



FINANCIAL SERVICES INDUSTRY

2024 KEY INSURANCE THEMES FOR THE YEAR AHEAD

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EXECUTIVE SUMMARY

The insurance industry is at a crossroads.

Higher investment returns, rising interest rates and premium increases have resulted in higher profitability in 2023. However, with these economic forces slowing, the insurance industry is faced with a new landscape of megatrends — specifically complex geopolitical risk, climate change, new and fast evolving technologies, enhanced cyber-security risk and urbanisation. Further, the pricing cycle across commercial insurance appears to have peaked. This together with social inflation challenge insurers' operational approach, and risk and profit models.

We offer five themes that promise significant changes to the insurance industry through 2024.



Theme 1: M&A Activity Expected to Rebound puts forward that 2024 will witness transactions across different segments and markets, specifically in Bulk Purchase Annuity (BPA) and the broking market. We also envisage private equity activity to drive M&A, predominantly in less capital intense businesses.



Theme 2: Business Model Innovation to Accelerate highlights how the insurance industry will evolve to provide services beyond 'risk transfer' and become a partner for the end customer.



Theme 3: Adopting 'Digital by Default' focuses on areas where we expect insurers to drive digital transformation. While core platform modernisation will be multi-year investments, we envisage significant focus on automation and digitalisation of front-end and self-service capabilities.



Theme 4: Data and Artificial Intelligence to increasingly enable personalisation of insurance products and business model innovation.



Theme 5: Operational Resilience to Become Centre-Stage highlights how insurers need to approach operational risks as they embark on building new business models and transform their operating models.



THEME 1:

M&A ACTIVITY EXPECTED TO REBOUND

Following a decline in M&A activity since the second quarter of 2022, the declining inflation and interest rate environment is creating a favourable environment for deals in 2024. All lead indicators — an abundance of dry powder, convergence of price expectations and evolving regulations — point that M&A activity will likely surpass past year-on-year figures.

Life insurance and broker consolidation will be ‘hot’ areas for deals in mainland Europe, following the trend in the U.K. Across the U.K. and Europe, private equity will play a major role with a focus on technology and balance sheet light targets given market maturity.

Specifically in the U.K., the Bulk Purchase Annuity (BPA) market will remain buoyant following an estimated £50 billion deals volume in 2023. We also expect increased consolidation activity within the Master Trusts space, which will be a major trend over the next decade. Whilst this uptick in activity is widely seen as positive for the industry, regulatory expectations have also increased in relation to operational resilience and consumer duty.

CALL TO ACTION:

01

Consider M&A opportunities, which provide greater opportunities to accelerate growth, support capital diversification and add distinctive capabilities.

02

Review existing business portfolios to identify core and non-core businesses and take decisive actions to invest in or exit a business — a decision to do nothing must be a justifiable action.



THEME 2:

BUSINESS MODEL INNOVATION TO ACCELERATE

The role of insurance in securing the assets of individuals and entities is fast evolving. As the risk landscape continues to become complex, insurers are adapting their business models to offer products beyond traditional risk transfer.

The insurance industry will accelerate the provision of additional services such as risk assessment and prediction, risk prevention and mitigation and post-event support — thus becoming an end-to-end partner to the customer. Insurers will also embed ESG and sustainability in their propositions such as offering green products (e.g. electric vehicles), using recycled materials for claims, and developing more inclusive products. More insurers will offer embedded insurance products to enhance distribution. It will also mean evolving other capabilities such as **claims management**.



CALL TO ACTION:

- 01** Review products, channel mix and distribution models, considering the changing environment and customer needs, and assess product-market fit.
- 02** Identify revenue and profit pools and make strategic decisions for pursuit or investments.
- 03** Systematically review the emerging insurance ecosystems (e.g. savings and retirements, home, and energy) and identify potential partners and acquisition targets or enabling capability to accelerate growth.



THEME 3: ADOPTING 'DIGITAL BY DEFAULT'

Insurers will move towards 'digital by default' by adopting digital strategies that enable better customer experiences (e.g. better access, simple claims processes) and enhance efficiencies.

Insurers will invest into process automation, data and analytics, cloud adoption and enhancement of front-end capabilities and customer journeys. Modernising the technology stack will be a priority for insurers particularly burdened with significant legacy systems costs (maintenance of legacy systems consumes ~70% of an insurer's IT budget) and constraints they impose on product development, servicing and ecosystem integration.

Attracting, retaining, and developing the right talent and embedding new ways of working such as agile, DevOps and MLOps will also be critical enablers for true digitalisation.

CALL TO ACTION:

- 01** Develop and implement a digital strategy which considers customer needs, available digital tools and people and culture capabilities.
- 02** Assess operating model to identify opportunities for digitalisation, such as customer experience and self-service capabilities, servicing, and operations.
- 03** Prioritise improvement of technology components which hinder value-adding processes like product development and customer servicing for modernisation.



THEME 4:

EMBEDDING DATA AND ARTIFICIAL INTELLIGENCE

Generative AI took centre stage in 2023 across different sectors with some insurers (e.g. AXA) investing into use-cases. AI offers opportunities for reshaping the insurance value chain through effective use of data. The industry will leverage Gen AI to further personalise insurance products through better use of policy information, claims history and customers' behavioural patterns. However, insurers will also need to strengthen AI ethics and governance to address concerns such as explainability, bias and exclusion.

Specifically, within London Markets, Blueprint II will accelerate digitalisation and use of data with the first phase going live in July 2024. This lays the foundations for the market to trade digitally and introduces data standards and data exchange requirements. Leading market participants will use this change to focus on business growth through new products, optimised capital deployment and ecosystem integration, all underpinned by data.



CALL TO ACTION:

- 01** Develop a clear, commercially oriented AI and data strategy aligned to business strategy to drive value from its data.
- 02** Consider how AI can be used across the business and identify use cases which will directly drive business value.
- 03** London Markets participants must now demonstrate readiness to consume new services and technology. Failure to do so risks regulatory fines and impact to business operations.



THEME 5: OPERATIONAL RESILIENCE TO BECOME CENTRE STAGE

As insurers evolve their business models, invest into new technologies and digitalise their operating models, operational resilience will become a focus area. Insurers will need to ensure that services continue to be delivered on time and at the right service quality, data is protected and customers are supported as they transition to new or enhanced services like self-service.

Strong third-party management capabilities will be required to ensure continuity of services. In addition, insurers will need to invest into technologies to protect from cyber-attacks and cyber-crimes.

Operational resilience will become an area of regulatory focus (e.g. Digital Operational Resilience Act in the EU), particularly as the volume of changes and non-financial risks increase.

CALL TO ACTION:

01

Consider operational resilience across all change programmes and business strategy.

02

Review risk and operational resilience set up across IT, third-party outsourcing and operations.

In an ever-evolving insurance landscape, to win in the market, insurers must be deliberate in their choice of investments and pursue those which are aligned to their strategy. These will result in more sustainable relationships with customers and the broader ecosystem, enduring capabilities and profitable growth.



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