EY Global Insurance Lead Analyst



# Key Contributors

**Kabari Bhattacharya**  
EMEIA Insurance Sustainable  
Finance Leader



**Patricia Davies**  
EY Global Insurance  
Knowledge Leader



**James Maher**  
EY EMEA Sustainable  
Insurance Leader



**Chris Morbelli**  
EY Americas Life & Group Insurance  
Transformation Leader



**Chris Raimondo**  
EY Americas Insurance  
Technology Leader



**Sophia Yen**  
EY Americas Insurance  
Strategy & Innovation Leader



A special thank you to the following EY executives for their valuable insights:

Alok Bhargava  
Simon Burtwell  
Sylvain Canu  
Thom Cranley  
Ankit Gupta

Nikhil Jain  
Merideth Jones  
Steven Kauderer  
Peter Manchester  
Nicole Michaels

Chris Payne  
Preetham Peddanagari  
Sarah Ponto  
Saby Roy  
Hanif Sidi

Martin Spit  
Julianne Vellante  
Bernhard Klein Wassink

## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

© 2023 EYGM Limited.

All Rights Reserved.

EYG no. 011090-23Gbl

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

The views of third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

[ey.com](https://ey.com)