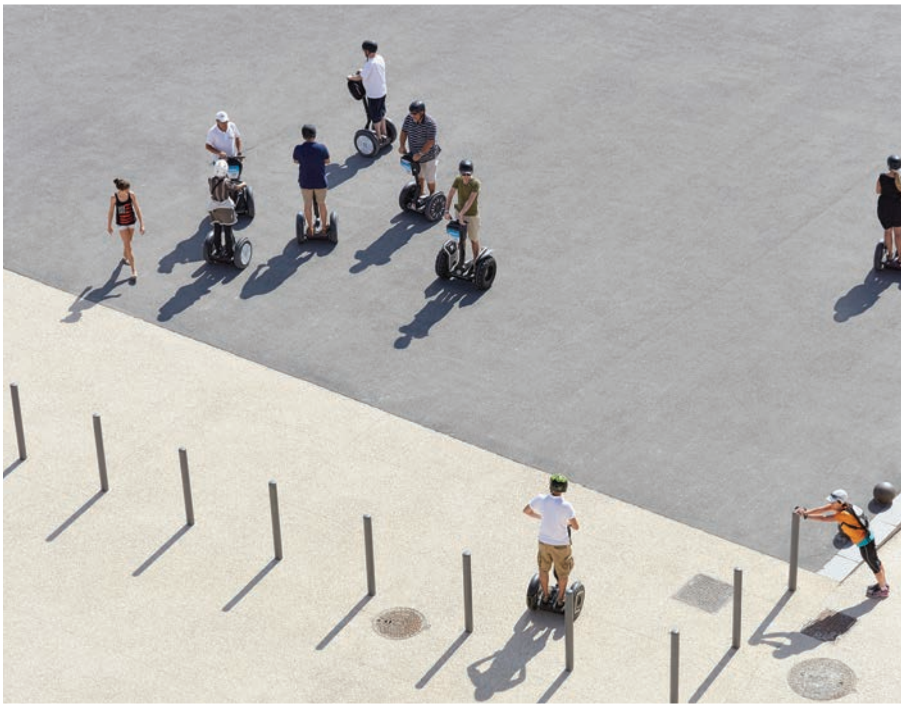
Embracing possibility, boosting innovation



95 insurance CEOs in 39 countries participated in PwC's 20th CEO Survey

Insurance is the industry most affected by disruptive change – based on the percentage of CEOs who are 'extremely concerned' about the threats to growth from over-regulation, the speed of technological change, changing customer behaviour, and competition from new market entrants.

But insurance CEOs are also among the readiest to embrace disruptive change:

***67%** see creativity and innovation as very important to their organisations*

***61%** are exploring the benefits of humans and machines working together*

pwc

ceosurvey.pwc

Introduction

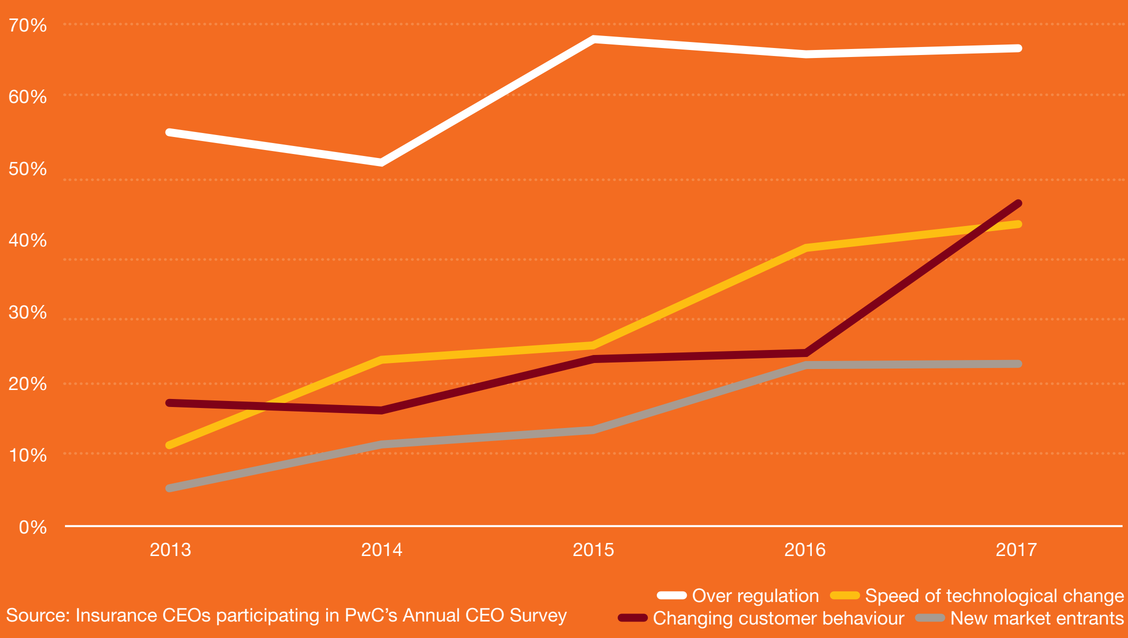
Despite soft premium rates, low interest rates, and subdued economic growth in many developed markets, insurance CEOs are optimistic about their own companies' prospects. Over a third (35%) are very confident that they can achieve revenue growth over the next year and more than 80% are at least somewhat confident.

However, insurance CEOs are acutely aware of the disruption and change facing their industry, the transformational impact of which is now evident in areas ranging from robo-advice to pay-as-you-go and sensor-based coverage. Concerns over regulation, the pace of technological change, shifting customer behaviour, and competition from new market entrants have continued to rise from their already high levels (see Figure 1). When the impact is put together, no other sector is facing as much disruption in these four areas (see Figure 2).

Figure 1: Disruptive threats

Q: How concerned are you about potential threat to your growth prospects from the following?

Insurance CEOs stating 'extremely concerned'

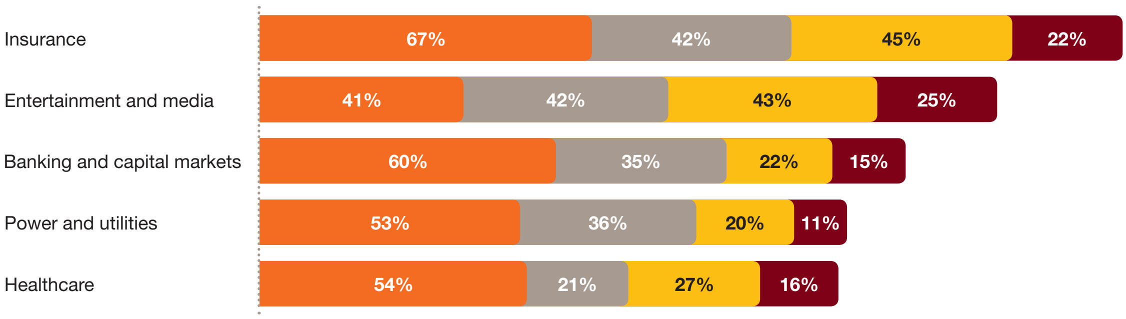


Source: Insurance CEOs participating in PwC's Annual CEO Survey

Figure 2: Five most disrupted sectors

Q: How concerned are you about the potential threat to your growth prospects from the following?

CEOs stating 'extremely concerned' (only includes commercial sectors with more than 50 respondents)



Source: PwC's 20th CEO Survey

Keeping pace with these changes isn't just a matter of new technology, but also how to be innovative and develop the customer intimacy needed to meet fast-shifting market expectations, while continuing to drive down costs. And the pressure is heightened by competition from lean and agile InsurTech entrants, which can get closer to customers while still being able to undercut more established businesses on cost and price. Incremental innovation and marginal cost savings won't be enough to sustain profitability and growth in this disrupted marketplace.

The good news is that many insurers are rising to the challenge. Their readiness to embrace the new possibilities opening up in the marketplace is evident in the fact that 67% of industry leaders see creativity and innovation as very important to their organisations, ahead of other financial services (FS) sectors. Insurance CEOs are also ahead of the curve in exploring the benefits of humans and machines working together (61%) and considering the impact of artificial intelligence (AI) on future skills needs (49%). These developments and the capabilities that support them are key elements of the 'fit for growth' platform that will enable them to compete on cost, innovation and customer intimacy.

Drawing on the CEO Survey findings, this report looks at how insurers can emerge stronger from another pivotal year in the strategic and operational transformation of the industry. What typifies the leaders is not how much they invest, but the culture of innovation that permeates the organisation. The front-runners also recognise that 'customer intelligence', along with the quality of the client insights and interactions that underpin it, is their most valuable asset and surest foundation for profitability and growth.

Stephen O'Hearn
Global Insurance Leader
PwC (Switzerland)

Confidence, upheaval and competitive relevance

Insurance CEOs' optimism about their growth prospects remains strong, though they're less buoyant than last year. Thirty five per cent are very confident that revenues will improve over the next 12 months (compared to 38% last year) and 39% are very confident they'll see an increase over the next three years (compared to 52% last year).

Apart from the market in which their organisation is based, the US is the country insurance CEOs are most likely to be targeting for growth, followed by China. While London and New York remain the most important commercial centres within their growth plans, Hong Kong has seen a notable rise up the rankings to third place. But insurance CEOs' concerns over potential barriers to market entry and development are growing. Sixty per cent believe that it's becoming harder to balance competing in an open global marketplace with trends toward more protectionist national policies.

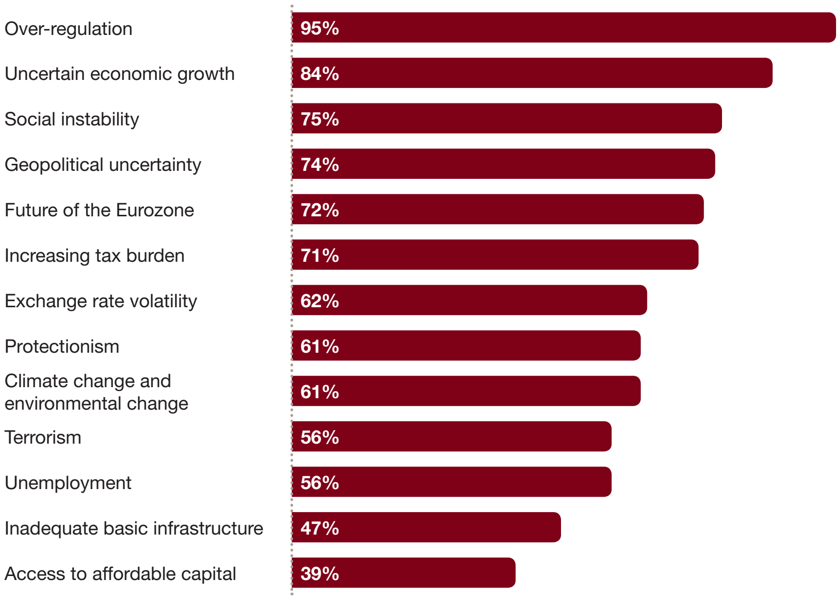
The cost and disruption of regulation continue to be industry leaders' paramount concern. A massive 95% are at least somewhat concerned about the potential impact of over-regulation on their growth prospects (see Figure 3), and 67% are very concerned, more than any other sector in the CEO Survey, including banking and capital markets. The need to implement so many regulatory reforms across so many areas has inevitably tied up management's time and has made reporting more cumbersome. Compliance demands and costs also continue to rise, straining operational infrastructure and holding back returns. However, these are the unavoidable realities of today's marketplace. Insurers that are able to build the changes into business as usual can gain a critical edge. And, pressure on returns means there can no longer be a blank cheque for compliance costs. The 'second line' has to pay its way as part of an approach that shifts the focus beyond compliance to sharpening competitive advantage.

As Figure 3 further highlights, economic headwinds are another clear concern, along with the related impact of social instability and geopolitical uncertainty, all of which are likely to influence strategic growth decisions over the coming year. Industry leaders favour organic growth and joint ventures over riskier M&A as they look to boost returns, though more than a third are still planning some form of deal activity in 2017 (see Figure 4). And, while cost reduction is clearly critical, it's no longer a route to profitability in itself. If the question were "are you planning to cut costs", rather than "are you planning to cut costs to drive growth", the likely response would be 100% as the margin pressures within the sector continue to intensify.

Figure 3: Economic, policy, social and environmental threats to growth

Q: How concerned are you about the following economic, policy, social and environmental threats to your organisation's growth prospects?

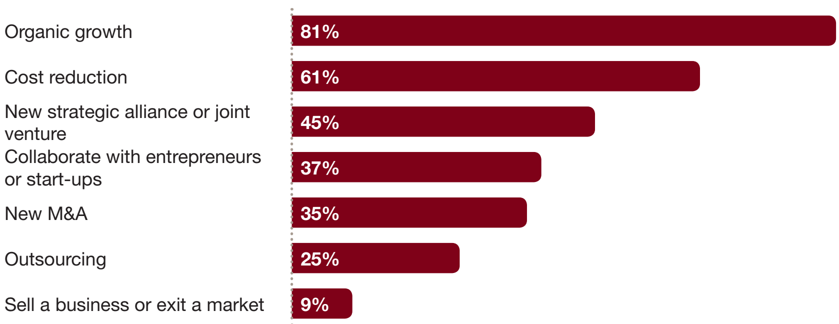
Insurance CEOs who stated 'Somewhat Concerned' or 'Extremely Concerned'



Source: Insurance CEOs participating in PwC's 20th CEO Survey

Figure 4: Plans for driving growth

Q: Which of the following activities, if any, are you planning in the coming twelve months in order to drive corporate growth or profitability?



Source: Insurance CEOs participating in PwC's 20th CEO Survey

"I don't know anybody who has cut their way to greatness…the most important thing about profit is it allows me to reinvest in the business so that we can continue to meet changing client needs and we can continue to innovate."

Keith Skeoch
Chief Executive Officer,
Standard Life plc

28%

of insurance CEOs believe technology will completely reshape competition in the industry over the next five years, and another

58%

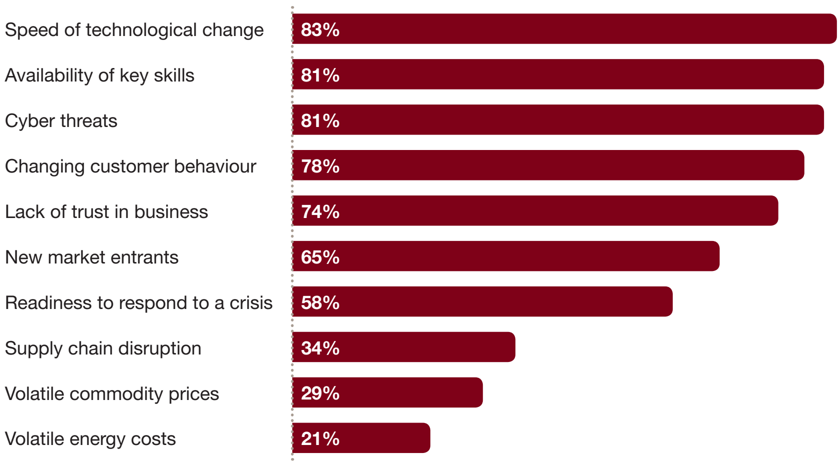
say it will have a significant impact.

The pace of technological change and related shifts in customer behaviour are prominent on insurance CEOs' list of business threats to growth (see Figure 5), though they also represent huge opportunities at a time when customer intelligence is emerging as of the main predictors of profitability and growth[1]. Even if a business has a dominant market share, it will still need to get closer to customers and be able to customise products and services to their individual preferences.

Figure 5: Business threats to growth

Q: How concerned are you about the following business threats to your organisation's growth prospects?

Insurance CEOs who stated 'Somewhat Concerned' or 'Extremely Concerned'



Source: Insurance CEOs participating in PwC's 20th CEO Survey

1 Embracing disruption, PwC, August 2016 (www.pwc.com/fstech2020)

Rethinking disruption and innovation

Cutting edge customer interaction and data analytics have enabled InsurTech businesses to set the pace in the marketplace, especially in relation to customer intelligence. Insurance CEOs' concerns about competition from new entrants are notably higher than other FS sectors facing similar incursions from FinTech firms. The threat has been heightened by a fivefold increase in annual investments in InsurTech start-ups in the three years up to 2016, with cumulative funding since 2010 reaching $3.4 billion[2]. We expect this to have increased significantly when we publish follow-up research later in the year.

However, rather than being just a threat, the growing presence of InsurTech companies could open up valuable opportunities for insurers and enable them to make the leap from incremental to breakthrough innovation[3]. InsurTech partnerships can help insurers improve their processes and thereby strengthen efficiency and reduce costs. They also can help insurers improve their analysis of the huge amounts of data at their disposal, which can lead to better customer understanding, higher win-rates, and more informed underwriting.

2 Opportunities await: How InsurTech is reshaping insurance, PwC, June 2016, draws on interviews with CEOs, Heads of Innovation, Chief Information Officers and top management involved in digital and technological transformation from 79 insurers worldwide (http://www.pwc.com/InsurTech).

3 Innovating to grow: A new world of opportunity for insurers, PwC, 2016 (http://www.pwc.com/us/en/insurance/publications/insurance-innovation.html)

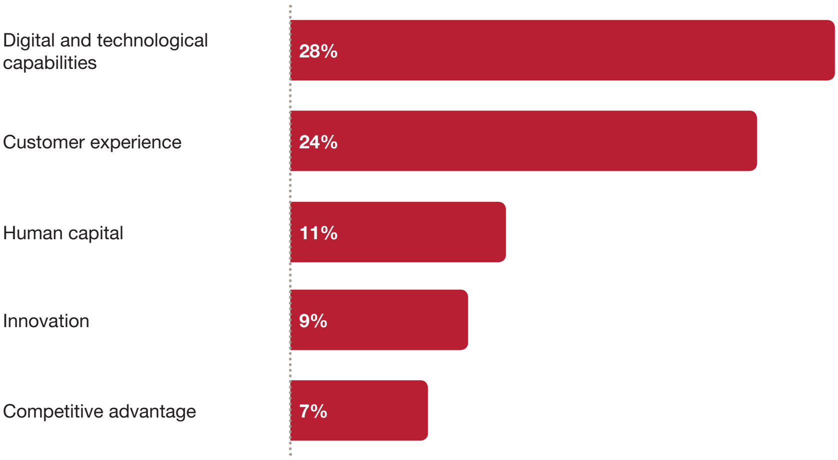
Customer intelligence is essential in realising these opportunities. It enables insurers to judge where customer expectations are heading and the kinds of innovations that can meet them. From an innovation perspective, this intelligence draws on scenario analysis of emerging trends and their potential impact on the one side, and close monitoring of the InsurTech and wider innovation landscape on the other. Armed with these insights, insurers can begin to forge an enterprise innovation model that looks at how to take advantage of the latest developments and bring in the talent and connections with innovators who can make this possible.

So, how are insurers equipping themselves to compete? When insurance CEOs were asked what would be the one area they would most like to strengthen to capitalise on growth opportunities, digital and technological capabilities came out on top, followed by customer experience, reflecting the interconnectedness of the two (see Figure 6). And, as Figure 7 highlights, most insurance CEOs are keen to stress the vital importance of creativity and innovation to their organisations.

Our research shows that differences in management and culture are among the biggest impediments to closer ties between established insurers and InsurTech start-ups[4], but it is eminently possible for them to forge closer relationships. Rather than seeing the contrasting cultures as unbridgeable, there are opportunities to complement the long-term mind-set of incumbent players with the creativity and agility of their InsurTech peers to create market shaping alliances.

Figure 6: Most important area to strengthen (top five)

Q: Given the business environment you're in, which one of the following do you most want to strengthen in order to capitalise on new opportunities?

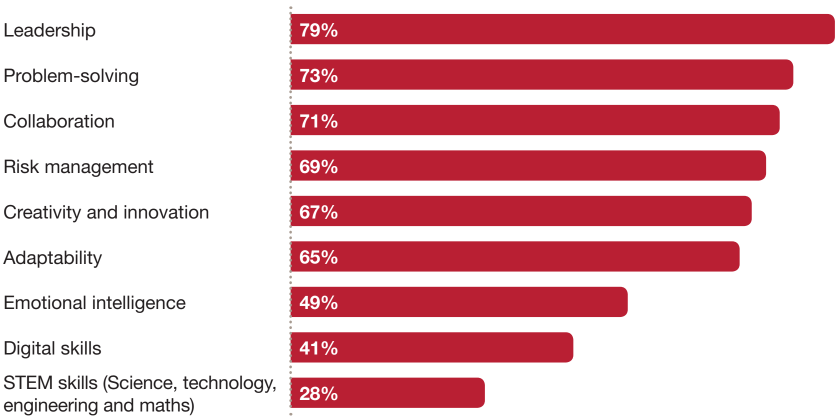


Source: Insurance CEOs participating in PwC's 20th CEO Survey

Figure 7: Prized skills

Q: In addition to technical business expertise, how important are the following skills to your organisation?

Insurance CEOs who stated 'Very important'



Source: Insurance CEOs participating in PwC's 20th CEO Survey

4 Opportunities await: How InsurTech is reshaping insurance (http://www.pwc.com/InsurTech).

Data, digitisation and trust

74%

of insurance CEOs – more than those in any other industry PwC surveyed – see lack of trust in the business as a threat to growth, reflecting the importance of trust to the insurance 'promise'.

Figure 8: Data and trust

Q: In the context of an increasingly digitised world, to what extent do you agree or disagree with the following statements?

Insurance CEOs who stated ‘Agree’ or ‘Agree strongly’

Source: Insurance CEOs participating in PwC’s 20th CEO Survey

While digitisation and data proliferation are now central elements of insurance business, they bring increased cyber risk. Eighty one per cent of insurance CEOs are somewhat or extremely concerned about the impact on their growth prospects, on a par with banking and capital markets (82%). Given the volume of medical, financial and other sensitive policyholder information insurers hold, breaches could lead to a loss of trust that would be extremely difficult to restore. As Figure 8 highlights, more than 70% of survey respondents believe that it’s harder to sustain trust in this digitised world, but there is also a strong sense that the management of data is a potential differentiator.

Trust is central to the ‘promise’ at the heart of insurance business, which is why any erosion of trust is of such a concern to industry leaders. Regulatory developments such as the US Department of Labor’s new Fiduciary Rule on investment advice and advisor compensation provide an important opportunity to strengthen trust, as has been the case with comparable demands such as the UK’s Retail Distribution Review. The impact of the new Fiduciary Rule goes beyond immediate compliance by providing a catalyst for wider operational and structural changes in areas ranging from product rationalisation to data capture and protection. Accordingly, a compliance-orientated approach isn’t enough. Successful insurers recognise the importance of a strong corporate purpose and underlying culture that seeks to understand customer needs and put their interests first.

Fit for growth – more for less

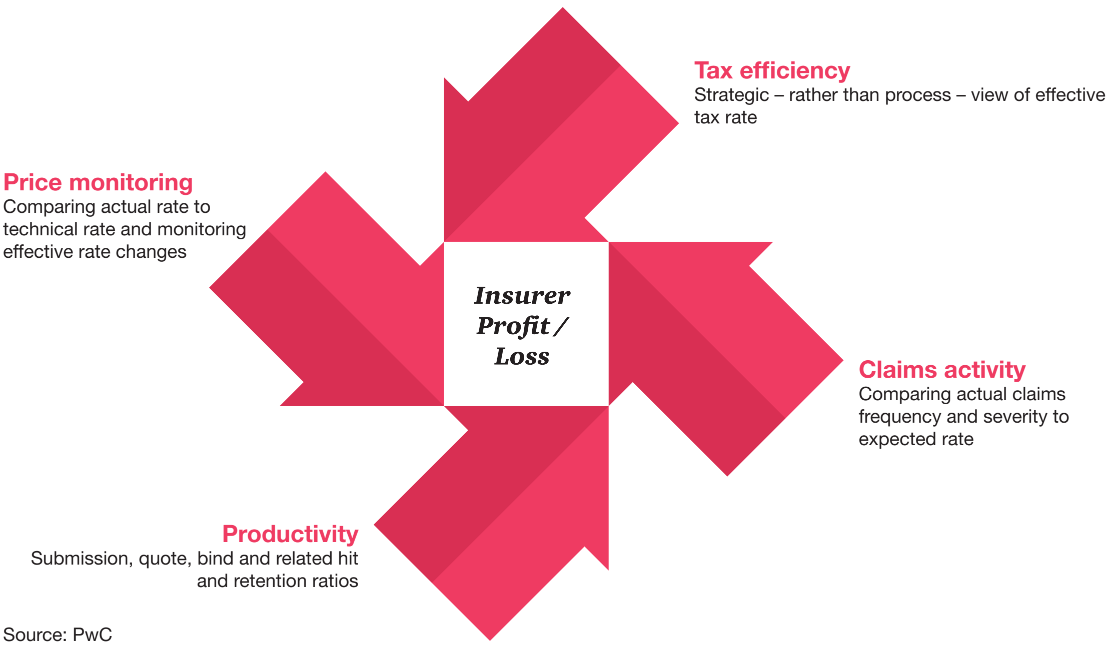
Squeezing a few percentage point savings from slow, stretched and unfocused operations isn't going to be enough to sustain competitive relevance in this disrupted marketplace. Growth comes from better capabilities, customer-focus and products – all of which require ongoing investment. The problem is that after all of the energy companies exert to reduce expenses, there is often little left over to spend on strategic initiatives.

If cutting costs can't in itself sustain growth over the long-term, then what's needed is a much more fundamental transformation in strategy, innovative capacity and operational capabilities.

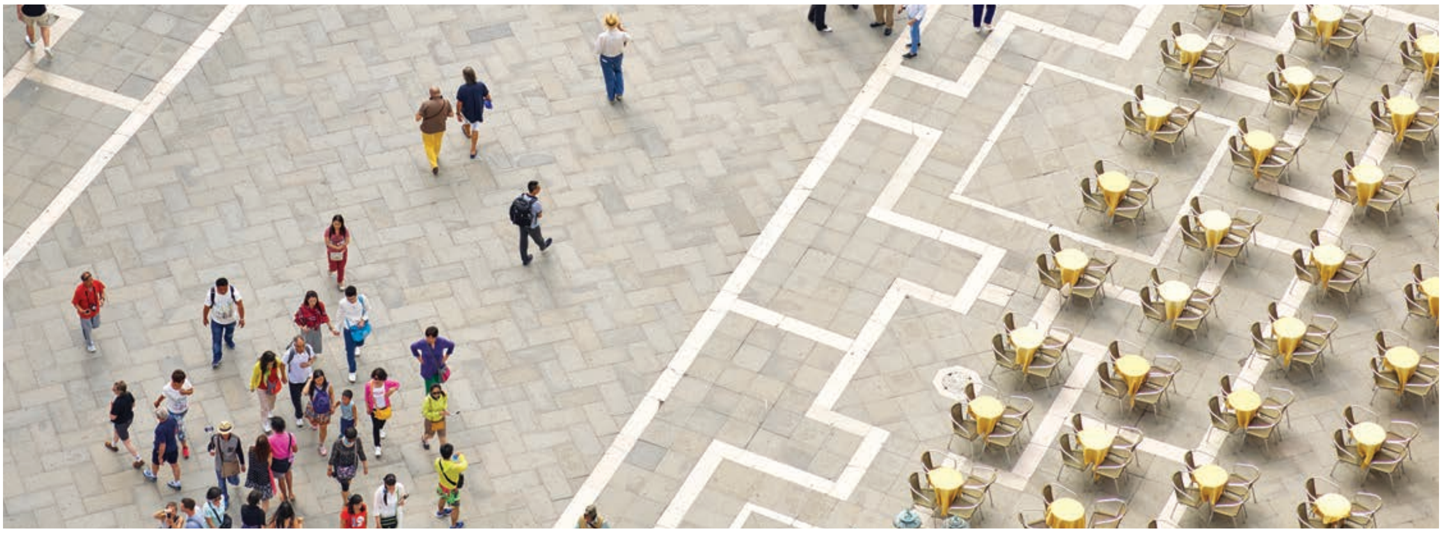
The key aim would be to enable insurers to compete on price, while still keeping pace with the disruptive developments in the marketplace – in other words, being 'fit for growth'. This includes the digital transformation that sharpens the precision of risk selection and pricing, and delivers more tailored and targeted client solutions at a fraction of the cost.

So, how can insurers reduce costs, while strengthening productivity and boosting their growth potential? Productivity, price monitoring, tax efficiency and curbing claims leakage continue to be vital (see Figure 9).

Figure 9: Cost control foundations



Source: PwC



The underlying trend is towards greater automation of routine tasks, which can not only reduce costs and improve efficiency, but also free up staff to devote more time to customers and higher value growth areas such as cyber risk insurance. Promising technologically enabled solutions include:

- Using machine learning, advanced analytics, and sensor technologies to target clients, evaluate their needs, develop customised solutions, and price risk in real-time. The benefits include more focused sales and marketing investments, and more favourable outcomes for policyholders.
- Automation and AI are already cutting costs by speeding up routine underwriting and providing a more informed basis for pricing and loss evaluation. The emerging opportunities range from equipment sensors to cognitive computing as insurance moves from compensating client losses to anticipating what will happen and when (predictive analytics) and proactively shaping the outcome (prescriptive analytics).
- Robotics is rapidly reshaping the back office and reducing costs. Prominent examples include finance, where previously disjointed systems are being connected through simple new software. Advantages include allowing data to flow more easily around the business without the need for endless re-keying.

"The pace of technology and its impact I think is accelerating in the workplace and there are two powerful but sometimes contradictory impacts. So your ability to analyse data and improve your productivity has improved a lot. However, there is a lot more noise in the world, there is a lot more data around and I'm not sure people are being as thorough and efficient in honing in on the particular sets of data they want to analyse."

Keith Skeoch
Chief Executive Officer,
Standard Life plc

Ensuring your workforce is fit for the future

With a hybrid human and machine workforce set to be a key element of the fit for growth model, many insurance CEOs are keen to explore the benefits of humans and machines working together (see Figure 10). Yet, less than half use HR analytics, even though this would improve their ability to anticipate changing circumstances and respond proactively.

Diversity and inclusion are moving up the agenda as insurance CEOs look to broaden their talent pool and bring in the fresh ideas and experiences needed to foster innovation. Ninety four per cent of insurance CEOs are keen to promote talent diversity and inclusiveness, more than those in any other industry PwC surveyed. Yet, many women and other groups of people who are under-represented in senior management still face barriers to promotion[5]. Policies alone won't overcome them. What's needed is a change of mind-set that stretches from more agile ways of working to how targets are met and performance and potential are judged.

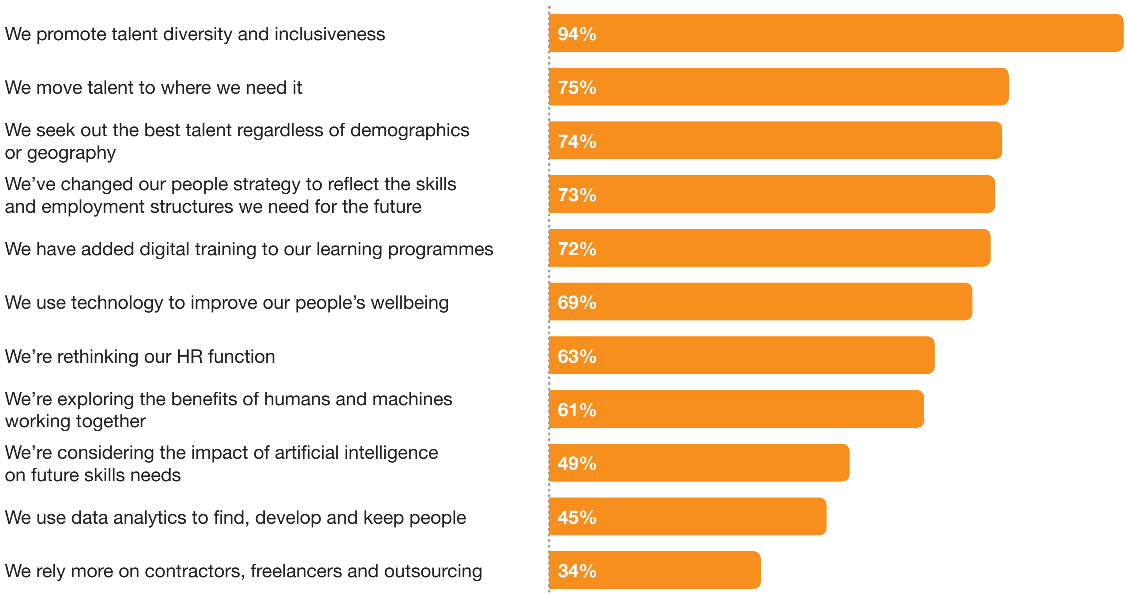
73%

of insurance CEOs have changed their people strategy to reflect the skills and employment structures they need for the future.

Figure 10: Rethinking people strategies

Q: To what extent do you agree or disagree with the following statements about your organisation's talent activities?

Insurance CEOs who stated 'Agree' or 'Agree Strongly'



Source: Insurance CEOs participating in PwC's 20th CEO Survey

5 Our report, Breaking through: How insurers can harness the diversity dividend, PwC, September 2016, looks at how these barriers can be overcome (http://www.pwc.com/gx/en/industries/financial-services/insurance/publications/diversity-insurance-reinsurance.html)

Marking out the front-runners

So how can insurers square the circle of innovation, cost control and customer intelligence and intimacy?

1 Innovating to grow

The insurers that are turning disruption into opportunity aren't looking at how to combat InsurTech, they're playing an active part in its development. They're developing enterprise innovation models capable of closely monitoring the latest trends in innovation and customer expectations. They're actively partnering with start-ups, not just by funding them, but also by sharing insights from their market experience and providing a testing ground and access to market for new ideas and ventures.

2 Aligning costs to strategy

The crucial priority isn't costs that are cut, rather where to focus resources to stimulate growth and differentiation. The starting point is differentiating the capabilities that fuel profitable growth ('good costs' targeted for investment) versus low-performing activities and inefficient operations ('bad costs' targeted for overhaul or elimination).

3 Rethinking human capital strategies

Insurance is being transformed, and with it the talent insurers need to succeed, where they come from and what they want from their careers. Forward-looking insurers are developing new human capital strategies as they seek to develop more creative, adaptable and digitally-savvy workforces. The sources of talent will continue to broaden as industry boundaries blur, insurers enter new markets, and diversity is recognised as a competitive imperative. The way talent is deployed and managed will also continue to change as organisations strive to move closer to customers and working alongside AI becomes routine[6].

"Keep calm and do lots of analysis because if we can keep calm, do the research, the one thing that volatility brings is opportunity. You just have to work out how you take advantage of the changes and the opportunities that brings."

Keith Skeoch
Chief Executive Officer, Standard Life plc

6 We explore the priorities for forging a fit for purpose workforce in The power to perform: Human capital 2020 and beyond, PwC, October 2016 (www.pwc.com/hc2020)

Contacts

If you could like to discuss the CEO survey in more detail, please contact us.

Stephen O'Hearn
Global Insurance Leader
+41 (0) 44 628 0188
stephen.ohearn@ch.pwc.com

Jamie Yoder
US Insurance Advisory Leader
+1 (773) 255 2138
jamie.yoder@pwc.com

Jill Lising
Global Insurance Marketing Leader
+1 416 687 8148
jill.e.lising@pwc.com

Eric Trowbridge
US Insurance Marketing Leader
+1 (202) 248 4470
eric.trowbridge@pwc.com

For more information on the global Insurance marketing programme contact Jill Lising on +1 416 687 8148 or at jill.e.lising@pwc.com

ceosurvey.pwc