Key industry findings from the 17th Annual Global CEO Survey

Leading from the front
Insurance industry summary

74

insurance CEOs in 39 countries across the world

92%

of insurance CEOs think their revenues will increase over the next three years

86%

of insurance CEOs believe that technological advances will transform their businesses over the next five years

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Summary

The global economic recovery continues to be fragile, but with immediate pressures easing, CEOs are feeling more optimistic and coming out of survival mode. In PwC's 17th Annual Global CEO Survey, we set out to uncover how CEOs are searching for growth in a still-challenging environment. We surveyed 1,344 business leaders across 68 countries around the world, in the last quarter of 2013, and conducted further in-depth interviews with 34 CEOs.

Our survey sees a leap in CEOs' confidence in the global economy – but caution as to whether this will translate into better prospects for their own companies. The search for growth is getting more and more complicated as opportunities in both developed and emerging economies become more nuanced, leading CEOs to revise the portfolio of overseas markets they will focus on.

In 'Fit for the future: Capitalising on global trends', we also explore three forces that business leaders think will transform their business in the next five years: technological advances, demographic changes and global economic shifts. We show how these trends, and more importantly the interplay between them, are creating many new – but challenging - opportunities for growth through: creating value in totally new ways; developing tomorrow's workforce; and serving new consumers. We also show how, in responding to these trends, CEOs have the opportunity to help solve important social problems. In short, business leaders face demands to adapt to an environment in which changes are increasing exponentially. CEOs have to become hybrid leaders who can successfully run the business of today while creating the business of tomorrow.

Preface

This report is a summary of the key findings in the insurance industry, based on interviews with 74 insurance CEOs in 39 countries and in-depth interviews with Aviva Group CEO Mark Wilson and Arch Capital Group Limited Chairman, President and CEO Dinos Iordanou. To see the full results of the 17th Annual Global Survey, please visit www.pwc.com/ceosurvey.

"As we've been exploring in our Insurance 2020 series[1], insurers face the challenge of how to capitalise on the growth potential created by a wealthier and longer living global population, while grappling with the accelerating and potentially disruptive impacts of new technology, regulation and fast changing customer expectations," says David Law, Global Insurance Leader at PwC.

"Insurance industry leaders taking part in our latest CEO survey strongly echo the themes we've explored in Insurance 2020. They see the digital economy, social media, mobile devices, big data, and other technological developments as having an especially transformational impact on their businesses.

"But the survey raises questions about whether insurers are doing enough to keep pace with the shake-up in the marketplace. Developments that would have taken years to impact the market in the past can now do so in a matter of months. Insurers that are slow to respond could quickly lose business to more agile and innovative competitors, which could potentially be start-ups or companies coming in from outside the sector.

"Therefore, successful insurers need to be first movers – even fast followers could wind up being marginalised. The leaders will have clear insights into how the marketplace is evolving, where they're best able to compete, and be agile and decisive enough to respond quickly to important challenges and opportunities. They also will use the latest developments in technology to enhance customer profiling, reduce costs, and improve the customer experience."

1 www.pwc.com/insurance/future-of-insurance

Gearing up for growth

90%

More than 90% of insurance CEOs are looking ahead to increasing revenues in the next three years.

70%

More than 70% of insurance CEOs are concerned about slow or negative growth in developed markets and the impact of governments' response to fiscal deficits and debt burdens.

The gradual upswing in confidence of the past couple of years is beginning to accelerate. More than 90% of insurance CEOs are looking ahead to increasing revenues in the next three years. The proportion of industry leaders who believe that the global economy will improve over the next 12 months has tripled to 45% from 15% last year. The buoyant outlook is reflected in the fact that most industry leaders (59%) are planning to take on more staff over the coming year.

The increased confidence is good news for an insurance industry whose fortunes are closely tied to the performance of the economy overall. "The insurance business in general is a business that grows as the economy grows," notes Dinos lordanou, Chairman, President and CEO of Arch Capital Group Limited. "At the end of the day, it's only when our customers do well that we do well, because we are the business that makes transactions possible in the world of commerce."

But insurers can't simply rely on an upturn in the economy to take their businesses forward. The challenge of sustaining returns is especially pronounced within mature life and pensions markets, where growth has been slowing for some time and demand has been impeded by low investment returns and customer disillusionment in the wake of the financial crisis. More than 70% of insurance CEOs are concerned about slow or negative growth in developed markets and the impact of governments' response to fiscal deficits and debt burdens.

Because non-life coverage is largely non-discretionary, demand is more stable. However, both corporate and personal lines companies face mounting pressure on margins from increased competition and the growing commoditisation of many traditional product mainstays.

So, where and how is growth going to occur? The longer term prospects for the insurance industry are strong. A longer living population could lead to increased demand for pensions and savings[2], especially now state provision is being scaled back. Moreover, increasing prosperity within fast growth emerging markets is creating more wealth to protect[3].

However, these market opportunities are also attracting new market entrants, including businesses from other financial services sectors. Over time, we're likely to see more incomers from the telecoms and internet industries looking to use their strong customer links and data insights to compete for the most valuable insurance business. In fact, half of insurance CEOs – more than in any other financial services sector and among the highest in any industry – see new market entrants as a threat to their growth prospects.

When we asked industry leaders about what they see as the main opportunity for growth, building on existing market share came out number one (see Figure 1), while more than a quarter chose product and service innovation. Both are likely to be crucial, with the ability to innovate, differentiate and build enduring customer relationships all forming the keys to market leadership.

2 The number of people aged over 60 will triple to over two billion (UN Population Division media release, 11.03.09)

3 The number of middle class people (earning more than $10 a day) will have reached 1.2 billion by 2030 , three times more than 2000 ('Is the Developing World Catching Up? Global Convergence and National Rising Dispersion' The World Bank Development Economics Prospects Group, September 2008).

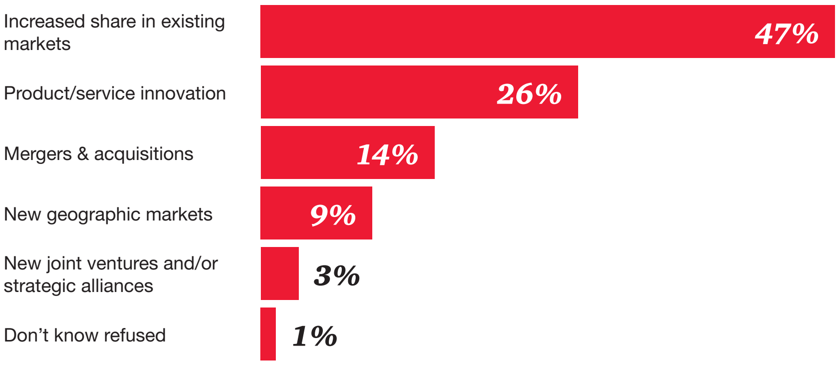
Obviously we're based here in the UK, we've got a relationship with one in four households. We're one of the oldest institutions in the UK and we've got to look at how we grow that.

Mark Wilson,
Aviva Group CEO

According to Aviva Group CEO, Mark Wilson, "When we talk about growth, we can't just consider the emerging markets or the growth markets in the world. You've got to look at the more mature economies, as well. Obviously we're based here in the UK, we've got a relationship with one in four households. We're one of the oldest institutions in the UK and we've got to look at how we grow that. That's growth in terms of our product range, it's growth in terms of our relationships with the customer. We're spending a lot of time and energy and capital in doing just that. We're looking at how we use digital technologies, we're looking at how we package those products together. We're looking at some new and innovative things that we do with real estate and infrastructure."

Figure 1 Most important opportunities for growth

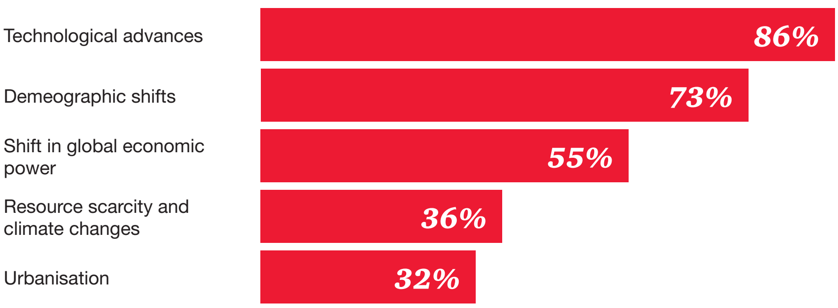
Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



Source: 74 insurance CEOs taking part in the 17th Annual Global CEO Survey
Percentages rounded so may not add up to 100

Figure 2 Transformational trends

Which of the following global trends do you believe will transform your business the most over the next five years? (Respondents ranking in their Top 3)



Source: 74 insurance CEOs taking part in the 17th Annual Global CEO Survey

Preparing for a new world

The importance of innovation, differentiation and customer relationships will increase in a marketplace that is facing as much change over the next five years as it has over the past 50.

Technology

As Figure 2 highlights, insurance CEOs see technological advances as the trend most likely to transform their businesses. Technology is shaping customer expectations and creating the revolutionary new capabilities to meet them.

Regardless of product or service, people now want to be able to conduct business whenever and wherever they want and on the channel of their choice. While staying ahead technologically can be a challenge for any company, digitisation, especially mobile, also can strengthen customer engagement and understanding. It offers opportunities for insurers to interact more frequently and closely with their customers. Insurers can use these interactions to create an in-depth digital profile, which would help them to anticipate and proactively respond to changing customer demands, tailor services and communications to their preferences, and develop a much more active and enduring relationship. The frontiers of consumer intelligence include sensor technologies and the ability to analyse the purchasing, social media and other 'big data' digital trails that people and businesses leave behind.

3%

Insurance penetration is less than 3% of GDP in emerging markets (compared to more than 8% in developed markets), and it is no surprise that many global insurers believe they offer enormous potential.

But, these developments present risks as well as opportunities. They open doors for tech-enabled and data rich new entrants and put ever greater pressure on many insurers' slow and unwieldy legacy systems. As a result, more than 60% of insurance CEOs see the speed of technological change as a potential threat to their organisations.

Arch Capital's Dinos Iordanou highlights the extent to which analytics is not just transforming how insurance is underwritten, but even the nature of what we understand by 'insurance'. "Now the quality of that decision making is what differentiates one corporation from another in performance. So the new is not new, but decision-making tools are evolving rapidly. All these technological breakthroughs allow us to have not only the ability to assimilate information faster and analyse it faster, but also to have access to that information and distribute this knowledge-based product called 'insurance' to the customer. That's the new innovation, in my view, and companies who don't spend time and resources will be left behind," he says.

An example of how the nature of insurance is changing is the move from reactive claims payer to proactive risk manager; leading insurers are using sensor technology to alert policyholders to potential problems with their property or health.

Demography

A longer living population presents clear opportunities. The challenge is how to encourage younger people to take out life and pensions plans. Many insurers lack the necessary trust, technology and social network presence to engage a younger population. To overcome this, they will need to rethink how they go to market and develop more effective segmentation and cost control, as well as more customer-focused distribution and service. For example, better data collection, management and analysis has the potential to enhance customer targeting and help shorten the process for approving coverage.

Shift in global economic power

Insurance penetration is less than 3% of GDP in emerging markets (compared to more than 8% in developed markets[4]), and it is no surprise that many global insurers believe they offer enormous potential.

However, making money can be difficult in markets where competition is mounting, foreign ownership may be restricted, and limited data can make risks difficult to price and manage. After all, profitability is possible only if there is sufficient risk data to ensure pricing accuracy and adequacy.

New ways of assessing and pricing risks will be necessary to contend with often limited risk data; different legal systems, regulatory frameworks, and business practices; and the potential for political instability. For commercial risks, rather than trying to capture the risks within an entire market, it might be more manageable and effective to concentrate on particular industries.

Climate change and urbanisation

Surprisingly, considering their impact on insurers' risk profiles, insurance CEOs don't see climate change and urbanisation as being notably transformational. We're already seeing rising claims as more and more global production takes place in climatically unstable locations. In addition, greater geographic concentration of risk is building up with the rise of megacities.

Slow to respond

Given the scale and accelerating pace of market transformation, the survey responses raise concerns about whether insurers are sufficiently prepared now or moving quickly enough to adapt to change.

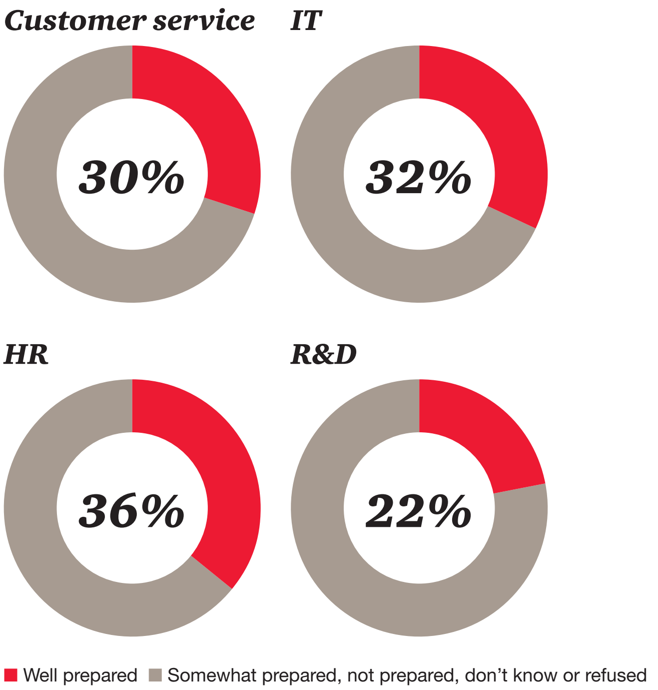
The customer service, IT, HR and marketing departments all will be closely involved in addressing global trends, but less than two-fifths of insurance CEOs feel their teams are well-prepared for the task (see Figure 3).

When asked about progress in making the changes needed to capitalise on these trends, most industry leaders are starting to make plans. But less than 40% have actually taken concrete steps to upgrade talent, technology, distribution, data analytics and innovation capacity (see Figure 4). The companies that are already investing in these areas will have a better chance of having the right people and systems to respond to the changing environment. Slower moving competitors may be hamstrung by the breadth and enormity of the changes they face and are in danger of being left behind.

4 Swiss Re Sigma World Insurance in 2012

Figure 3 How prepared is your organisation

To what degree are the following areas of your organisation prepared to make changes to capitalise on transformative global trends?



Source: 74 insurance CEOs taking part in the 17th Annual Global CEO Survey

Figure 4 Ready to capitalise on transformational trends

To capitalise on the transformational trends, to what extent are you currently making changes, if any, in the following areas? Respondents who stated change programme underway or completed.

Source: 74 insurance CEOs taking part in the 17th Annual Global CEO Survey

40%

When asked about progress in making the changes needed to capitalise on these trends, most industry leaders are starting to make plans. But less than 40% have actually taken concrete steps to upgrade talent, technology, distribution, data analytics and innovation capacity.

The number one threat to the insurance business is your ability to attract and retain knowledge. It's a knowledge-based business. If your resources are not knowledgeable and they're not willing to work for you, that's a big threat.

Dinos Iordanou,
Arch Capital CEO

Taking the business forward

So how can insurers capitalise on these transformational trends and move out into the front of a rapidly changing marketplace?

1 Starting with the customer

A key, if not the key, defining feature of a successful organisation is its ability to connect with customers in an intuitive, proactive and trusted way.

This changes insurers' role as developer and seller of products through separate design, marketing and distribution siloes ('inside-out') to responding to customers' needs and expectations by working 'outside-in' to create the right solutions.

An outside-in approach brings together various elements of risk management advice and insurance coverage, rather than promoting a particular product. On the life side, this can be a combination of wealth management, medical coverage, and gym membership to aid health and well-being. On the non-life side, it can include a combination of fire safeguards and fire cover as part of the property package. This approach typically requires insurers to break down the barriers between different functional siloes in order to create more collaborative and customer-centric engagement.

2 Insight to foresight

Telematics, big data, and other new analytical techniques can help insurers to develop a better understanding of customer behaviour, needs, and risks, thereby enabling them to provide more responsive products and more competitive rates while still sustaining margins. This foresight also can help clients gain a better understanding of their own financial situation and which products best match their strategy and goals.

3 Speed to market

As digitisation allows customers to dictate how they want to do business and strips away the barriers to market entry, insurers can no longer wait for rivals and incomers to make the first moves. From a systems perspective, the biggest single problem is that upgrading a complex 'industrialised' infrastructure could take several years to complete, by which time the market will have moved on.

One way of achieving digital competitiveness is to establish start-ups that run alongside existing capabilities. These 'greenfield' operations could be up and running quickly and then tested, adapted and expanded to meet rapidly evolving demands. This approach would allow much greater flexibility and room for innovation on the one side, while reducing costs, design and execution risks on the other.

4 The right people

A more customer-centric approach is going to require people with the analytical skills to understand customer needs and the relationship skills to engage with them over the long-term. But limited availability of these skills continues to be a concern, and nearly 60% of insurance CEOs see it as an organisational threat.

"The number one threat to the insurance business is your ability to attract and retain knowledge. It's a knowledge-based business. If your resources are not knowledgeable and they're not willing to work for you, that's a big threat," says Arch Capital's Dinos Iordanou. "So we do a lot within Arch to not only attract but also retain the best people that we can get our hands on. And we also supplement that with extensive training by bringing in young graduates and trying to provide the expertise necessary so they can grow with our businesses."

5 *Adapting to new regulation*

86% of insurance CEOs believe over-regulation is an organisational threat. As Figure 5 highlights, a significant proportion of industry leaders believe that regulation has increased their operating costs, prevented them from pursuing a market opportunity or hindered their ability to innovate effectively.

Significant regulatory change is likely to remain a fact of life for some years to come. Therefore, one of the most important competitive differentiators is going to be how effectively insurers anticipate, adapt and, where possible, take advantage of these changes. This includes making the most of opportunities for organisational restructuring and rationalisation to reduce compliance costs and strengthen capital efficiency. It also includes effectively utilising the new management information systems being developed for regulatory requirements to sharpen risk and customer understanding. It's notable that around a quarter of insurance CEOs believe that regulation has actually helped them to innovate and pursue market opportunities.

6 *Targeted acquisition*

M&A is seen by insurance CEOs as one of the least important areas in capitalising on transformational trends. This is surprising given that the economy is picking up and it may be the best way to acquire new skills and catalyse change.

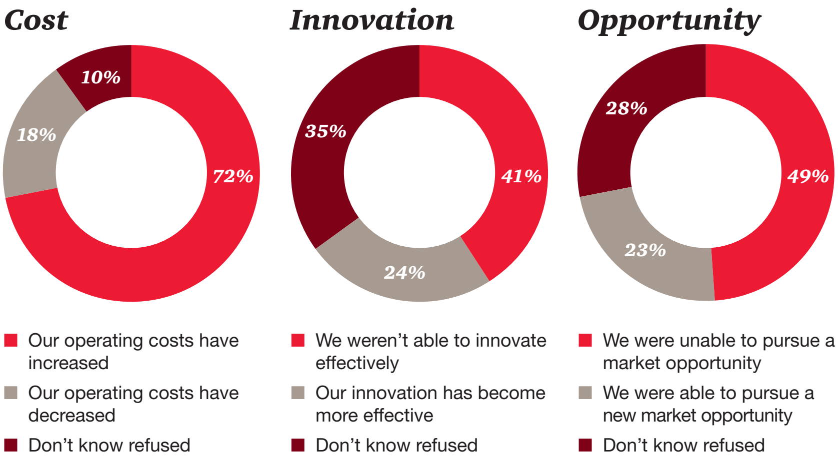
7 *Re-asserting the value insurers create*

While nearly 60% of insurance CEOs see lack of trust in the business as a potential business threat, the survey also highlights the industry's determination to re-engage with customers, governments and society as a whole.

Mark Wilson of Aviva emphasises the importance of re-asserting the vital role insurers play in society: "On the whole issue of trust and the relationship with the customer and the relationship with the stakeholders it really comes down to what is the purpose of your company. Now, the purpose of the company isn't making money that is the outcome of what we do for our shareholders.

Figure 5 The impact of regulation

Which of the following statements most accurately describes how regulation has impacted your company over the past 12 months?



Source: 74 insurance CEOs taking part in the 17th Annual Global CEO Survey

The purpose of a company like us is remarkably simple. It's about freeing people from the fear of uncertainty. What we do is free people from that fear. We take away the fear from people when bad stuff happens and we fix it. I happen to think that's a remarkable position to be in and there are very few businesses in the world that can actually do that."

A key part of insurers' contribution to society will be helping to overcome underfunding in health and retirement and enabling communities to deal with the impact of natural catastrophes. The benefits of this renewed sense of purpose include enhancing stakeholder trust, fostering a renewed sense of pride within the organisation, and attracting talent when many people are looking for more meaning in their careers.

Final thoughts: Equipped to compete

How people engage and what they expect are being transformed by the infinite possibilities of digital interaction. Decisions are being shaped by a huge surge in information. New entrants are encroaching on core areas of insurance as never before. Drawing on the feedback from this latest CEO survey and the priorities for change we have explored in our Insurance 2020 series, we believe that there are four key questions industry leaders will need to address to make sure they're equipped to compete:

- What will your markets look like, who will be your most important customers and competitors, and how are your customer expectations likely to change?
- How can you get closer to customers and better understand their evolving needs?
- Is your business nimble and innovative enough to compete with the mobile companies, internet providers, and other new entrants that are making inroads into the market?
- Do you feel sufficiently engaged with stakeholders and have their trust?

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If you would like to discuss any of the issues raised in this report in more detail, please get in touch with us or your usual PwC contact.

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