Dealing with disruption
16th Annual Global CEO Survey summary:
Key findings in the Insurance industry

Coming to grips with market transformation

February 2013

pwc

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Insurance industry summary

Far-reaching changes are taking place, and they're taking place faster than ever. In this new era of 'stable instability', risks that once seemed improbable and even remote have become the norm and for CEOs across the world, 'expect the unexpected' has become the mantra. The only solution is to build organisations that can thrive amidst disorder: organisations that are agile and adaptable, able to cope with disruption and emerge stronger than before.

We polled 1,330 CEOs in 68 countries, and talked face-to-face with another 33 CEOs, in our 16th Annual Global CEO Survey, to find out how they're creating resilient organisations that can flourish under stress. Dealing with disruption shows that CEOs are focusing on a few carefully selected initiatives to stimulate organic growth; exploring new ways to attract and keep customers; and balancing efficiency with agility. And to succeed in these three goals, CEOs are recognising the role that trust plays, and that they'll have to work hard to repair the bridges between business and society.

This report is a summary of our key findings in the insurance sector, based on interviews with 92 insurance CEOs in 39 countries. To see the full results of the 16th Annual Global Survey, please visit www.pwc.com/ceosurvey.

While many insurance CEOs have fixed their sights on the immediate challenges of low interest rates, slowing demand in mature markets and the resulting pressure on share values, they can't afford to ignore the transformational changes on the horizon. As our Future of Insurance project highlights[1], the industry is facing significant challenges and opportunities: trajectories of growth in different parts of the world are diverging; customers are demanding more transparent and accessible products; technology is revolutionising risk analysis and customer profiling; and, the speed of change is putting existing business models at risk. There is also a heightened threat of new entrants picking off profitable business. The insurers that come out on top will focus keenly on the customer and have a superior capacity for innovation and reinvention. They'll be able to anticipate change and how it affects them, as well as be nimble enough to quickly capitalise on emerging opportunities.

David Law
Global Leader, Insurance
PwC UK

1 For reports and analysis setting out our perspectives on the way ahead including Insurance 2020: Turning change into opportunity and Life insurance 2020: Competing for a future visit www.pwc.com/insurance

90%

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Introduction

Insurers are upbeat about their prospects, with nearly 90% of the industry leaders in our latest CEO survey at least reasonably confident about revenue growth over both the next 12 months and next three years. This optimism is broadly in line with other financial services sectors'.

Specifically, customers are looking to insurers to help them manage a more complex and uncertain environment (e.g. climate change, geopolitical instability, etc.), protect increasing wealth (notably in emerging markets in Asia, Africa and Latin America), and fund longer retirements at a time when people are living longer and face potentially lower state welfare benefits. Innovative insurers will be at the forefront of helping businesses and society meet these demands. However, this commercial potential is also attracting more competition, both from within and without the financial services sector.

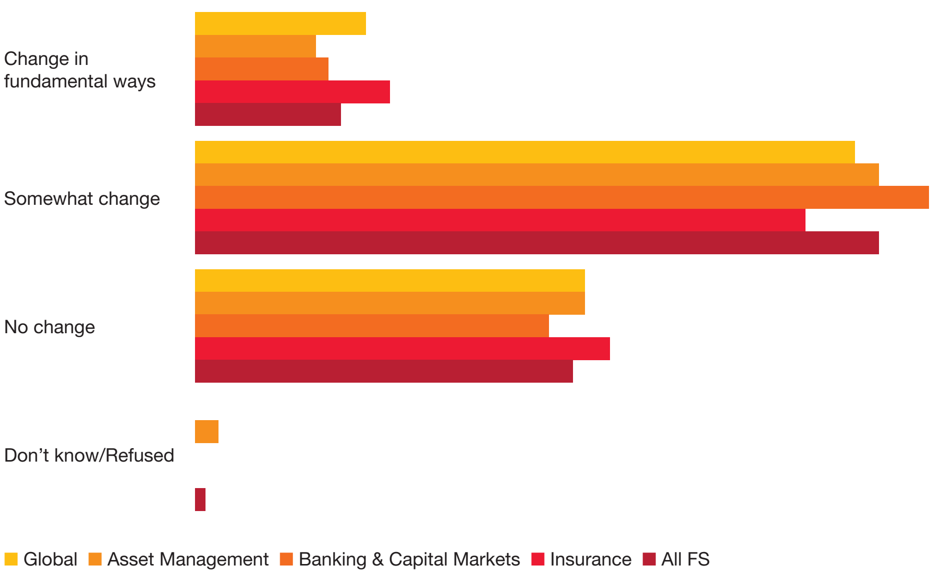
At the same time, we're seeing the beginnings of a transformation in customer expectations of products and services, how insurers design, underwrite and sell them, and – considering the many key changes originating and developing outside the sector –even what we mean by insurance. Nearly 60% of industry leaders (58%) are concerned about the shift in consumer spending on insurance products and related behaviour, a significantly higher proportion than in banking (50%) and asset management (44%). Moreover, survey findings raise questions about whether or not insurers are moving quickly enough to keep pace, with only 16% anticipating the fundamental strategic shifts that they may need to make.

Companies in the vanguard are increasing investment in customer service, new technology, and talent as they seek to reinforce customer acquisition and loyalty. They're using the latest developments in customer analytics to understand and segment their customers and distributors more effectively. They're also looking beyond the industry to scan for emerging threats and opportunities that may come under the radar. Reflecting how crucial technology is in providing insurers with the necessary insight and operational agility, 86% of industry leaders plan to increase investment in technology over the next 12 months, more than any other commercial sector in our survey. (Communications is the only other sector in which more than 80% of CEOs plan to increase funding for technology.)

Cutting across all these competitive developments is a cultural shift, as insurers strive to rebuild public trust. 55% of insurance CEOs are concerned about lack of trust in the industry, a higher proportion than banks (54%) and asset managers (44%).

Figure 1: How are you changing your approach to managing your organisation?

To what extent do you anticipate your company's strategy to change over the next 12 months?



Source: 16th PwC Annual CEO Survey

Two-speed growth

Despite most industry leaders' optimism about revenue growth in the near term, most see the prospects for the overall economy as tentative at best, with only 15% of insurance CEOs believing that it will improve over the next twelve months. Nearly a quarter expect the economy to decline, though this is a much less pessimistic outlook than last year, when nearly half anticipated worse times ahead.

Recession in the US and falling growth in China are now seen as more likely and damaging scenarios than a break-up of the Eurozone, though the prospects for growth in Western Europe are still seen as limited compared to other regions (see Figure 2). Insurers' confidence in the prospects for growth in Western Europe (35% anticipating an expansion of key operations) is significantly lower than banks (55%), but ahead of asset management (30%). Against this backdrop, familiar problems remain in developed markets, such as limited product differentiation and a low perception of value among clients, which tighten the squeeze on margins.

So, where will the anticipated revenue expansion come from? With growth slowing in mature markets, many CEOs see greater potential in the still largely under-penetrated emerging markets of South America, Asia, Africa and the Middle East (together, these regions form what PwC terms 'SAAAME'). These markets have seen substantial segments of their population escape poverty and move into the middle class in recent years,

Figure 2: Regions targeted for growth

In which regions do you expect your key operations to grow in the next twelve months?

	Insurance	All FS
Latin America	88	82
South-East Asia	84	79
Africa	67	78
South Asia	88	78
Middle East	50	72
East Asia	85	75
North America	61	61
Australasia	63	57
CEE/Central Asia	63	51
Western Europe	35	40

Source: 16th PwC Annual CEO Survey

and Latin America currently tops the list of the regions CEOs are eyeing for growth. In an interview with the Financial Times in 2012, Martin Senn, CEO of Zurich Insurance Group, highlighted Latin America and Brazil in particular as a key focus for his group and noted that new members of the middle class, 'Buy cars, they buy homes and they think about pension solutions, which creates good demand for insurance products.'[2]

Asia is also a strong focus for business expansion, with more than 80% of industry leaders targeting for expansion all regions other than Central Asia. However, the focus on the Middle East (50%), and to some extent Africa, has fallen significantly since last year and is much lower than in financial services overall.

The divergent speed of global growth creates challenges on both sides of the developed market and SAAAME divide. Developing competitive scale in key SAAAME markets is proving challenging for many Western insurers, where they often face licensing and ownership restrictions. Even where the door is open, competition is intense and prices and margins are declining as companies struggle to build market share. As more and more trade goes between the SAAAME economies and misses the West altogether, there is also a risk that some Western insurers will find themselves left out of the loop.

To compound this, the move to new and unfamiliar markets is opening up insurers to risks about which they have virtually no data. The $12 billion losses from the Thai floods of 2011, prominently from supply chain and business interruption claims coming from other countries, were a wake-up call[3]. Accelerating urbanisation

2 Financial Times, 24.08.12 (link: http://video.ft.com/v/1801710600001/Zurich-emerges-unscathed)

3 Swiss Re Sigma 'Natural catastrophes and man-made natural disasters in 2011', 28.03.12

1.8bn

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is also affecting risk profiles. Over the next 30 years, some 1.8 billion people are expected to move into cities, most of them in Asia and Africa, thereby increasing the world's urban population to more than five billion people[4]. Emerging megacities are concentrating more and more risks in a small number of locations. In turn, this concentration is heightening the potential for major property losses.

To meet these challenges, sharper and deeper analytics and greater automation of routine underwriting will be critical in order to sustain margins in developed markets and releasing underwriting resources to manage the less familiar and rapidly evolving SAAAME market risks. Fortunately, there are opportunities to automate a considerable amount of mature market underwriting; the necessary data is there and the technology is now coming on stream. When aligned with a re-allocation of talent within the organisation, greater automation within mature markets would have the particular advantage of allowing underwriters to concentrate on assessing and pricing risks in the less data rich markets.

Concentrating on the customer

The speed with which price comparison and instant access insurance via the internet has taken hold within many markets demonstrates how quickly the competitive landscape can change. Consumers have become accustomed to the choice and accessibility that online retailers offer, as well as the one-click interaction of mobile apps; they increasingly expect this transparency and convenience from insurers. This search for an easy and intuitive user experience now goes beyond sales and includes other key areas of customer experience, such as claims handling. For example, there are apps that let policyholders send claims adjusters a photo when they are in an automobile accident or suffer damage to their home. This option enables policyholders to get their claim in train then and there.

Moreover, advances in customer profiling and risk analytics are opening the way for a new generation of fully customised 'smart' policies. Examples include the use of telematic sensors to gauge how carefully people drive and detect impending health risks. Further insights could come from analysing the payments, social media, and other digital trails that people leave. As a result, insurers would have greater certainty over their exposures, which would allow them to offer competitive rates yet sustain margins. In a mature and highly price sensitive market, such advances could give 'smart' companies a real edge.

Most CEOs are conscious of these developments and their potential to reshape the key competitive battlegrounds and business opportunities within the industry. Building the customer base and improving customer service are the top two priorities for investment (see Figure 3). As we noted earlier, nearly 60% of industry leaders are concerned about shifts in consumer spending and behaviour; in response, nearly 90% are planning to change their strategies for managing customer growth,

Figure 3: Investment priorities

What are your top 3 investment priorities over the next 12 months?

	Insurance	All FS
Growing your customer base	71	68
Improving operational effectiveness	52	53
Enhancing customer service	59	54
New M&A/ joint ventures/strategic alliances	26	26
R&D and innovation	14	16
Filling talent gaps	28	26
Implementing new technology	32	29
Manufacturing capacity	2	6
Securing raw materials or components	1	3
Other	5	4
Don't know/refused	1	1

Source: 16th PwC Annual CEO Survey

4 United Nations, Department of Economic and Social Affairs, Population Division, 2009 Revision

> “Every company believes it is customer-centric – after all, if you weren’t selling products and services that customers wanted, you would go out of business. But there is a difference between successfully making a sale and being truly customer-centric”
>
> **Steve Kandarian,** CEO of MetLife

loyalty and retention (nearly 40% are anticipating major changes to these strategies), and almost nine in ten are planning to strengthen their social media engagement.

Just how customer-centric they can become will be the crucial differentiator in this evolving marketplace. Steve Kandarian, CEO of MetLife, has highlighted the difference between basic customer focus and realising its full potential. ‘Every company believes it is customer-centric – after all, if you weren’t selling products and services that customers wanted, you would go out of business. But there is a difference between successfully making a sale and being truly customer-centric,’ he says. ‘We need to look at MetLife through our customers’ eyes and ask what it’s like to do business with us. If we can give our customers truly outstanding experiences, I believe we can capture a lot of value through referrals and increased sales to existing customers that’s currently being left on the table.’[5]

These developments also herald an important departure in the nature of insurance as it moves from a reactive claims payer to preventative risk manager. Previous analytical advances have already allowed insurers to move from hindsight to insight and hence improve their understanding of profitability drivers and segmentation. The next wave of big data and predictive modelling will allow insurers to move from insight to foresight, where they can tailor interactions and pricing at a customer level and use real-time data for decision making.

“We will see financial service providers use ‘big data’ analytics to design products that adapt to the changing needs of the household as they move through different life stages,” says Dr Anand Rao, principal overseeing innovation in analytics within the insurance advisory practice at PwC US. “Advice will be tailored based on age, making it simpler for consumers and advisors, while automation and analytics reduce the complexity of insurance products.”

Crucially, these advances also could allow a major web, social network or other new entrant to move into the market. The market reach and customer profiling edge they would have is considerable. Most established players face the impediment of expensive and unwieldy legacy systems, but new entrants could develop automated underwriting and customer relationship management capabilities from scratch. This would allow them to undercut established players, while offering the fast and responsive coverage people want. In turn, cloud computing would allow them to develop a service model built around cheap and flexible just-in-time virtual outsourcing.

The central role of technology

As evidenced by the increasingly vital role it plays in customer-centricity, technology is at the heart of the competitive developments within the sector, sharpening risk understanding and customer profiling on the one side and opening the door to new entrants on the other. Insurers are leading

5 ‘Meet Steve Kandarian’ on www.metlife.com

Figure 4: Barriers to growth

How concerned are you about the following potential business threats to your growth prospects?

	Insurance	All FS
Increasing tax burden	57	58
Availability of key skills	64	56
Energy and raw materials costs	17	30
Shift in consumer spending and behaviours	58	50
Speed of technological change	43	42
New market entrants	42	34
Inability to finance growth	39	45
Lack of trust in your industry	55	52
Supply chain disruption	18	20
Inadequacy of basic infrastructure	34	36
Inability to protect Intellectual Property and customer data	34	31

Source: 16th PwC Annual CEO Survey

the way in funding, with 86% of industry leaders planning to increase investment in technology.

Surprisingly, however, most CEOs say they aren't concerned about the speed of technological change or the threat from new entrants (see Figure 4). Moreover, few insurers are comfortable with using new data sources and analytical techniques to shape decision making. A key element of this is greater empowerment and organisation-wide involvement in decision making, but only around 40% of industry leaders encourage staff at all levels to get involved in strategic decision, and instead use a centralised and hierarchical approach.

Underlying all of this is an apparent preference for incremental change over radical innovation. Only 15% are planning a major step up in investment in innovation. There is a danger that insurers could be caught flat footed if they don't quicken the pace of innovation and development.

Rethinking talent management

A fast-evolving marketplace will demand new types of skills, new ways of working, and a fresh approach to organisational design. Accordingly, insurance CEOs see the availability of talent as the biggest threat to their growth prospects although it is surprising that less than 30% see filling talent gaps as a key investment priority.

Around three-quarters of industry leaders are planning to change the way they manage talent and organise their businesses. Encouraging mobility is likely to be a key aspect of this shift as insurers reach into new and potentially unfamiliar markets – more than half are looking at ways to give future executives more international experience and promote greater diversity in the leadership pipeline.

Competition over pay is still strong, with nearly three-quarters of industry leaders believing that they need to match the rewards their peer organisations offer to retain top talent. However, sustaining this compensation model will be difficult as returns continue to come under pressure and tax demands in many markets increase (nearly 60% are concerned about the increasing tax burden).

More than 80% of insurance CEOs believe that risk should be factored into performance evaluation and pay. Around a third have changed the way they set executive pay in response to shareholder and public pressure. The challenge for insurers is how to create a coherent compensation framework that can attract and retain talent, while reflecting risk considerations and leaving sufficient funds to meet investor expectations. The fact that nearly 40% of industry leaders believe that executive pay structures have become too complex reflects the difficulty of this balancing act.

62% Over three-fifths of survey respondents are looking at how to strengthen their culture of ethical behaviour.

Creating a winning culture

Ongoing success is likely to require a cultural shift as insurers seek to rebuild public trust, meet more exacting customer expectations, and stave off potential threats from both other financial services companies and new market entrants. At the heart of this shift is an environment that encourages people to embrace innovation, engage more closely with customers, and provide them with more effective risk solutions.

Because they recognise that it is a key pillar for a secure and successful future, many insurers are already taking steps to change institutional culture, notably by seeking to engage more closely with customers. Because they recognise that a lack of trust in the industry is a threat to growth, over 60% of survey respondents are looking at how to strengthen their culture of ethical behaviour. This includes defining the right behaviours, as well as reinforcing mechanisms such as changes in hiring practices, organisational design, development programs, performance management, and rewards. However, many insurers are finding it difficult to translate these objectives into discernible changes in how people think and behave in their everyday activities. Culture will only deliver the organisation's key strategic goals (e.g. innovation, integrity or sharp customer focus) if it is second nature and firmly part of the habits and routines of staff at all levels.

Figure 5: How are you changing the way you view and interact with stakeholders?

For those stakeholders with some or significant influence, to what extent are you strengthening your engagement programme?

	Insurance	All FS
Customers and clients	90	89
Your supply chain partners	80	71
Users of social media	87	80
Employees (including trade unions and work councils)	64	72
Providers of capital (e.g. creditors and investors)	63	75
Government and regulators	76	74
Local communities	61	67
The media	64	59
Industry competitors and peers	63	63
Non Governmental Organisations (NGOs)	57	54

Source: 16th PwC Annual CEO Survey

It's a question of trust

The need to rebuild trust and re-engage with customers forms part of the wider challenge of securing a social mandate, of which the relationship with government is an element. Nearly all insurance CEOs say that governments and regulators influence their strategy, though it's noticeable that fewer of them (76%) are looking to engage more closely with government than they are with customers, supply chain partners, or users of social media.

For insurers, the potential benefits of a strong social mandate include a closer working partnership with government and society in the development of effective retirement and health care solutions. At a time when all FS businesses face considerable scrutiny, strengthening the social mandate could give insurers greater freedom in how they operate, innovate and pursue profitable opportunities. This also could put insurers in a stronger position to attract quality talent at a time when many of the brightest candidates are looking for more meaning from their chosen careers.

Conclusion: Separating winners and losers

This time of relentless and often disorientating change is creating threats for some businesses, opportunities for others, and a combination of both for many.

The speed at which insurers are able to anticipate and adapt to change, rather than simply reacting to events, will be a key differentiator in the transformation ahead. To stay in the game, they will need to think and act at the same rate as technology and customer expectations evolve. They will need to know how competitors are making better use of new sources of data and analytical techniques in order to engage more closely with customers and price more keenly, as well as if new competitors are even going to come from inside the industry.

In addition, the ability to enhance trust and satisfaction by putting themselves in their customers' shoes will be crucial. This will need to take place alongside smarter targeting and sharper product design, as well as the customer understanding that underpin them. Insurers that can realise their potential will be able to offer more responsive policies for less and increase market share while maintaining profitability. Businesses that fail to respond could find themselves priced out of the market, falling short of customer expectations, and under threat from aggressive new entrants. Experience in other industries, ranging from music to travel to electronics, shows how quickly change can occur and how devastating it can be. Insurers cannot afford to believe they are immune from transformational trends.

Insurers that can realise their potential will be able to offer more responsive policies for less and increase market share while maintaining profitability. Businesses that fail to respond could find themselves priced out of the market, falling short of customer expectations, and under threat from aggressive new entrants.

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