



FROM RISK TO OPPORTUNITY THE FUTURE OF INSURANCE

Abstract

The COVID-19 pandemic had a massive impact on businesses worldwide, including the insurance industry. As insurance companies recover from the effects of the pandemic, it is an opportune moment to assess where the industry is heading and what long term strategies need to be put in place to make the most of the changing paradigms across the world of business.

This paper presents a PESTEL (political, economic, social, technological, environmental, and legal) analysis of the insurance industry and provides a macro picture of environment and opportunities for insurers with an eye on the future.

Introduction

The insurance sector is a complex industry that provides financial protection and risk mitigation to individuals and businesses across the spectrum. Just like any other business, the insurance industry too is impacted by market forces and disruption caused by global geopolitical, economical, and environmental occurrences.

In the current global scenario, with multiple concurrent disruptions in progress, there are also several opportunities for insurers to embrace along with immense scope for innovation and reinvention of the entire insurance industry.



Political Factors

Among various geo-political factors destabilizing the business environment, some of the recent wars have brought this factor to forefront. Apart from its tragic human cost, these conflicts are forcing the insurance industry to deal with increased demand for coverage, rising premiums, greater demand for political risk insurance, impact on the reinsurance market, and the need for new risk assessments and underwriting practices. The SRCC (strikes, riots, and civil commotion clause) market has also been impacted by global political instability. SRCC insurance has now become an essential requirement of many businesses.

Opportunity:

1. Nimble risk products that assess the risk based on the real-time developments of political situation is the need of the hour. Modern and flexible underwriting systems can go a long way in developing new risk products.
2. Blockchain based payment hubs can be a game changer to easy exclusion and inclusion of payments in such situations.

Economic Factors

According to the World Bank, the average potential growth in GDP will drop by 2.2% between 2022 and 2030. In addition, unemployment will increase by about 3 million compared to 2022. Many other factors will also play a significant role in influencing the direction of the insurance market.

Inflation

From March 2020 to November 2022, consumer prices rose nearly 16 per cent in the United States, 15 per cent in the Eurozone and the United Kingdom, 16 per cent in India, and 21 per cent in Brazil. When inflation rises, premium income for insurance companies is impacted as individuals and enterprises tend to cut costs by reducing their coverage.

Opportunity: Insurance companies can market products to cover inflation risk under the category of uncertainties so that individuals and enterprises can protect themselves against inflation. Insurers can also look at the pricing strategy, improve pricing along with filing responsiveness and agility, reduce calendar period exposure through product enhancement and innovation, and improve expense management as well as claims operations.

Universal basic income (UBI)

Universal basic income (UBI) is a socio-political financial transfer policy proposal in which all citizens of a given country receive a legally stipulated and equally set financial grant paid by the government. If UBI gains traction, insurers might be challenged in the way they design and underwrite their unemployment products.

Opportunity: UBI presents an opportunity for insurance companies to provide flexible underwriting and premium models to account for new products related to unemployment.

Global GDP

Global GDP is the combined GDP of all countries in the world. Events such as Brexit, the COVID pandemic, and the war in Ukraine have deeply impacted growth resulting in economic slowdown all around. As a result, the insurance industry has experienced a decrease in demand for insurance.

Opportunity: Carriers can look at public-private partnerships to increase the capacity for risks that the private sector is unable to take alone. This will also close the protection gaps associated with systemic or societal risks. Such partnerships can pay out claims as payout by private carriers, from a pool across the industry, or through the public sector.

Rise in buying power

Rapidly developing economies are witnessing a huge upswing in buying power. Insurance companies that invest in new ways and channels for insurance education will gain an edge and create brand awareness. The lower middle class and middle class will mostly buy microinsurance to protect themselves against uncertainties.

Opportunity: This is an opportunity for insurers to engage in creative ways and provide new microinsurance products tailored for developing economies.

Rapid urbanization

As urbanization increases, there will growing aspiration for better lifestyles and a variety of insurance covers to address new risks. While urbanization brings with it opportunities to sell more products, insurers must also take into consideration new risk classifications such as infrastructure, health, climate change, and social instability.

Opportunity: Insurers must make use of technologies such as the Internet of Things (IoT) to provide tailored and personalized insurance to suit varied lifestyles and consumer demands.

Unemployment

According to the International Labour Organization, global unemployment is projected to reach 208 million in 2023. Unemployment will drive people from employer group benefits to individual insurances.

Opportunity: Insurance companies can convert group benefits clients to individual clients. They must leverage technology to provide flexibility to add or modify product features, considering the ability of the individual to pay premiums.

Mergers and acquisitions

Companies participating in M&As have a very different outlook on insurance. Both parties in an M&A must step back to understand and mitigate the risks associated with the consolidation of their companies and assets.

Opportunity: Sales and distribution channels should be equipped with risk information to proactively engage in upsell and cross-sell opportunities.



Socio-cultural Factors

Millennial behavior

Millennials prioritize the use of technology and a seamless experience at work and in life. They expect insurance services to be accessible from their mobile phones. These new age individuals are more likely to rely on digital channels for research and to connect with agents through online reviews or social media.

Opportunity: The insurance industry must redesign their offerings and business model to keep up with changing needs. These should include compelling customer experience, omni-channel distribution strategy, and digitally trained agents with tools to enhance productivity.

Gig economy

The COVID-19 pandemic has significantly accelerated the growth of the gig economy. However, gig workers are not permanent employees and are not covered under traditional group insurance. They need flexible, short-term coverage with fast, frictionless transactions and flexible payment options.

Opportunity: On-demand policies with flexible pay-as-you-go or monthly subscription models, based on the behaviors and needs of the workers are best suited for this segment.

Health and wellness

The pandemic has been a driver for emerging technologies and trends especially in the health equity, and environmental and sustainability space. Health and fitness trackers and continuous

monitoring devices are fast becoming ubiquitous with the rise of InsurTech players that offer niche products in health and wellness.

Opportunity: Insurers must step up their game and offer more individualized and innovative products and services that cater to a wide range of informed customers. Constant innovation with customer focus along with data-driven decision making are key factors in the health industry.

COVID-19 pandemic

COVID-19 has changed the way insurers work. The pandemic accelerated digitalization across the insurance industry leading to faster and improved business processes. Life insurance claims increased but resulted in reduced liabilities for annuities. Pricing, product development, and underwriting have also been impacted.

Opportunity: Life insurance sales are likely to go up considering greater consumer sensitivity, especially among young people.

Gender equality

Women have historically faced significant barriers including unequal pay and limited access to education and employment opportunities. That is changing now. According to the Global Gender Gap Report 2022, the global gender gap has been closed by 68.1%.

Opportunity: Insurers need to recognize gender differences and target insurance products at women in ways that resonate with their preferences and behaviors. They must also consider the expanding role of women in financial decision-making around the world.

Technological Factors

According to a McKinsey report, around 25% of the insurance industry will be automated in 2025. It further says that insurers will see a rise in the adoption of digital technologies such as AI, blockchain, and big data.

AI and automation

Artificial intelligence (AI) and automation have the potential to significantly reduce costs, streamline claims processes, and make customer interactions more efficient.

Opportunity: Insurers should explore new technologies to create innovative products, define differential pricing based on customer data and behavior, streamline processes, and lower costs. Insurers should look at every opportunity across the insurance Value chain to leverage GenAI and make themselves AI-First Insurers. This could be a game changer for the insurer if they are able to act fast and take the first step.

Digitalization

Digitalization can transform the nature of insurance products and shape innovation. Digital technologies help improve access to insurance, allow insurers to use real-time monitoring, and enable stronger relationships with customers.

Opportunity: Digitalization opens a wide avenue of opportunities for insurers. AI, distributed data collection, connected devices, and automation can facilitate better risk assessment.

Value-added services can be provided with greater ease. For example, with IoT, insurers can provide a real-time assessment of a risk taking into consideration the user's location and other dynamic parameters.

Autonomous vehicles

The adoption of autonomous vehicles has considerable implications for the auto insurance industry. Autonomous cars can reduce the incidence of road accidents. This will lead to a drop in accident-related claims.

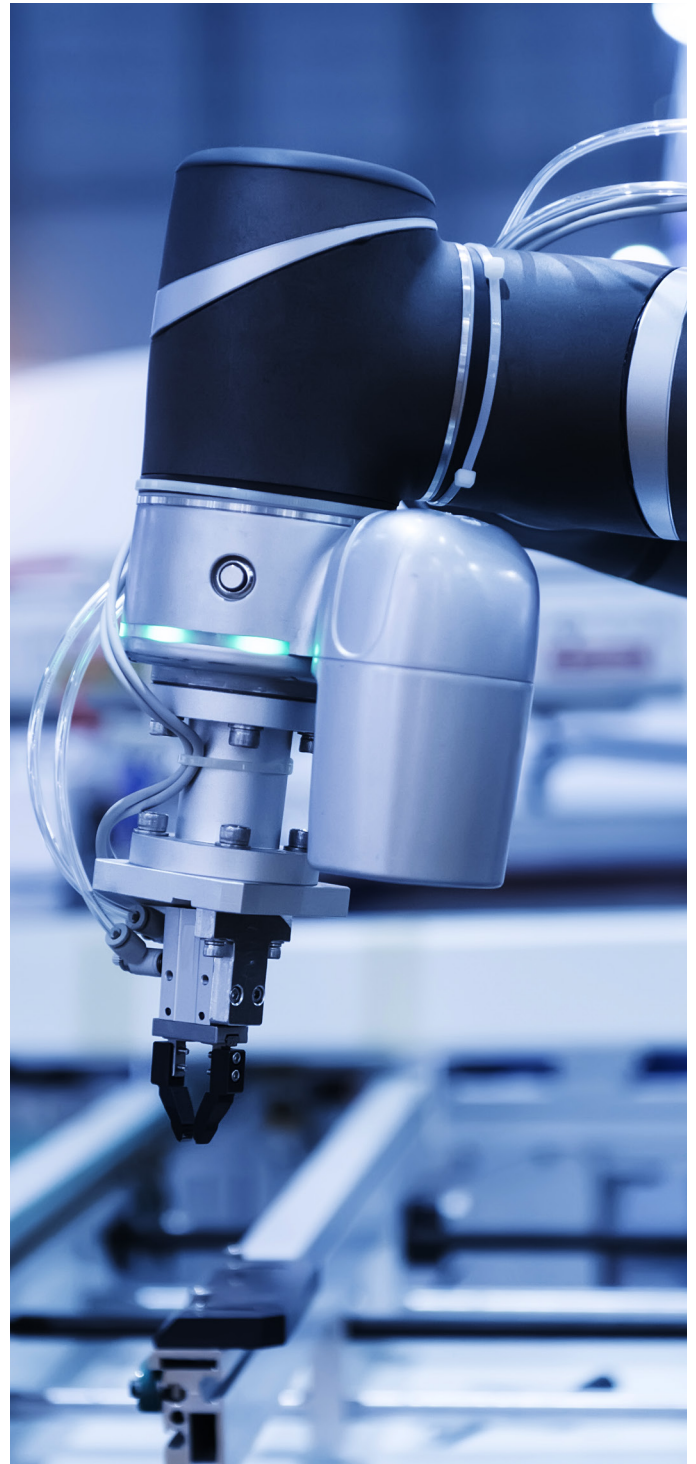
Opportunity: Insurers can offer custom risk management through partnerships with original equipment manufacturers (OEMs). With the manufacturer's know-how and the carrier's expertise, they can create solutions based on individual assessment of each vehicle's technical features such as safety-relevant driver assistance systems.

Metaverse

Metaverse is a rapidly evolving technology, and there are several trends that are likely to shape its development in the future such as integration with real-world applications, interoperability, and as a hub for user-generated content.

Opportunity: For insurers, there are opportunities in underwriting and claims as well as engagement in areas such as training, coverage and benefits education, and customer support.

Increasing metaverse use will lead to the creation of digital assets such as NFTs, virtual real estate, and avatars that pose a new set of risks with an identified protection gap that needs to be addressed by insurers.



Environmental Factors

Climate change

With the world becoming more aware of the challenges of climate change, investors and consumers prefer businesses with the right environmental and social credentials, and buying trends are increasingly being driven by conscious consumers.

Opportunity: Insurers must address environmental, social and governance (ESG) issues by covering climate risk and applying ESG best practices to their own investments as asset owners.

Energy crisis

The global focus is now shifting toward sustainable growth with economic resilience and an accelerated transition to green energy.

Opportunity: Insurers must take steps to reduce greenhouse gas (GHG) emissions across their underwriting portfolios. The move to green energy requires construction of new infrastructure that will come with different risks and new opportunities for insurers.

Electric vehicles

The adoption of electric vehicles (EVs) has been growing rapidly with several governments, automakers, and consumers recognizing the environmental and economic benefits of EVs. The adoption of EVs is a key part of combating climate change and can reduce dependence on fossil fuels.

Opportunity: Hyper-connected insurance leveraging telematics will improve the coverage provided by insurance companies and improve machine learning (ML) language models leading to better analytics.

Scarcity of resources

The demand for food, water, and critical minerals is rising, with

clean energy transition fueling increased mineral requirements, making the energy sector a major player in mineral markets.

Opportunity: Insurers need to develop products for the 'prescribe and prevent' model, proactively reduce insurance coverage gaps, and address the evolving risk landscape due to shared economy and cyber risks.

Legal Factors

Public policy

Changes in government policies significantly impact the ease of access to appropriate and affordable insurance for any individual or business. Events such as Brexit had a significant impact on insurance regulations in Europe.

Opportunity: Insurers must rely on big data solutions to gain insight into their operations and streamline their products and offerings to react quickly to policy changes.

Cyber insurance

The increasing regulatory requirements for data privacy and cybersecurity have contributed to the growth of the cyber insurance market. According to Pew Research, the demand for coverage due to the high frequency of cybercrime and ransomware attacks has led to an increase in premiums for both public and private organizations.

Opportunity: Insurance carriers must expand their offerings to provide products and services that mitigate or prevent risks. For example, insurers can help reduce the impact of cyber threats by providing threat intelligence, data center diversification, consulting, and employee training.

Conclusion

There are multiple forces at play globally that can change the face of the insurance industry. Almost all changes such as political, economic, or social present an opportunity for insurers. It is important for insurance businesses to understand the impact of PESTEL factors on their business and be ready with a game plan for converting each change into a business opportunity.

Being ready involves foraying into newer and underserved markets, exploring different models of insurance, collaborating with policymakers to influence policy changes, accelerating process cycles, harnessing the power of digital to provide anywhere, anytime access to policies, and making the insurance practice more data and analytics driven.

To stay ahead of the game, insurance businesses must rely on new and emerging technologies as a platform for rapid change even as they embrace digital transformation. Access to data and insights as well as the right tools and technologies will help insurers provide the right product to the right market at the right time.

Executive Summary

- A PESTEL analysis is a framework used to gain a macro picture of an industry environment
- It is necessary to analyze the effects of various macro factors on the insurance industry



Political

Global political instability

Opportunity:

- Commercial insurers can offer political risk insurance as a policy or as an add-on coverage to reduce trade and economic related disruption



Economic

Inflation, universal basic income, global GDP, shift in economic power, rapid urbanization, unemployment, and M&A

Opportunity:

- High microinsurance demand
- Scope for public-private partnerships to increase capacity for risks
- Rapid urbanization leads to increase in spending power of people - leverage technology to engage and educate on risk
- Smart contracts set up between B2B



Socio-cultural

Talent challenge, millennials inclined towards digital experiences and conscious spending, gig economy, health and wellness, aging population, COVID-19, gender equality

Opportunity:

- Analytics-driven, workflow-based modernized underwriting function
- On-demand policies with flexible pay-as-you-go or monthly subscription models for gig workers
- Shared value insurance
- Lifestyle-based insurance
- Personalized insurance



Environmental

Climate challenge, energy crisis, electric vehicles, scarcity of resources

Opportunity:

- Parametric insurance
- Covering climate risk
- Hyper-connected insurance - expanding connectivity especially via telematics for EVs will improve the coverage provided by insurance companies
- Sustainable products (shared value products, green insurance products)



Technological

AI and automation, digitalization, autonomous vehicles, metaverse

Opportunity:

- Automate underwriting and claims settlement processes using AI/ML
- Insurers can become a digital risk management concierge
- Leverage connected technologies (IoT, advanced data analytical tools, embedded sensors)
- Use digital twins for tasks such as underwriting and claims processing
- Move from agent/broker to advisor by leveraging AI and analytics
- Leverage generative AI for underwriting and claims
- Deploy smart devices to drive B2B partnerships
- Offer embedded insurance
- Data modernization and monetization due to AI, metaverse
- Blockchain in claims handling

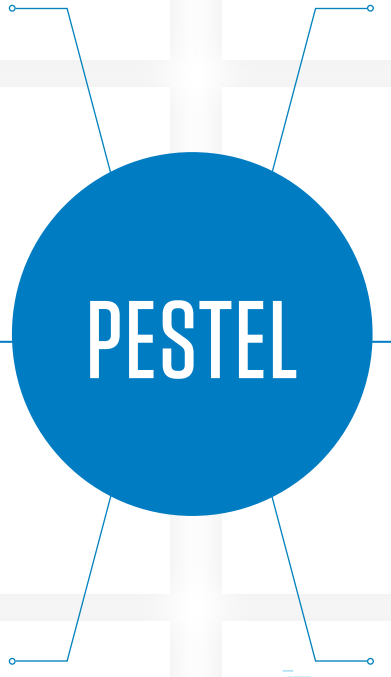


Legal

Role of public policy and regulations, cyber insurance

Opportunity:

- Moving from 'assess and compensate' to 'prescribed to prevent'
- Expand offerings beyond risk transfer. For example, risk prevention
- Increase collaboration with cybersecurity firms



About the Author



Deepak Subbramaniam

Head - Client Advocacy and Solution Design, Sr. Client Partner, Insurance, Infosys

Deepak Subbramaniam heads Insurance Client Advocacy and Solution Design (CASD) group focusing on building Horizon 2 and 3 solutions leveraging Infosys partner ecosystem and IP's. He also heads insurance advisory council bringing leaders from insurance industry to generate thought leadership. He has 25+ years of experience in Insurance and have been associated with many transformation and innovation journeys for insurance carriers.

For more information, contact askus@infosys.com



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