Navigating

Through Stormy Times

INSURANCE MARKETS AND TECHNOLOGY IN 2023

Advanced IT Capabilities Will Be Key

Insurers are operating in a challenging economic environment characterised by increasing political risks, natural disasters, and inflation. During the pandemic, insurers profited from a lower-than-expected claims frequency in many lines of business. When the situation changed, companies started to increase premiums with a delay. This late reaction and increasing financial pressure will pose challenges and make it difficult to maintain profitability. At the same time, these challenges will reinforce the operational excellence that the industry has been pursuing in recent years. At Sollers Consulting, we are pleased to present our 2023 Forecast Report. We based it on management insights obtained through our discussions with insurance industry executives and professionals. Faced with extraordinary challenges, insurers will progressively take advantage of technology. They can increase service quality, optimise costs, and improve results through further digitalisation of customer and partner processes, advanced automation, and data insight.

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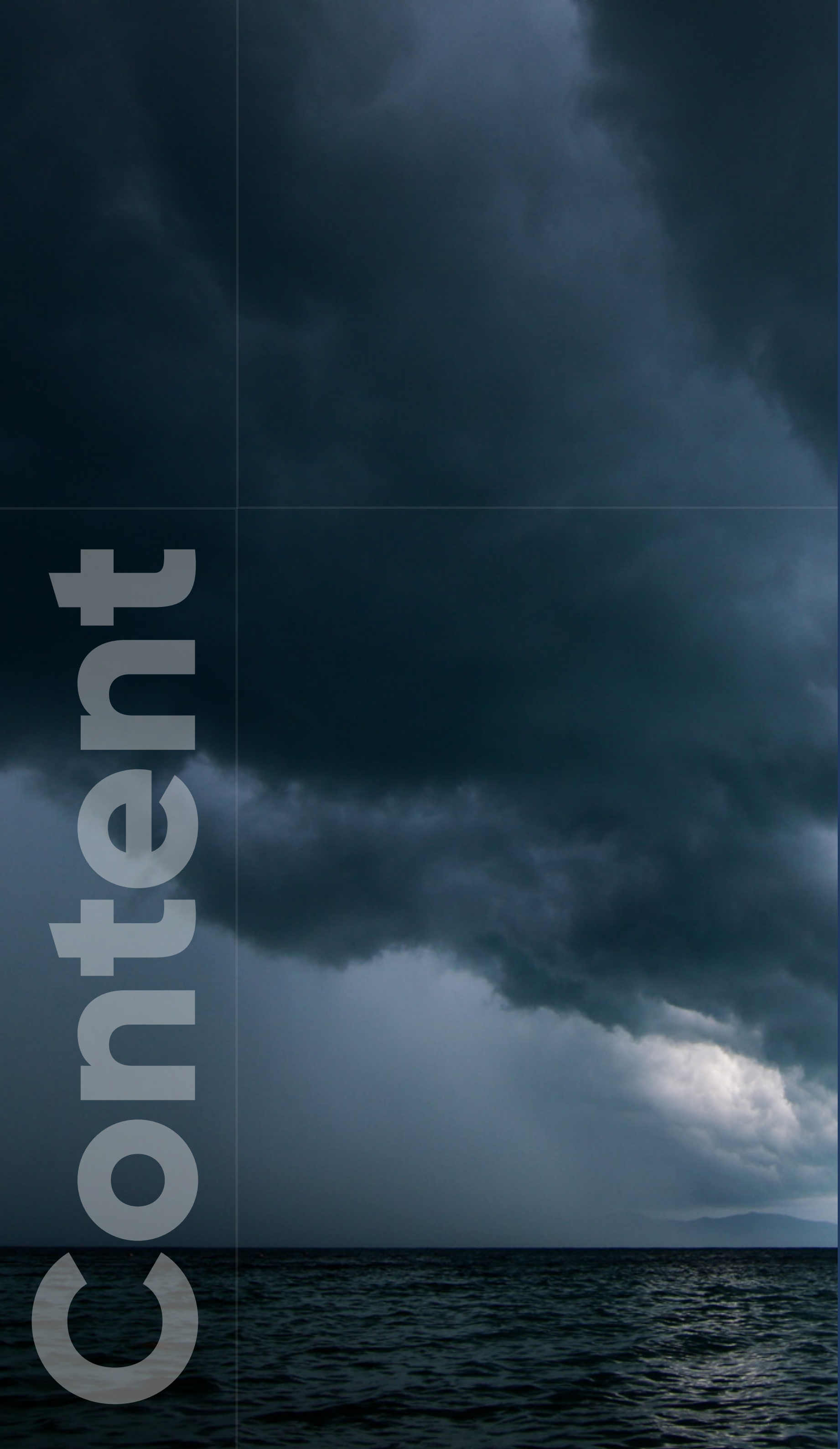
Content



Executive Summary

- High **claims inflation** will prevail in 2023, reaching well above 20% in some markets
- Insurers in competitive markets will find it **challenging to raise premiums** adequately
- **Margins** will continue to be under intense **pressure**
- **Technical losses** will become a **common** phenomenon
- **Automation** will remain one of the **main drivers** of IT efforts
- Insurers will focus on **data** to improve business effectiveness
- **Cloud-based solutions** will be more widely adopted
- **Artificial intelligence and machine learning** usage will visibly grow in scale
- Investment in **core systems** enhancements and replacements will continue
- **40% of IT professionals** believe that IT budgets do not allow for innovation
- **IT budgets** will remain on an **elevated** level, challenged by intense **competition for talent**
- **Innovation** initiatives, while still a priority, will face **stricter budget constraints**

Navigating Through Stormy Times

Insurance markets and technology in 2023

With the return of inflation, insurance companies face challenges they have not met in decades. Economic pressures will force the industry to shift to more efficient business models. Automation will enable insurers to optimise costs and improve results in 2023. The ability to leverage technology will become the critical differentiator.

2023 will be the year of automation (table 1). It applies not only to insurers' back-end processes and the core systems that support them but also to distribution. Economic pressures will drive insurers to improve efficiency through technology. Two main factors will force insurers to enhance their operations and streamline their business processes. The first is claims inflation and the second is lower growth prospects in premium income.

Inflation

Inflation is affecting the industry to a degree it has not experienced in a long time. It is impacting not only claims costs but also the cost of doing business. Administrative costs will rise and impact insurers' bottom lines. Claims inflation is caused by increased prices and shortage of spare parts, delays in delivery, and rising labour costs at repair shops. Initially, increased petrol prices have lowered claims frequency which helped to address claims inflation for a short time.

At present, claims inflation is most noticeably impacting motor insurance. Price increases of spare auto parts are a sensitive issue for the industry, as motor insurance is the dominant line of business, accounting for 33% to 55% of total premium income. Inflation will spread to homeowners' insurance and other lines in 2023, where insurers still need to take initiatives to curb prices in the form of repair networks or the like. Insurers have struggled with social inflation for decades, but the current price increases seen in almost all economies will have a much more significant impact. Technical losses are becoming a common phenomenon in most markets.

Natural catastrophes

Financial pressures on insurance companies will increase due to the growing frequency of natural disasters. It is impossible to predict the impact and magnitude of natural catastrophes on insurance markets. Still, reinsurance statistics (Swiss Re: Floods and storms drive global insured catastrophe losses) show a long-term trend of increased natural catastrophe losses. As the effects of climate change have become apparent, the insurance sector must prepare for one-time loss events with a high number of claims in a short period. As data becomes more readily available, there is growing potential to improve operational efficiency for these types of events, improve pricing, and control accumulation. Rapid claims processing will become even more important as customers facing tight personal budgets are likely to question the value of insurance.

It is impossible to predict whether 2023 will be a benign year or another difficult one, but the financial pressure created by natural catastrophe exposure will increase as reinsurance prices rise. Since reinsurance is becoming more expensive, insurance companies will use alternative options for risk capital management more often. While these will mitigate the increased financial pressure, they will not fully compensate for it.

Growth

Insurers will be forced to raise rates to respond to financial pressures. Some markets are under political pressure not to squeeze private customer budgets. In Germany, attempts to increase rates will be hampered by competition. 2023 will be the year of low-cost insurance providers and price comparison websites in Europe's most prominent property insurance market. However, in markets with an oligopoly, such as Denmark and Austria, insurers will have more flexibility to offset rising claims costs with a higher premium. As economic growth slows or even turns into a recession, growth prospects in the insurance sector are not good (Table 2). In many motor insurance markets, prices have fallen after pandemic-related benign claims years, and it will be difficult for insurers to reverse the price cycle. Over the past five years, industrial and commercial insurance has become more expensive, but rate increases have been declining. Insurers will face challenges convincing commercial customers to pay a higher premium when companies face high pressures in energy, commodities, and supply chains.

Automation

To address these unprecedented financial pressures, insurers will turn to process automation in 2023. There is great potential for automation across nearly the entire insurance value chain, including distribution, underwriting, billing, policy administration and claims. To achieve this, the most advanced companies in the industry will increase the adoption of artificial intelligence and machine learning. In 2023, the insurance industry will increase its focus on claims automation to improve customer service, better support claims adjusters and handlers, and drive operational excellence. In the most advanced markets, such as the UK and Denmark, significant efforts are being made to expand self-service options for customers. Steps are also underway in the US, German-speaking markets, and Poland to increase the level of automation in underwriting.

Core insurance systems

To support and enable automation efforts, insurers in the US, UK, and continental Europe will continue to modernise their existing core systems to overcome current drawbacks and IT debt. More than 70% of IT spending of US insurers goes into implementing new core systems or maintaining and upgrading them. Insurers in German-speaking countries, France, and the Nordic countries will advance with new core systems implementations, some open for cloud-based solutions. While focused on initiatives that unlock value in the short- and mid-term, insurers know that long-term success requires a solid transactional foundation. Therefore, long-term investment in enhancing core insurance platforms and integrated architectures should remain high.

Cloud

As insurers turn to automation and data insight, cloud becomes more prevalent. Companies were initially reluctant to embrace cloud potential fully. But CIOs and IT are actively promoting cloud, confident of its safety. The key driver is business. Cloud-based solutions enable more sophisticated levels of automation using artificial intelligence and machine learning. In surveys conducted by Sollers Consulting, cloud was cited as the most important technology for insurers in the coming years, along with robotic process automation and artificial intelligence (Table 3). About 60% of insurers will likely use cloud-based systems for core business processes. We currently see high activity levels in cloud advanced markets such as the US and UK. While cloud adoption in these markets is already high, insurers in German-speaking countries and France are expected to follow suit.

Data

The insurance industry has been data-driven since its foundation. However, many insurers struggle to utilise internal and external data fully. Data collection, management and processing need to gain higher momentum to better support customer experience personalisation and process automation. More than 50% of US insurers plan to engage in business intelligence analytics, and more than 30% want to invest in predictive analytics. European insurance regulator EIOPA has initiated a discussion on open insurance APIs. The lack of consistent data is a significant barrier to digital progress in the industry. The EIOPA initiative will help overcome this problem in the longer term; meanwhile, insurers will step up the enrichment and utilisation of already available data. About 70% of European insurers treat investment in their data capabilities as a high priority. Data has also become the backbone of the London market's modernisation initiative. In 2023, this will gain traction as insurers strengthen their data and analytics capabilities.

Table 1

Technology in insurance in 2023

US

CS	●●●●○	APIs	○○○○○
PA	●●●○○	T	●●●○○
Cloud	●●●○○	EI	●○○○○
FE	●●○○○	AI	○○○○○
Data	●●●○○		

London Market

CS	●●●○○	APIs	●●●○○
PA	●●●○○	T	○○○○○
Cloud	●●●○○	EI	○○○○○
FE	●●○○○	AI	○○○○○
Data	●●●●●		

UK

CS	●●●○○	APIs	○○○○○
PA	●●●○○	T	●●●○○
Cloud	●●●○○	EI	○○○○○
FE	●●○○○	AI	●●○○○
Data	●●○○○		

Nordic countries

CS	●●●●●	APIs	●●○○○
PA	●●●●○	T	●○○○○
Cloud	●○○○○	EI	●○○○○
FE	●●●○○	AI	○○○○○
Data	●●●○○		

Japan

CS	●●●●○	APIs	●●○○○
PA	●●●○○	T	●●○○○
Cloud	●●○○○	EI	●●○○○
FE	●●●○○	AI	●○○○○
Data	●●○○○		

Poland

CS	●●●○○	APIs	●●○○○
PA	●●●●○	T	●○○○○
Cloud	●●○○○	EI	●●○○○
FE	●●●○○	AI	●●○○○
Data	○○○○○		

DACH

CS	●●●●●	APIs	●●○○○
PA	●●●●○	T	●●○○○
Cloud	●●●○○	EI	○○○○○
FE	●●●○○	AI	○○○○○
Data	●○○○○		

France

CS	●●●●○	APIs	●●○○○
PA	●●●○○	T	●○○○○
Cloud	●●●○○	EI	●●●○○
FE	●●●○○	AI	●○○○○
Data	●●○○○		

CS - Core Systems
PA - Process Automation
FE - Front-end
T - Telematics
EI - Embedded Insurance
AI - Artificial Intelligence

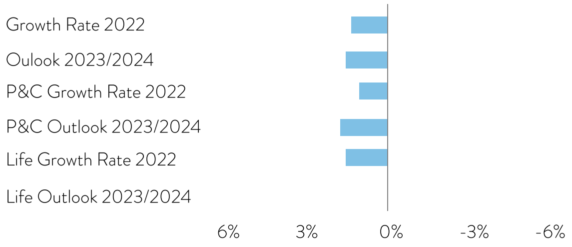
●●●●●	intense activity
●●●●○	major activity
●●●○○	increased activity
●●○○○	little activity
●○○○○	some activity
○○○○○	no activity

Source: Sollers Consulting

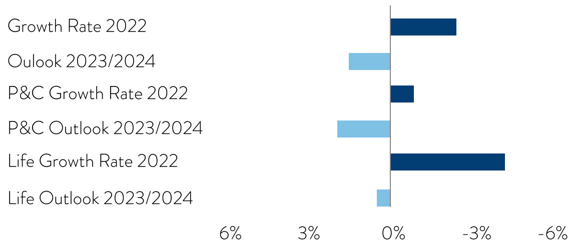
Table 2 **Expected growth rates in selected insurance markets**

Source: Swiss Re Institute

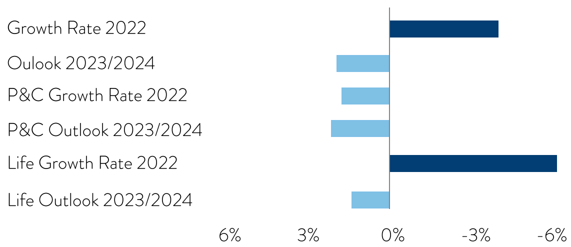
North America



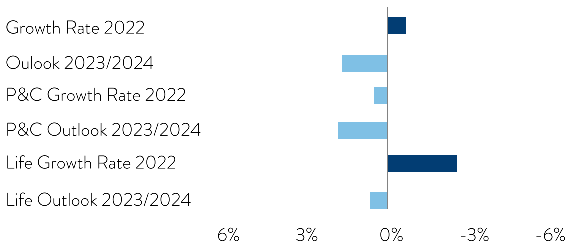
Europe, Middle East, Africa



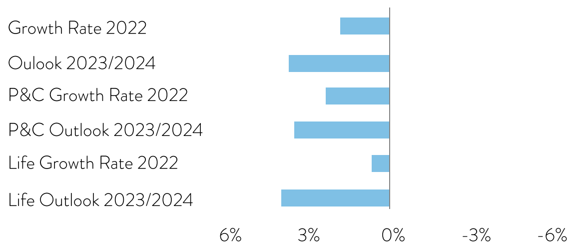
Asia Pacific



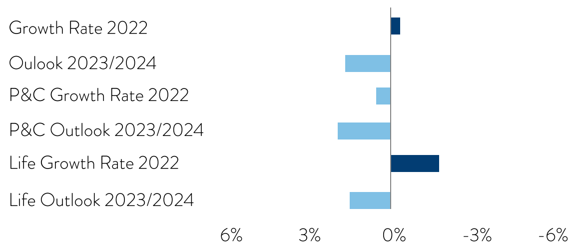
Advanced Markets



Emerging Markets



World



How many of the top ten insurers in your market will use the following technologies in 2030?

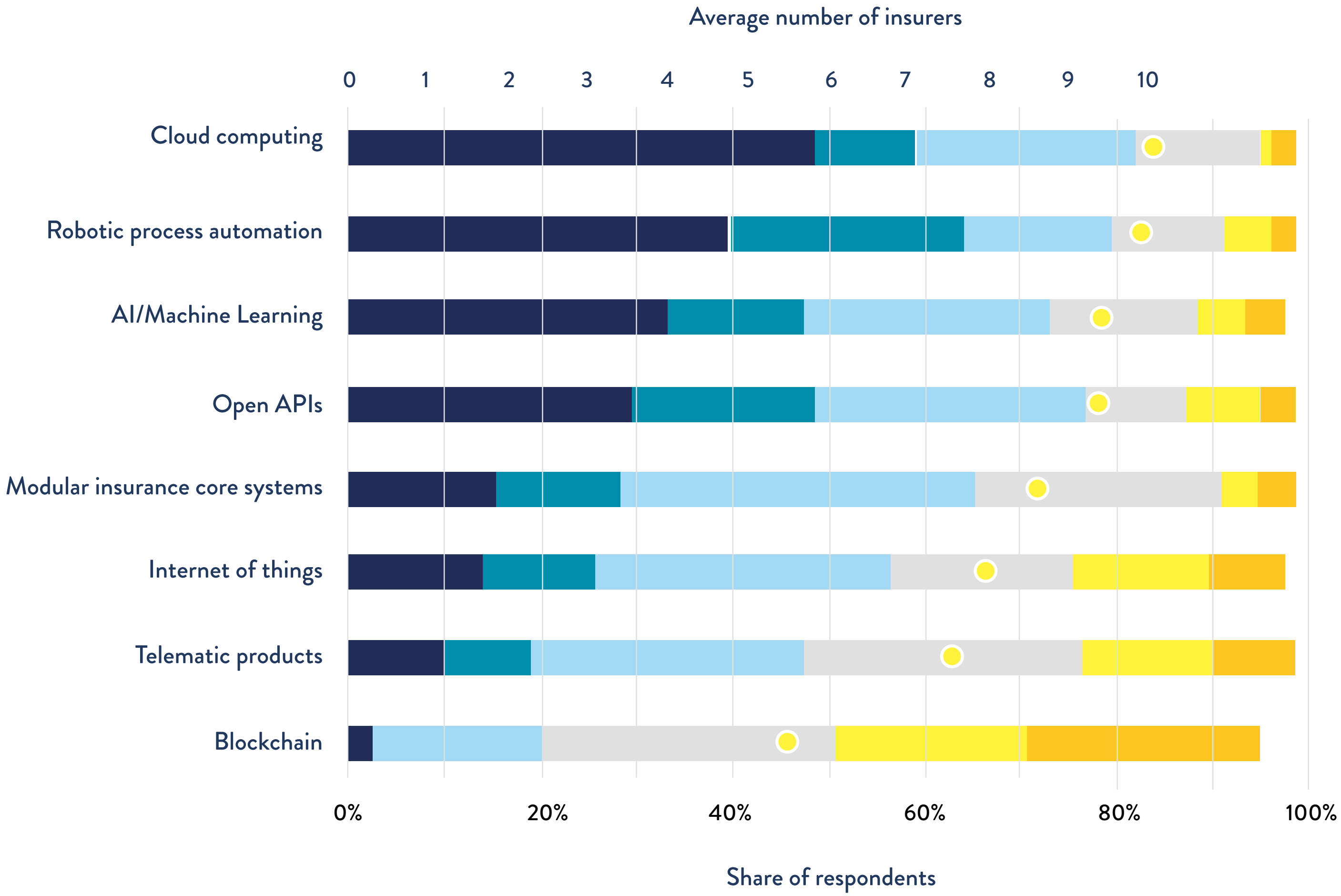


Table 3

Cloud is among the most important technology for insurers

N = 78

Scale:
0 = none
10=all of top 10 insurers

Number of insurers:
- 10
- 9
- 7-8
- 5-6
- 3-4
- 0-2
- n/a
- Average number of insurers

Source:
Future of Insurance Report,
Survey by Sollers Consulting,
2020

Predictions 2023 by Markets

"Insurers are expected to focus more on automation of end-to-end processes, connecting customers, intermediaries, and partners."

Marcin Mekler, Manager

German speaking countries

Business

Due to claims inflation and intense price competition, the German market will likely see frequent technical losses in motor insurance. Pressure on margins will also increase in homeowners insurance as insurers face more and more claims from natural catastrophes. As competition in Switzerland and Austria is less intense, insurers' results will be significantly better than in the German market.

Technology

IT spending will remain at a high level. According to GDV statistics, since 2018 insurers have increased their IT budgets from 2,25% of the gross written premium to 2,55%. Insurers will continue to replace outdated core systems, and we are seeing an increased focus on automation. We forecast that many insurers will invest in process automation to become more efficient. Advanced automation requires utilising cloud-based capabilities; therefore, cloud projects will gain traction in 2023.

United Kingdom

Business

With consumer prices rising faster than in the European Union, insurers continue to focus on cost efficiency. Claims inflation and rising reinsurance costs continue to pose a major challenge for the industry. In commercial lines, rate increases have decreased from 7% to 4%. The pace of rate increases will remain at a much lower level than in recent years. Regulatory changes that partially exempt insurers from the capital charges associated with Solvency II are not expected to have an immediate impact.

Technology

As the technological maturity of the sector is higher than in many other markets, insurers will focus on different technological areas: To achieve higher levels of automation, insurers will continue to modernise their core systems, focusing on claims processing. Cloud and cloud-based systems will grow in importance to better support automation efforts.

Insurers will shift more of their product offerings to fully digital. In motor insurance, telematics will take a notable step forward.

"In response to the cost-of-living pressures, insurers will expand self-service for customers."

Luiza Kulisiewicz, Consultant

"Data will be crucial for success in the London Market."

Wojciech Korobacz, Lead Consultant

London Market

Business

Supported by a hard market with rate increases in reinsurance and commercial as well as various specialty lines, the London market and Lloyd's will attract more players. Lloyd's syndicates normally raise their stamp capacity between 23% and 80%. But merger and acquisition activity is expected to increase as the gap between progressive companies and less successful insurers widens. London Market insurers have adjusted their underwriting rules and strategies to reflect the changing geopolitical situation. On the claims side, development in 2023 is expected to be more favourable than in the previous year.

Technology

Data and data management will become the dominating field of activity in London Market. Efforts made in 2022 will result in a major leap towards a data-driven business. Core systems modernisation continues to play an essential role in supporting data-driven business models and process automation. Lloyd's Blueprint 2 modernisation plan will drive businesses to adapt and transform to take advantage of the opportunities presented by the digitalisation of market services.

Nordic countries

Business

Rate increases and strong growth in premium income will likely offset the inflation of claims costs. High customer loyalty and satisfaction levels will contribute to premium growth. The trend toward forming sales partnerships will increase in importance as insurers strive to improve efficiency in sales. Following extensive merger and acquisition activity in recent years and a regrouping of the major players there is a potential for further transactions in 2023, which could lead to higher market concentration.

Technology

Renewal and modernisation of core systems remain a major focus for insurers in Sweden, Denmark, Norway, and Finland. Companies have made significant efforts to improve customer self-service and increase the level of automation. One of the most ambitious insurers wants to respond to 80% of customer enquiries in claims within 20 seconds. As other insurers look to follow suit, activity in this area will remain high. Nordic insurers will step up their preparations for the changes in the automotive market and offer tailored insurance coverage for electric and (partly) autonomous vehicles. Investment results will be tracked more closely, making lean and agile solutions more important.

“Renewal and modernisation of core systems remain a major focus.”

Sławomir Gdyk,
Lead Consultant

“Artificial intelligence plays an increasing role in process automation by supporting human experts and, in some cases, playing their part. We will observe AI being implemented in more business areas and with a more daring approach. Hence there will be a growing percentage of end-to-end processes handled without human involvement, still with expert human quality and within seconds or a few minutes.”

Andrzej Łach, Partner

Poland

Business

Insurers are under several pressures as they struggle with high claims inflation, especially in motor insurance, where regulatory changes negatively impact the claims ratio and ongoing price competition in main business lines. Claims inflation in motor insurance is expected to rise well above 20% in 2023. Motor insurance accounts for more than half of all P&C business, therefore insurers will struggle to maintain profitability. Companies will look for ways to reduce expenses since adequate price increases will be difficult to implement due to competitive pricing. Continuous focus on quality and speed of customer service will aim to improve retention. Insurers will also look for new ways of distribution. According to market estimates, embedded insurance will reach a market share of 10% in the mid-term. Hence in 2023, more insurers will develop and test partnership models of embedded insurance and affinity.

Technology

Insurers will advance in customer-facing digital services, supported by increased automation to improve service quality and operational efficiency. It addresses growing customer expectations to interact digitally – already 33% of customers commonly use insurers’ online services, while 19% utilise multi-agents’ and brokers’ digital services. In the background, insurers will continue simplifying and modernising their often too complex IT architectures, which is a result of mergers that consolidated the market in the last years, as well as natural technical debt. Competition for talent will continue, primarily affecting IT-related skills, which in turn might negatively impact insurers’ agility.

France

Business

The pressure on the market is very high due to political factors. Insurers struggle to maintain profitability as it is difficult for them to raise rates. Currently, the market estimates that premium income in motor insurance will rise between 3% and 5%. However, increased competition from bancassurance companies looking to expand their market share in property and casualty insurance will increase pressure on prices. Insurers will look for ways to respond to claims inflation and increased exposure to natural catastrophes. Data provided by France Assureurs shows that prices for motor spare parts have increased by 8% and for selected building materials by 29%. Given the increased market pressure, mergers and acquisitions remain at a high level, especially in the mutual sector.

Technology

The renewal of core systems continues to be a major issue in the industry, as insurers struggle to keep pace with the level of digitalisation in other sectors. Cloud-based systems will become more important in creating a modern IT infrastructure. Sales automation activity is expected to increase as insurers focus on omnichannel, customer experience, and front-end systems. Embedded insurance will play an important role as a pioneer in digital distribution.

"The trend for the sector in France for 2023 will be the continuation of sustained investment in technology to automate processes, reduce costs in IT, especially via the cloud, better assess risks, and develop new services."

Nicolas Bertho, Manager

“Insurers will focus on realising value over pure infrastructure investments.”

Justin Hall,
Senior Manager

USA

Business

Both motor and industrial insurance will come under pressure because rate adjustments will remain lower than in previous years. This will make it more difficult for insurers to cope with cost and claims inflation. Insurers are expected to launch initiatives to improve employment practices in a hard-to-win war for talent. More than 80% of insurance companies will focus on improvements targeting a positive impact on results.

Technology

Insurers will continue to focus on modernising core systems and data to automate their processes further. According to Aite Novarica, average IT spending has increased from 3,8% of the gross written premium to 4,2% in 2022. Nearly half of insurers either continue replacing their core system, start its replacement or engage in enhancements of the existing core solution. The cloud will play an essential role in this effort. Given the increased market pressure in motor insurance, telematics activities in motor insurance will increase significantly.

Japan

Business

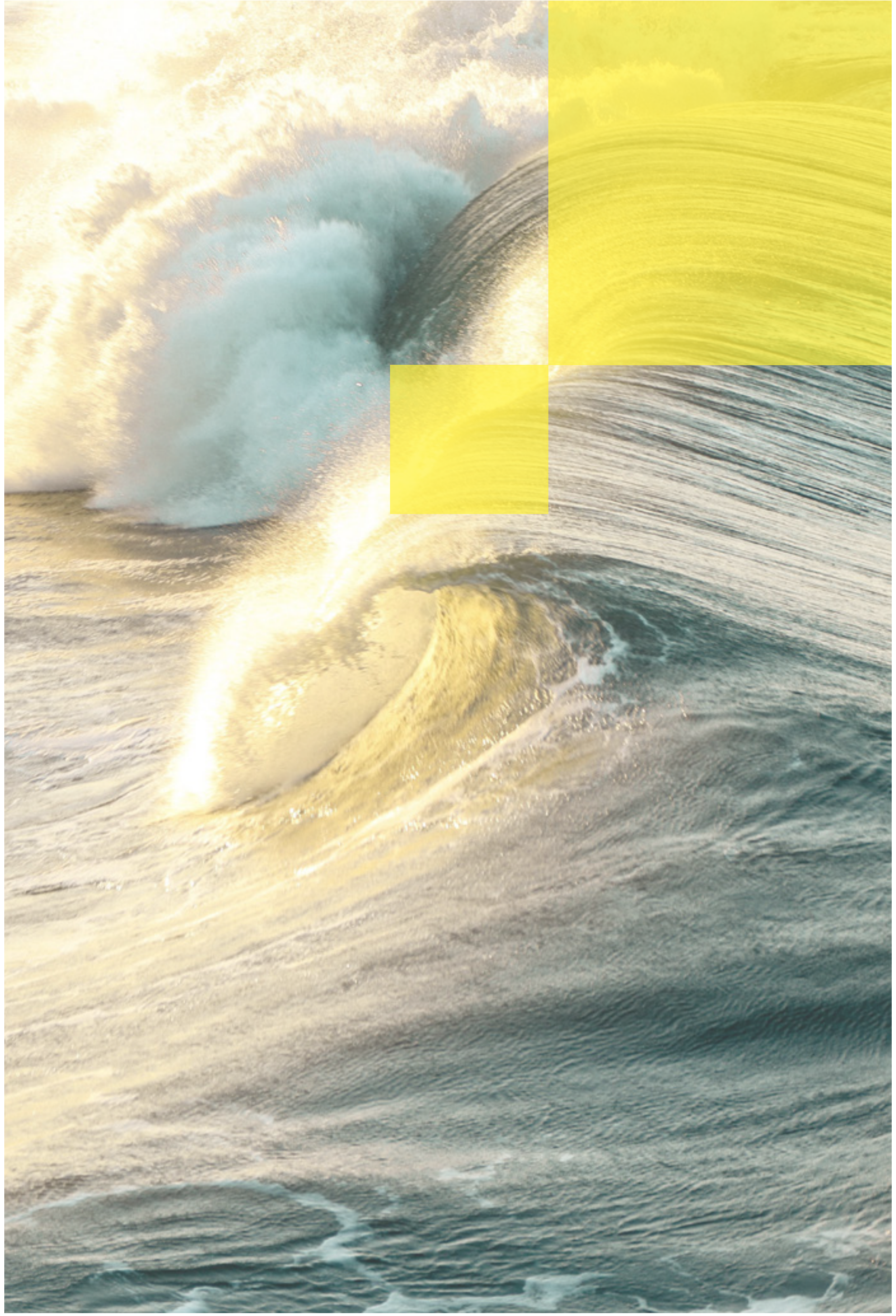
As the level of digitalisation in many business areas increases, the transformation of the business will spread to larger entities. Insurers continue to streamline their international operations to meet profitability targets. Investments in digital transformation are becoming more active, ranging from business process reforms to business domain expansion. The market has to deal with shrinking financial markets due to the declining birthrate and aging population and low interest rates, as well as the entry of new businesses from other industries due to deregulation. Insurers are pursuing company-wide reforms and business model changes through digital transformation, and investments are likely to focus on value-up investments in the future.

Technology

There will be major activity in renewing core systems as insurers seek to catch up with other industries in their level of digitalisation. More than 50% of insurers will be engaged in upgrading or maintaining existing systems, about 25% will implement new systems. There is a strong focus on process automation to overcome cumbersome business processes and increase efficiency in the industry. It is estimated that one out of two insurers will invest in artificial intelligence to automate customer contact. To support digital sales and services, insurers are expected to invest in front ends.

“There is a strong focus on process automation to overcome cumbersome business processes and drive efficiency in the industry.”

Jeremi Nazaruk,
Managing Consultant



About Sollers Consulting

Sollers Consulting is an international operational advisory and software integrator. Established in 2000, the company supports insurers, banks, and leasing firms in business transformations and adapting to modern technologies. Over the last 2 decades Sollers has helped 100 financial groups, including Allianz, AXA, BNP Paribas Cardif, Basler, Generali, Zurich, Santander Consumer Bank, Aviva, Liberty, Beazley, VHV, VIG, NN, Warta, Amica and ING to enhance their digital capabilities.

Sollers' expanding portfolio includes RIFE™, a low code and highly configurable platform proven in bancassurance and affinity insurance business that allows the swift delivery of new products and truly embeds insurance.

Sollers Consulting cooperates with more than 15 technology providers such as Guidewire Software, Fadata, Oracle, AWS, Google Cloud, and Microsoft. Over 900 business and IT specialists from Warsaw, Cologne, Tokyo, Paris, Barcelona, Lublin, Poznan, Gdansk and Wroclaw, are helping financial institutions in Germany, Great Britain, Poland, Scandinavia, France, Japan, the USA and many other countries in the world to reap the benefits of digitalisation. For more information, please visit:

sollers.eu

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