21st CEO Survey

Maintaining optimism while grappling with transformational changes

Key findings from the Insurance industry

pwc

ceosurvey.pwc

Contents

Introduction

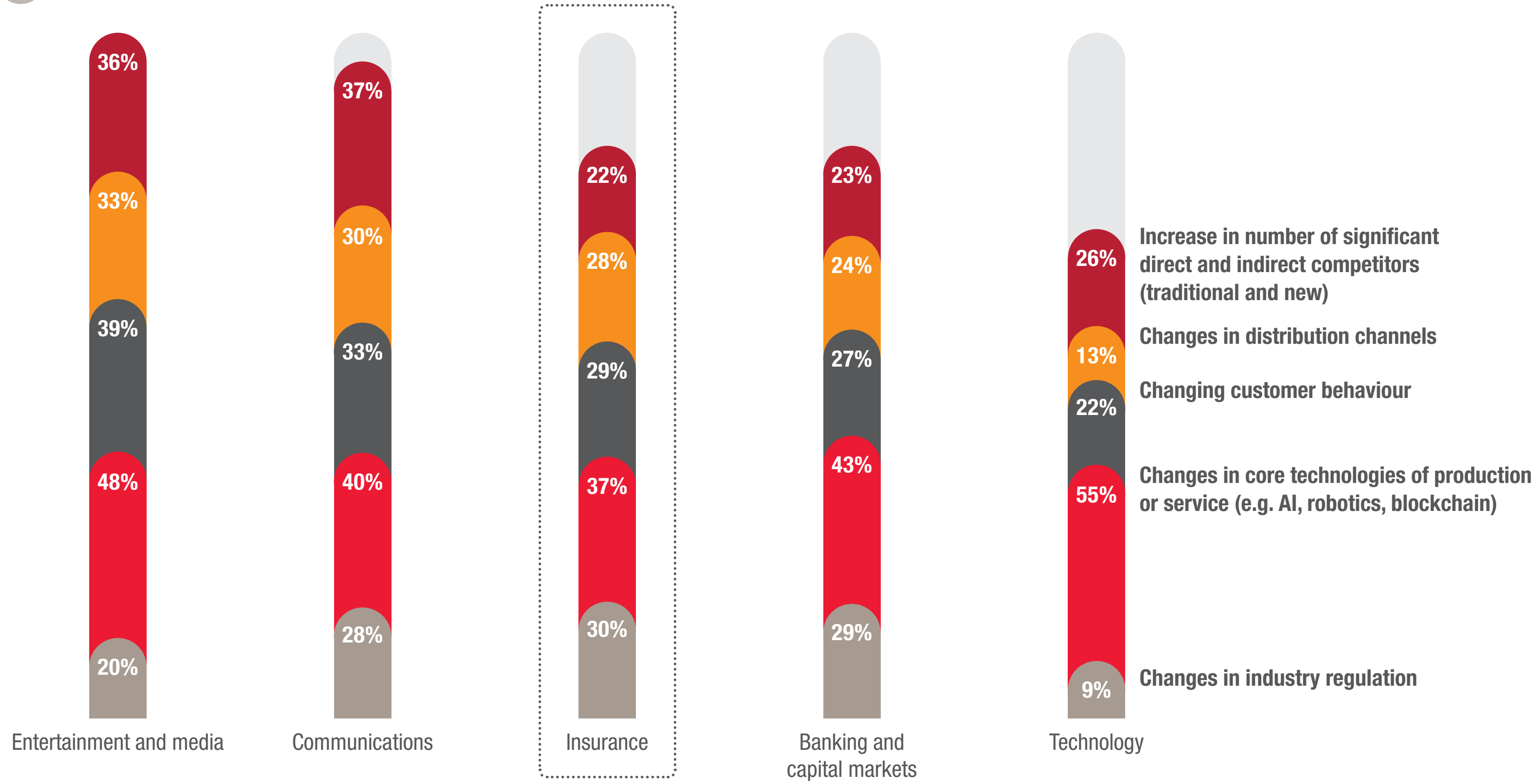
According to PwC's 21st CEO Survey, insurance CEOs continue to report that theirs is one of the most disrupted industries (see exhibit 1). However, their outlook is increasingly positive. Half of insurance CEOs say that they believe global economic growth will improve over the next 12 months, up from only 19% in 2017. And more than 90% report that they are confident about their own organisations' revenue prospects over the next three years (43% are very confident and 49% are somewhat confident).

Exhibit 1

Insurance CEOs report existing in one of the most disrupted sectors

Q How disruptive do you think the following trends will be for your business over the next five years?

Chart shows percentage of Insurance CEOs stating 'very disruptive'



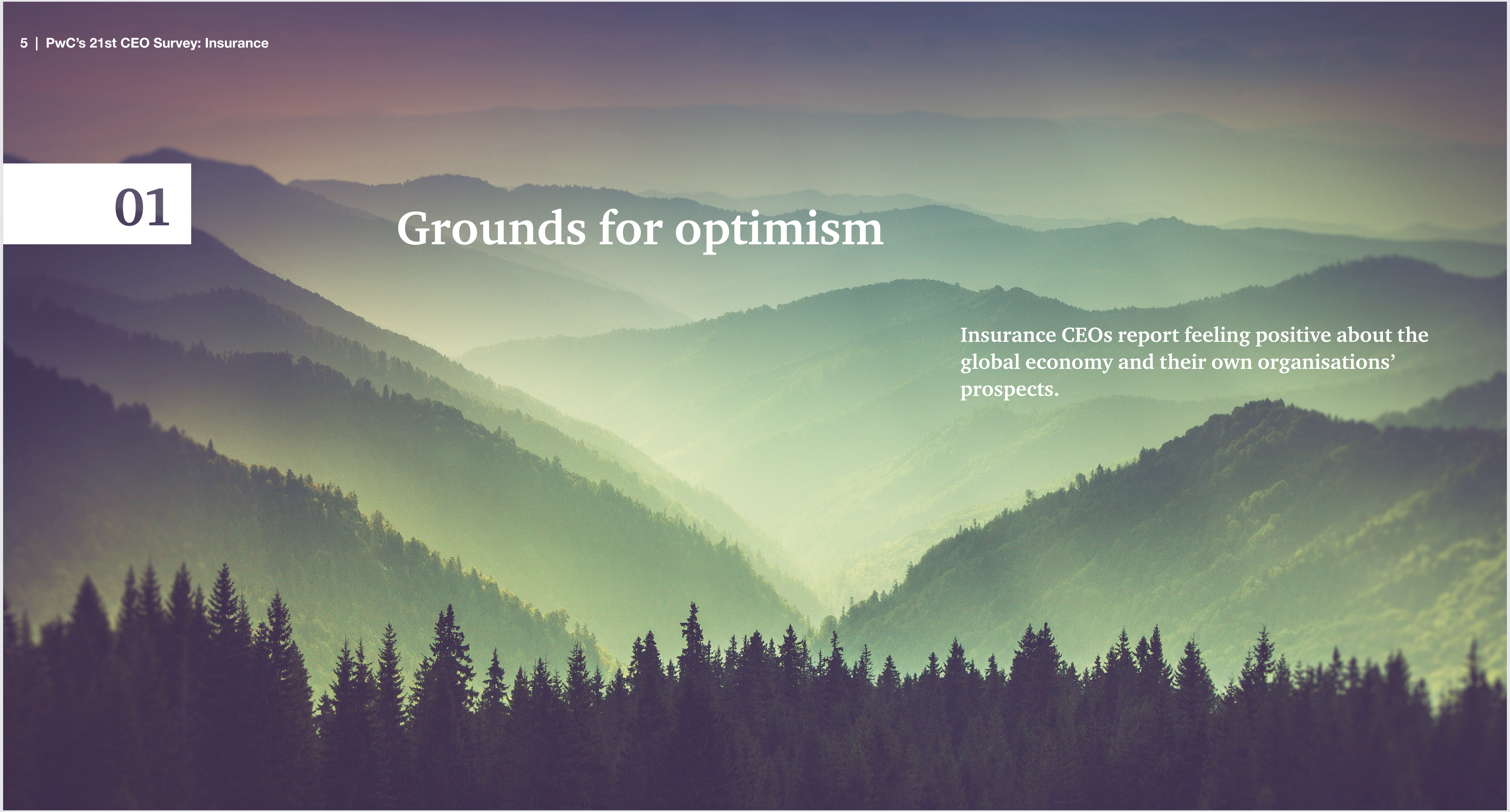
Source: PwC's 21st CEO Survey, Insurance

Among the many reasons for the positive outlook is that the anticipated disruption from incoming competitors (e.g. InsurTech and digital platform players) hasn't materialised to the extent that was feared. Indeed, partnership with new entrants rather than rivalry is the order of the day. Moreover, new risk mitigation opportunities – sensors and cyber assessments, for instance – are opening up. But, having perhaps overestimated the impact of outside threats and short-term disruption in the past, could insurers now be underestimating the urgent need to become digitally-enabled, customer-focused organizations with flexible business and operating models?

Despite their CEOs' optimism, insurers do face some obstacles. They must become leaner to compete and achieve savings on a scale they have never attempted. Yet reducing costs alone won't be enough to stay competitive. At the same time they must develop a seamless end-to-end digital business model, which runs from advice and origination all the way to claims, and combines the best of humans and machines in a 'bionic' organization. And, more insurance CEOs do recognize the enormity of this challenge than they did a year ago – more than half (51%) report being extremely concerned about the pace of technological change.

We believe the insurers that are successfully tackling these challenges are defined by both their technological capabilities and their readiness to continuously bring innovation into the mainstream of the business. Rather than operating in isolation, humans and machines are beginning to actively collaborate, and the pace must continue. With these foundations in place, they are taking the next big leap by becoming bionic. Related benefits include more personalised and effective life and non-life coverage, and a shift to delivering outcomes (e.g. wellness or mobility) and using data to head off an emergency, not just providing compensation after an emergency has occurred.

Stephen O'Hearn
PwC's Global Insurance Leader



01

Grounds for optimism

Insurance CEOs report feeling positive about the global economy and their own organisations’ prospects.

Half of insurance CEOs believe that global economic growth will improve over the next 12 months, up from only 19% in 2017.

In our work, we find that grounds for optimism exist in the increasing digitisation of the global economy and resulting shift in customer preferences. Digitisation opens up a range of new opportunities, such as the demand for cyber insurance. In fact, 40 percent of CEOs from across all industries are now extremely concerned about cyber threats, compared to 24% in 2017. In turn, there are openings for insurers to become orchestrators of services such as mobility or Internet of Things-enabled smart homes. For example, a homeowner policy could bundle (likely lower-priced) coverage with certain smart features, such as sensors that can warn of impending equipment failure before a loss actually occurs.

As industry boundaries blur, competition for this new business will come from multiple sectors. Insurance firms will need to have a clear and differentiated value proposition, defining what's genuinely innovative and new, the benefits for customers, and what they can offer that competitors can't.

02

Seize the opportunity

CEOs cite barriers such as the speed of technological change and over-regulation, but there are solutions.

While opportunities do exist, the barriers to capitalising on them haven't gone away (see exhibit 2). Actual growth has generally failed to live up to expectations in recent years. Why is there such a disconnect and how can it be overcome? The answer in large part is scale: very few companies have all – or in some cases, even some – of the resources they need to become truly cutting-edge businesses.

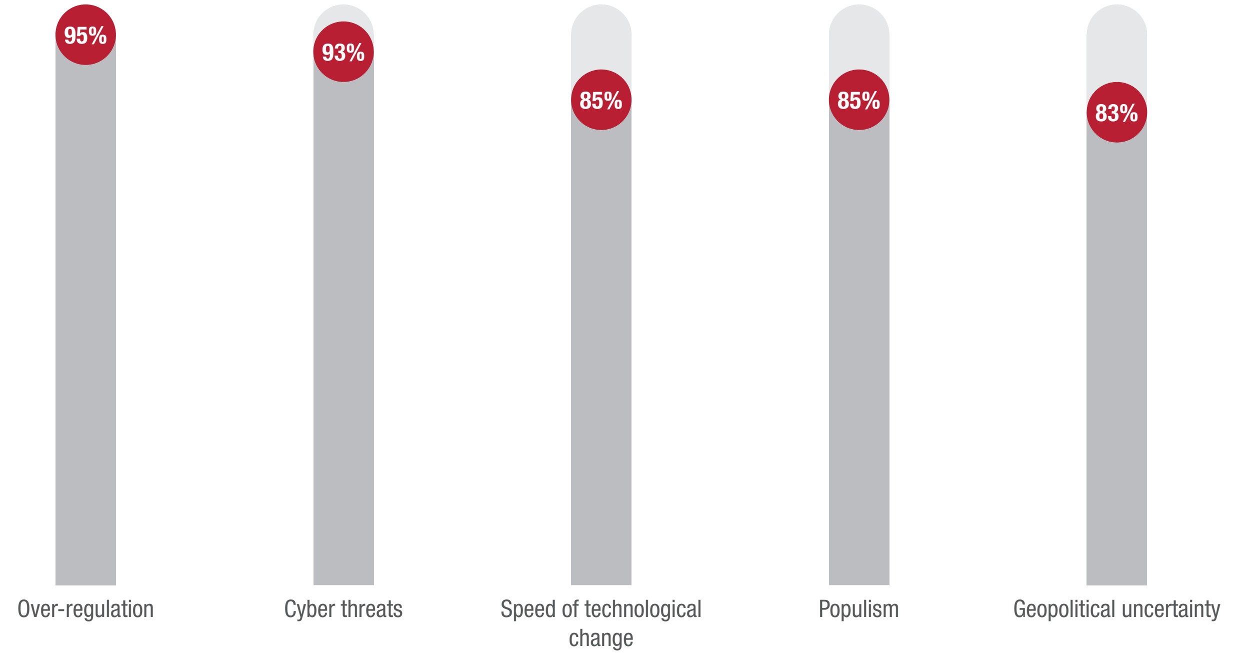
For example, few insurers have the necessary technological capabilities to compete. In fact, 85% of insurance CEOs report they're at least somewhat concerned about the speed of technological change. The challenges include a continued reliance on slow and unwieldy systems and the difficulties of moving old – sometimes very old – books of business over to new platforms. It's important to look for opportunities to simplify, selectively decommission, and shift legacy systems over to the cloud/SaaS, with the aim of managing core processes in an integrated end-to-end manner.

Exhibit 2

What's keeping insurance CEOs up at night?

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

Chart shows percentage of Insurance CEOs stating 'extremely' or 'somewhat concerned'



Source: PwC's 21st CEO Survey, Insurance

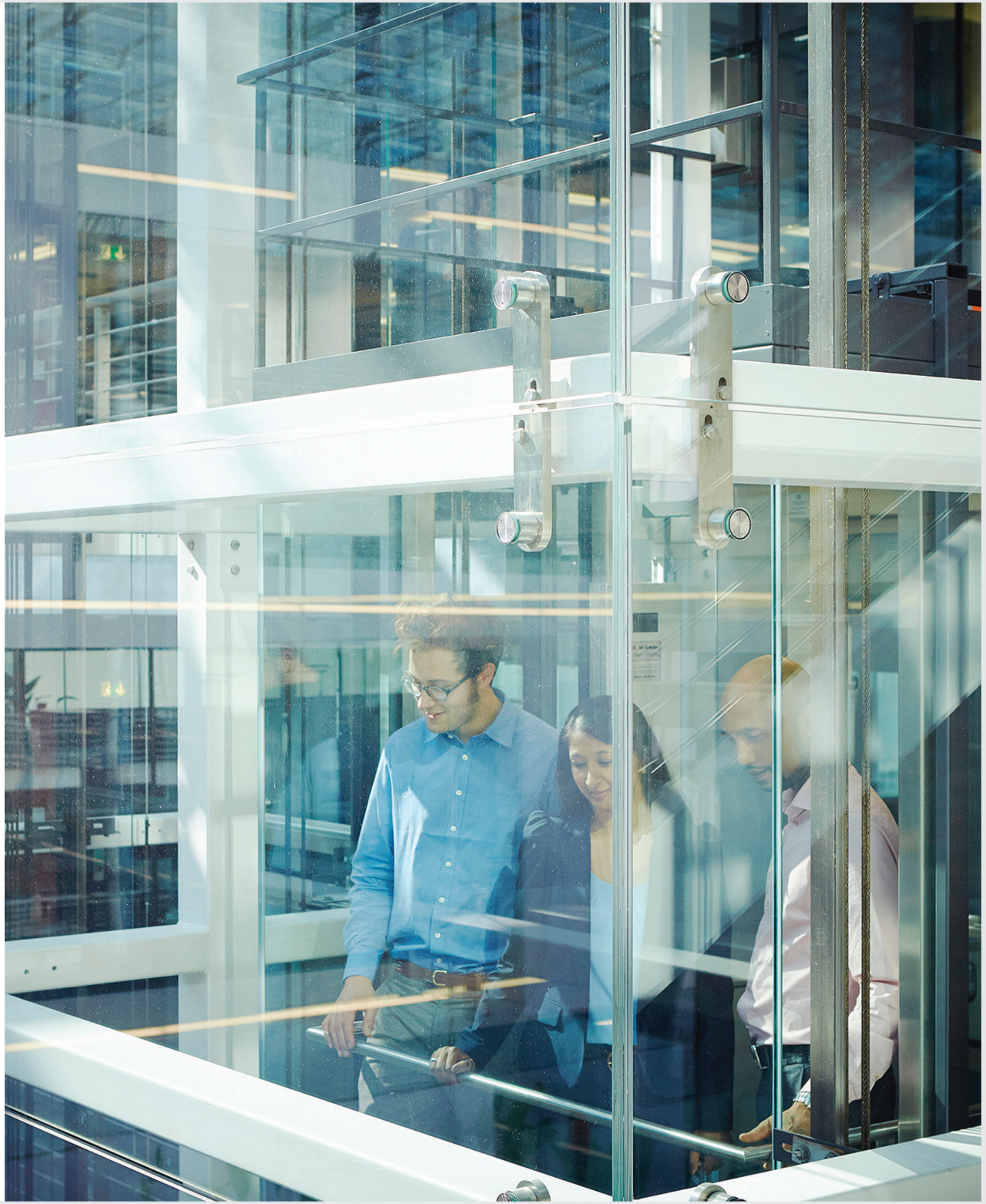
03

Buy, borrow, or build capabilities

Almost half of insurance CEOs say they are planning alliances.

As insurers look at how to accelerate technological innovation, it's also important that they think about where they need to partner and what companies they want to acquire. Nearly half (49%) of insurance CEOs are planning a new strategic alliance or joint venture to drive profitability and growth over the next 12 months, reflecting the increasing importance of partnership ecosystems.

InsurTech businesses are likely to be receptive to offers of partnership and even acquisition. While they may have the innovative technology to respond to changing customer demands, establishing viable platforms for asset management, retirement, and group policies is expensive, as is entering many market niches such as digital small medium enterprise (SME) insurance. We're seeing more tie-ups with larger players as a result.



04

Harnessing automation

CEOs must identify opportunities to advance tech.

Just chipping away at costs won't be enough to remain competitive. Insurance CEOs need a clear innovation strategy, one that is predicated on integrated, end-to-end business and operating models that enable companies to take full advantage of advanced automation.

A starting point – and a key to becoming 'bionic' – is the relatively mature and easy-to-implement robotic process automation (RPA). Once that is in place, insurers can then identify opportunities to apply more advanced automation and artificial intelligence (AI).

Industry front-runners recognise that this is a transformation in how people work and interact with digital capabilities, rather than simply a technology implementation challenge. Key considerations through the transformation include redefining job profiles and freeing up people's time to focus on more value-adding activities.

Human and machine collaboration: Thinking about their people strategy for the digital age, more than half of insurance CEOs are clear about how robotics and artificial intelligence can improve the customer experience.

05

Revolutionising compliance

With over-regulation as the No. 1 worry, RegTech is a way forward.

Over-regulation is still insurance CEOs' biggest worry (62% are extremely concerned and 33% somewhat concerned) and no other sector comes close. And with IFRS 17, the new set of accounting rules for insurance contracts, looming, these challenges aren't going away.

At the same time, pressure on returns and the need to free up funds for investment mean there can no longer be a blank cheque for compliance costs. RegTech can not only strip out costs in labour-intensive areas such as 'know your customer', but also strengthen risk management and improve compliance.

Even bigger opportunities are on the horizon as a new generation of predictive analytics and AI transforms insurers' ability to detect, anticipate, and avert regulatory risks. The possibilities include scanning for early warning signs of financial crime or mis-selling and identifying the scenarios that could give rise to regulatory missteps.

Tie-ups between insurers, brokers, and major technology companies are providing further impetus to the development and implementation of RegTech. As with all technology, making the most of the potential calls for a shift in talent priorities, mindset, and ways of working within risk and compliance functions.

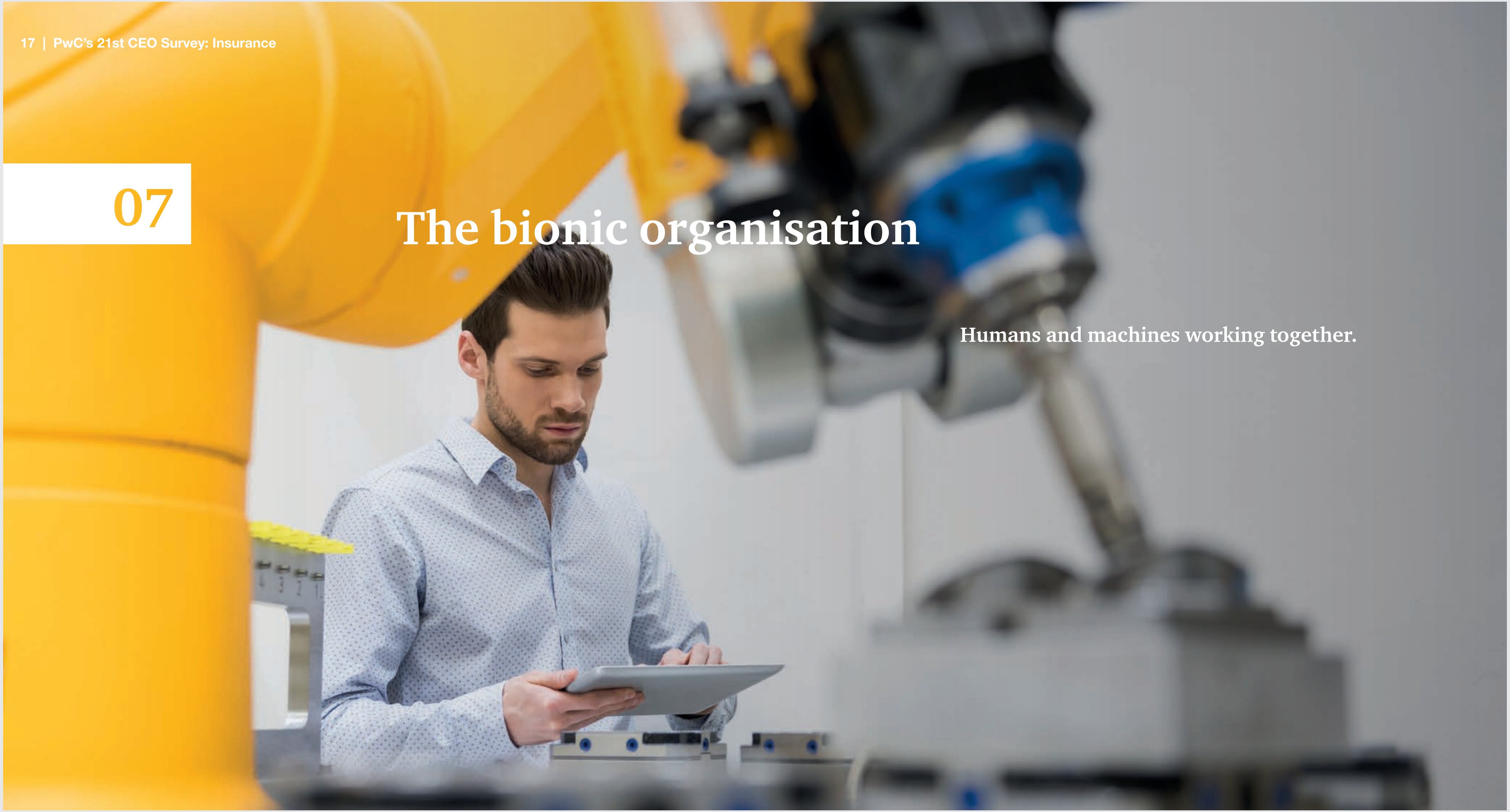
06

Mainstreaming innovation

Putting innovation at the heart of an organization requires cultural, operational change.

Technology alone won't enable insurers to capitalise on unfolding opportunities. Investments will go to waste unless there's a genuine readiness to embrace change and bring innovation into the heart of the business. In our experience innovation is all too often consigned to the fringes or operates in siloes within different divisions. It's also proving difficult to get many of the pilots and proofs of concept out of the lab and into production. The key to overcoming such hurdles is as much cultural as operational.

The cultural leap includes the swift and nimble decision making needed to respond quickly to changing market demands. The insurance industry is accustomed to big decisions, big system implementations, and big product launches. Yet by the time traditional decision making and implementation cycles have run their course, the market will have moved on. Innovation requires lots of little decisions and a willingness to learn from them. It also demands an entrepreneurial readiness to experiment and even fail, but fail fast and move on.



07

The bionic organisation

Humans and machines working together.

Capitalising on opportunities also demands a deeper understanding of the customer, which isn't easy at a time when their expectations are shifting so fast. In fact, more insurance CEOs (78%) see changes in consumer behaviour as a threat to growth than those in almost any other industry (only entertainment and media is higher at 80%).

Developing the necessary capabilities requires close collaboration of humans and machines – machines augment rather than supplant human capabilities, and vice versa. Investment, innovation models, and choice of partners such as InsurTech firms, can flow from this.

This, in turn, requires digital talent, which insurance CEOs say is difficult to attract. In fact, only 19% of insurance CEOs say it's easy to do so. More than 80% are concerned about shortages of digital skills within the industry (81%) and within their workforce (86%). While this is a challenge for all sectors – around three-quarters of participants in the CEO Survey are concerned – insurance CEOs report having the biggest anxieties in this area of all sector CEOs.

And it isn't just digital skills that are in demand, but also the creativity and emotional intelligence needed to innovate and reconnect with customers. Eighty-six percent of insurance CEOs say that they believe their organizations need to strengthen employees' soft skills alongside digital skills.

Bringing these capabilities together within a bionic organisation demands a combination of emotional and technological capabilities. Very often these capabilities have existed within siloed pockets (e.g. actuaries and marketing). They now need to come together within a more collaborative organisational design.

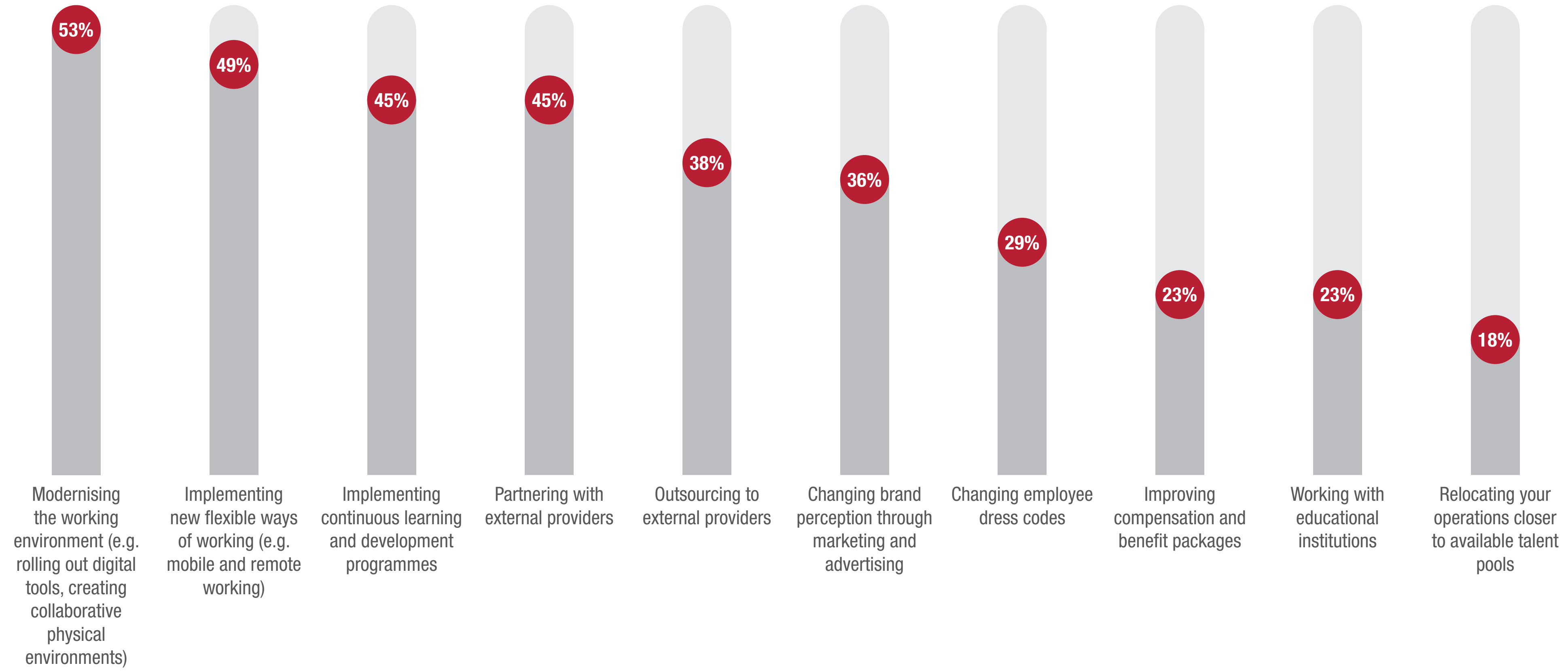
About half of the insurance CEOs reported making strong efforts to attract and retain these 'renaissance people' in areas such as modernising the working environment and shifting employer brand perception (see exhibit 3). But there are also opportunities to take this further. There is room to expand already-existing programs, in addition to other, obvious steps such as improving compensation and other perks.

Exhibit 3

How insurance CEOs aim to build tech talent

Q To what extent is your organisation using the following strategies to attract or develop digital skills?

Chart shows percentage of Insurance CEOs reporting 'to a large extent'



Source: PwC's 21st CEO Survey, Insurance

Conclusion

Fortune favours the bold – and persistent.

Clearing away the barriers to growth and accelerating transformation is a daunting task. Yet the pressure for urgent and fundamental change is mounting. And at the same time, two- thirds of insurance CEOs say they feel increasing pressure to deliver results on shorter timeframes.

While strategies will vary according to individual companies' characteristics and circumstances, structural and cultural change will almost certainly be necessary. However, no company has the scale to address all of the issues and develop the necessary competitive capabilities on its own. Partnerships are therefore crucial.

How far are insurers prepared to go in this transformation of talent, culture, and decision making? What level of experimentation are company stakeholders prepared to accept?

Fortune will favour the bold – and persistent – at this time of disruption. By contrast, reluctance to tackle deep-seated inefficiencies or put innovation at the heart of an organization can only prolong the disconnect between aspiration and bottom line reality. Acting half-heartedly risks allowing other, more-proactive companies to harness opportunities and lead the industry.

Sixty-six percent of insurance CEOs report increasing pressure on their organisation to deliver business results under shorter timelines.

21st CEO Survey Methodology

PwC conducted 1,293 interviews with CEOs in 85 countries. Our sample is weighted by national GDP to ensure that CEOs' views are fairly represented across all major countries. The interviews were also spread across a range of industries. Further details by region and industry are available by request. Eleven percent of the interviews were conducted by telephone, 77% online, and 12% by post or face-to-face. All quantitative interviews were conducted on a confidential basis.

The lower threshold for all companies included in the top 10 countries (by GDP) was 500 employees or revenues of more than US$50 million. The threshold for companies included in the next 20 countries was more than 100 employees or revenues of more than $10 million.

- 40% of companies had revenues of $1 billion or more.
- 35% of companies had revenues between $100 million and $1 billion.
- 20% of companies had revenues of up to $100 million.
- 56% of companies were privately owned.

Notes

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- The base for figures is 1,293 (all respondents) unless otherwise stated.

We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the fourth quarter of 2017. Their interviews are quoted in this report, and more extensive extracts can be found on our website at ceosurvey.pwc.com, where you can also explore responses by sector and location.

The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services

www.pwc.co.uk/pwcresearch.

PwC industry contacts

Stephen O'Hearn
Global Insurance Leader
PwC Germany
+49 89 38 00 69 688
stephen.ohearn@pwc.com

Jamie Yoder
US Insurance Market Leader
PwC US
+1 312 298 3462
jamie.yoder@pwc.com

Gero Matouschek
Insurance Advisory Partner
PwC Germany
+49 151 6732 6502
gero.matouschek@pwc.com

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

ceosurvey.pwc