FINANCIAL SERVICES INDUSTRY

A&M'S INSURANCE OUTLOOK FOR 2023

01 Cost of Living Crisis **will impact all Insurance sub-sectors**

- **General Insurance** – 2023 will see an increased risk of 'under insurance' across both personal and commercial lines as consumers and businesses look to reduce premiums. Gallagher estimates that over 40 percent of UK commercial properties are underinsured, whilst NerdWallet's customer survey found 38 percent of consumers have cut payments for their home and car insurance in 2022. The regulator has also signaled its focus on vulnerable customers who will need to be identified and responded to, particularly with the upward pressure on rates resulting from inflation.
- **Life and Pensions** – Savers will reduce and, in some cases, stop their pension contributions; the PLSA found 20 percent of savers were asking about cutting or stopping contributions in Q3 2022. Retirees will increase purchasing Annuities as inflation drives up pay-out rates. A reduction in Life and Health insurance cover will occur as individuals seek to achieve monthly cashflow savings.
- **Providers** will need to further demonstrate the value of their services; ensuring the appropriate levels of insurance and retirement savings are purchased. The industry will also continue driving cost efficient and scalable operations (so costs fall in line with revenue). Innovation will come from moving to embedded insurance and increased personalisation of products.

02 European Insurance Consolidation **will be focussed on 4 key areas**

- **Broker Networks** – Brokers and Independent Financial Advisors (IFAs) have historically provided stable revenue streams driven by their high customer retention and provision of a wide product set. This has been reflected in recent pricing with IFAs demonstrating attractive EBITDA multiples. Entering 2023, broker markets across Europe remain fragmented, the attractive pricing and the opportunity for digital transformation offered by larger broker networks, both Corporate and Private Equity owned, mean we expect to see significant consolidation of both brokers and IFAs throughout the year.
- **Bulk Purchase Annuities** - Rising inflation and rising government bond yields mean that many defined-benefit pension schemes are now better funded than they were at the start of 2022. The result for Trustees in 2023 is that many will now have the option of "buy-in" or "buy-out" from established market consolidators. However, improved funding levels of pension schemes will not meet the demand from consolidators.
- **Pensions Closed Books** – In 2023 we expect to see the continued sale of these books to specialist Corporate and Private Equity consolidators. The UK has seen a huge amount of closed book consolidation in recent years and we expect that 2023 will see activity accelerate in Europe, with Germany, Nordics and Benelux representing large but (relatively) unconsolidated Pension markets.
- **Master Trusts** - Recent regulation of Master Trusts has already caused significant consolidation; with only 35 approved trusts in the UK remaining. We expect the smaller Trusts (<£300M AUM) to be in the sights of Private Equity buy-and-build players or the larger Master Trusts themselves.

03 Customer Ownership is a key priority for future success

Consumers will increasingly engage with their financial providers through digital channels and will demand access to a wider suite of consolidated financial services. This trend increases the need for insurers to "own" their relationship with the customer through the adoption of new technologies which create more immersive and meaningful experiences which build trust and loyalty.

In 2023, a combination of; Consumer Duty, Pensions Dashboard, Cost of Living Crisis and the Advice Gap will be catalysts for further investment and focus in this space. The winners will be those firms that can build and maintain relationships with their existing and new customers through personalised engagement and services to support their individual needs.

04 Technology will **continue to drive product innovation**

Customers are increasingly willing to purchase insurance through non-insurance companies. For instance, a Cover Genius survey found that 70 percent of digital bank customers were "highly interested" in receiving insurance offers related to their purchases inside the banking app. This follows the trend seen in Asia where embedded insurance offerings have been growing rapidly alongside the broader digital adoption. For insurers, this will require the formation of new partnerships, better use of data and participation in wider ecosystems in the race to win and retain customers.

External proliferation of technology (e.g. autonomous technologies, metaverse, AI/ML), climate change and the fast-evolving macro-economic environment require insurers to innovate. Product evolution through embedded risk management and partnerships will increase as insurers look to provide creative solutions in response to the rapidly changing technology landscape.

05 ESG will be **a major agenda item**

New products and solutions focused on sustainability will hit the market, alongside initiatives to reduce businesses' carbon footprint and enhance visibility into their supply chain. The 'social' and 'governance' aspects of ESG will gain significant momentum, playing catch-up to the focus on 'environment'. Firms will move into action to build operational resilience and risk controls across their business to ensure adequate governance. We expect the pensions industry will see increased reporting requirements from regulators and investors as their commitments to sustainable climate outcomes becomes a more prominent factor in customers' selection criteria.

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