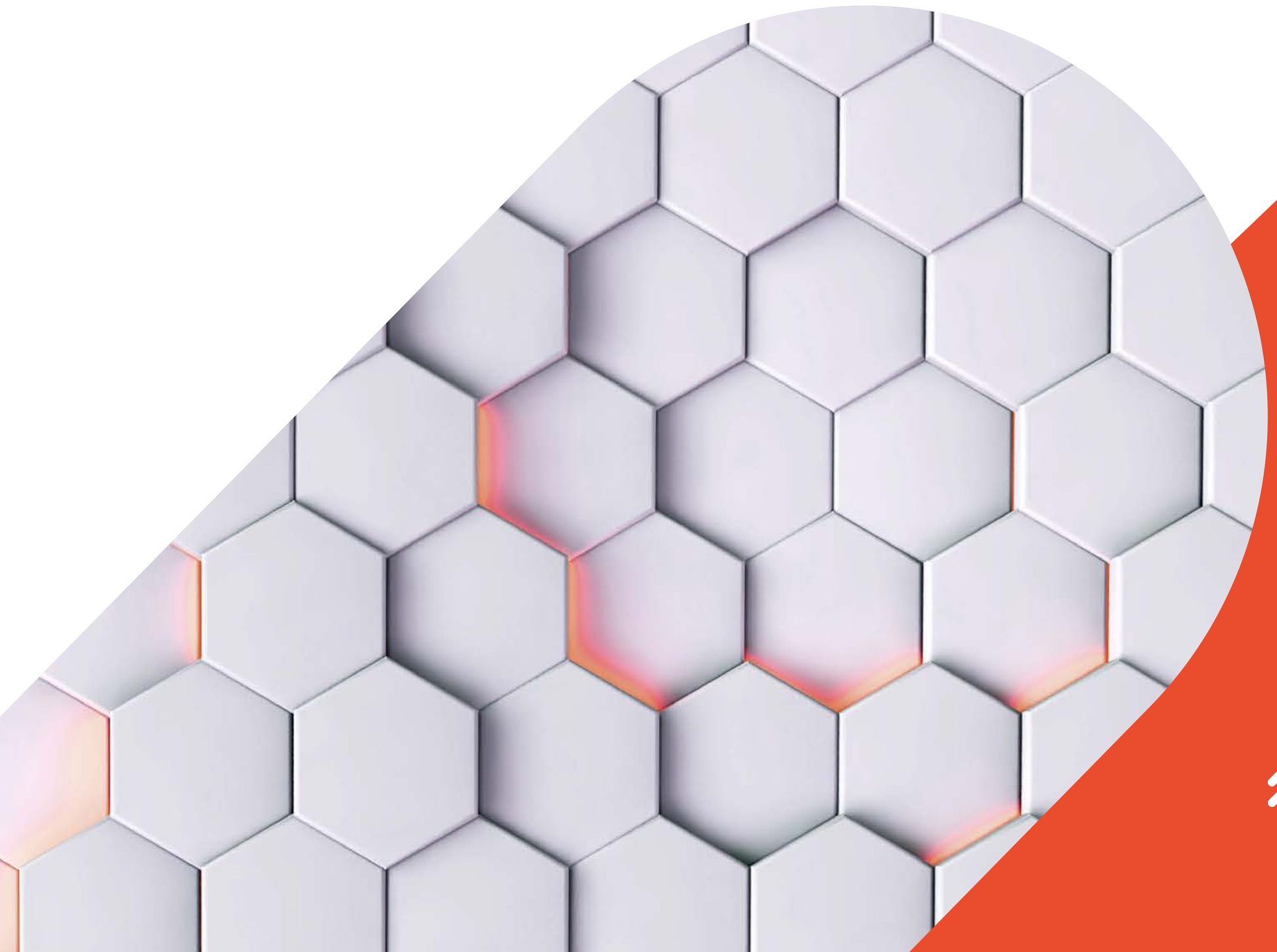
eBook: Inflation & Insurance

Capitalizing on Intelligent InsurOps to Combat Inflation

A Guide to Surviving and Thriving in Turbulent Times



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Executive Summary

In this eBook, we'll examine:

- The **historical record of inflation** in the US economy, and its varying causes
- The **dangers and negative effects** that inflation brings to insurers across their lines of business
- How insurers can **mitigate the effects of inflation,** all while improving end-consumer experiences
- The **technology stack** required to achieve optimum results in returns and profitability, personalized customer experiences, and operational excellence

"Inflation is as violent as a mugger, as frightening as an armed robber, and as deadly as a hit man."

Ronald Reagan
US Presidential Candidate, 1978

It's been more than four decades since that attention-grabbing characterization was uttered. Over that period, inflation went on to peak at nearly 15% per year, plunged rapidly, then hovered in a predictable single-digit range for many years. That recent predictability has limited inflation's effects on consumers and on business planning and execution.

Even in the best of times, economic forecasting can be an imprecise science. Governments, corporations, and private citizens all make key decisions based on these forecasts and inflation is among the most difficult economic parameters to predict. Businesses have no choice but to factor this into their strategies and tactics if they want to succeed. In today's turbulent market, finding ways to mitigate inflation is more important than ever.

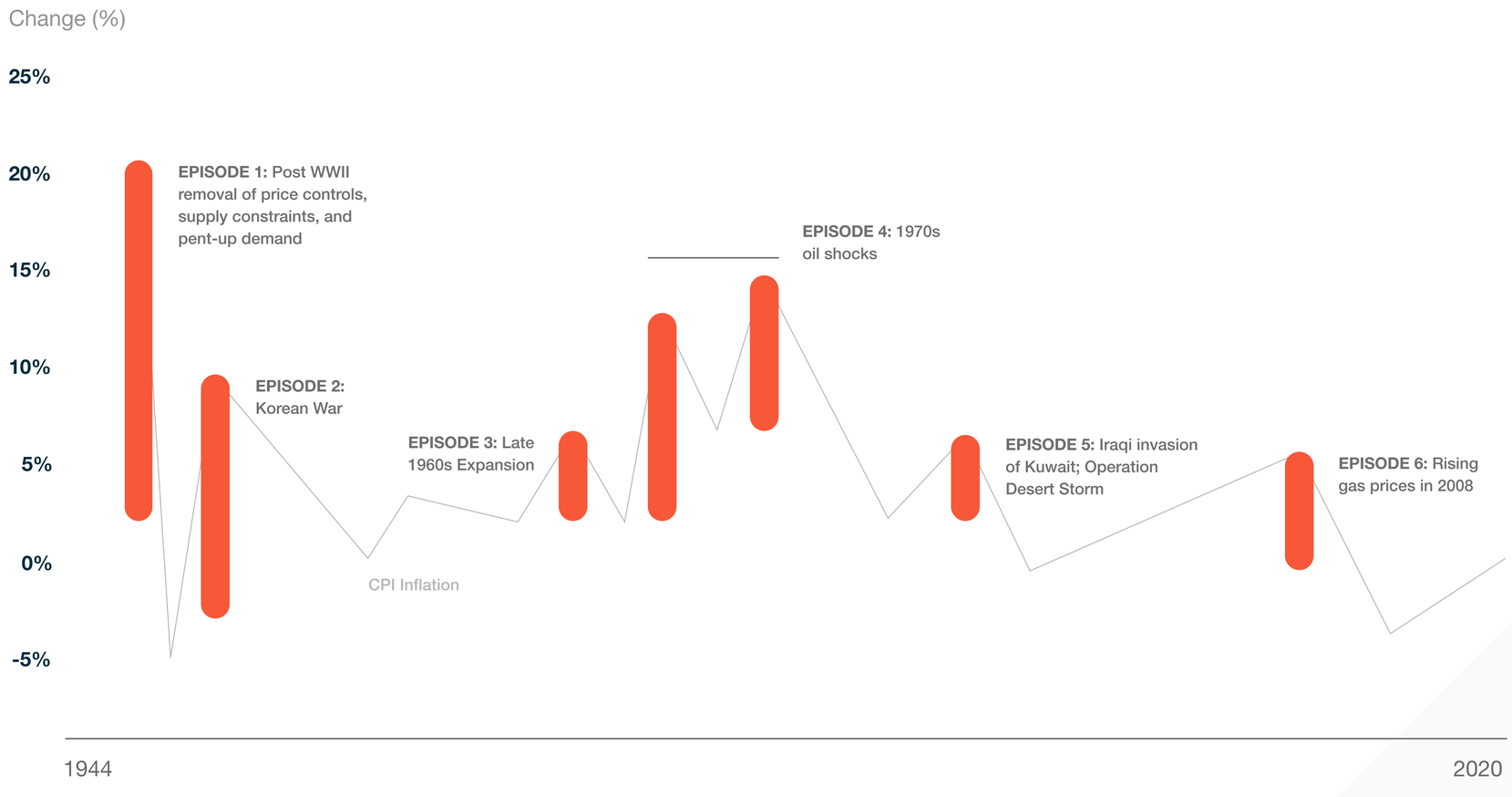
Forward-thinking insurers are turning to **solutions based on leading-edge technologies** such as artificial intelligence (AI) and machine learning (ML), delivered in a Software-as-a-Service (SaaS) or cloud-based mode for speed and agility, and to gain and hold market share.

Inflation Yesterday and Today

Even in the best of times, **economic forecasting can be an imprecise science.** Governments, corporations, and private citizens all make key decisions based on the forecasts of practitioners of “the dismal science”, and the recipients of those forecasts remember missteps far more often than they credit successful predictions. As renowned Harvard economist John Kenneth Galbraith once put it: “The only function of economic forecasting is to make astrology look respectable.”

Among the most difficult economic parameters to predict is inflation. Nearly two full generations have functioned in the business world without inflation being a dominant topic of conversation, as it was earlier, driven by two major 20th century wars and the oil shocks of the 1970’s.

Six episodes of post-WWII inflation



Federal Reserve Economic Data (FRED), Haver Analytics, CEA Calculations

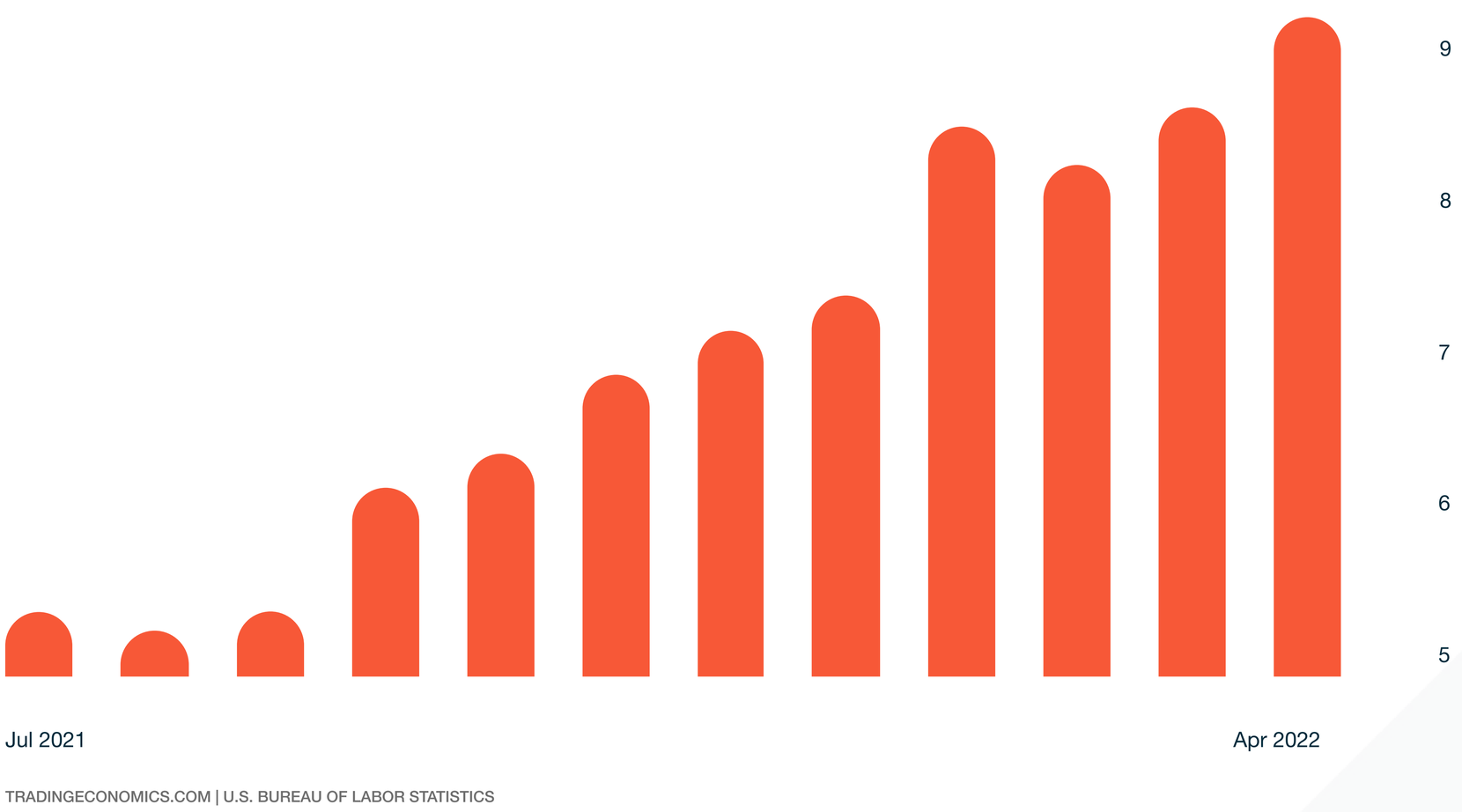
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As seen in the chart, since the mid-1980’s, inflation in the United States has remained within a relatively narrow band, predicable and tame enough to allow business forecasting and operations to focus on other planning parameters. Similar patterns held in the Eurozone and UK as well, making much of the global economy and its interconnections reasonably stable and conducive to growth.

Today’s Price Pressures – Not Transitory After All

In the current round of price increases, it seems that even the US Federal Reserve and other central banks did not fully appreciate the magnitude of the underlying pressures: governments pumping billions of dollars into their economies during the COVID-19 pandemic, the pent-up consumer demand unleashed as the pandemic eased, and supply chain anomalies that have afflicted nearly every sector of the economy. The response has been to tighten the money supply and to sharply raise interest rates in an attempt to quickly bring inflation under control.

Recent statistics indicate that **those efforts have yet to yield significant results,** and that US inflation remains stubbornly high, at annual rates of increase in the consumer price index (CPI) not seen since late 1981.



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While somewhat less pronounced, annual inflation currently exceeds **7%** p.a. in the UK and Eurozone as well, and the majority of countries around the world are seeing inflation run at a rate in excess of **5%** percent p.a. Economies the world over are grappling with post-pandemic effects, but also from the energy, agricultural, and supply chain shocks of the Russian invasion of Ukraine as well.

The bottom line: **Businesses have no choice but to factor inflation into their strategies and tactics**, no matter where they operate. And, according to a recent report by McKinsey, they need to plan for it to be persistent, not transitory, running at 1.5 to 2 percent higher annually than the baseline inflation of the last decade or more.



Inflation’s Effects on Insurers

While day-to-day “water cooler” (or Zoom) conversations about the economy tend to focus on runaway consumer prices (gasoline, food, housing, transportation), insurers in their conference room (or Zoom) conversations must **weigh the business impacts of inflation,** its knock-on effects, and how to mitigate them. Those effects are many and significant.



Increased Overall Market Volatility

Inflation weighs on the psyche of consumers, causing behaviors that might be considered irrational in other times – driving miles out of their way to save a few cents on a gallon of gas (and burning those savings in the process), stocking up on groceries they might not really need in order to insure against projected price increases, etc.

On the other hand, inflation drives perfectly rational behaviors as well. For example, consumers may not drive as much or as far as previously, seeking jobs with expanded work-from-home (WFH) options, carpooling, or otherwise cutting down their mileage in the face of rising gas prices.

They are likely to shop around for the best insurance rates possible, exhibit reduced brand loyalty, downsize away from their gas-guzzling SUVs, or invest in hybrid or electric vehicles.

These and other decisions change end-customers' risk profiles and make forecasting essentially impossible. These market behaviors require that insurers place added emphasis on real-time monitoring of market changes, engage in constant competitive assessment, and learn to act and react more quickly.

With price-shopping and insurer-hopping on the rise, **carriers will find themselves forced into higher expenditures for marketing and brand-building,** in an attempt to retain current customers and to lure new ones away from the competition.



Reduced Demand for New Policy Writing

With raging inflation and flagging consumer confidence, end-customers become averse to new purchases and to taking on the risks that come with them.

With interest rates also on the rise, insurers are likely to see a slowdown in new business written for home construction and home buying, automobile purchases, and other high-ticket items that require financing. This in turn results in **increased competitive pressure,** demands for increased sales and marketing expenditures, and redoubling efforts in customer support and account servicing.



Added Pressure on Pricing and Repricing

In periods of high inflation and increased market volatility, pricing needs to change on a real-time basis. **Every delay, no matter how short, runs the risk of significant financial exposure** for insurers.

According to P&C Specialist, the Motor Vehicle Insurance CPI for May increased 4.5% from a year earlier, while auto repair outlays rose 6.1% in the same time period, indicating that in aggregate insurers are “behind the eight-ball”, and lagging in their reaction to market realities.

The **time lag imposed by legacy pricing methodologies is too great** to capture the dynamic and unpredictable conditions brought on by higher inflation. Lags in decision-making also lead to dissatisfaction among end-customers and prospects, risking permanently losing their business to more nimble competitors.



Increases in Liabilities

In the world of property and casualty (P&C) insurance, higher-than-planned inflation drives up liabilities, as the value of protected property and claims settlements increase, and losses must be reimbursed at higher levels than previously modeled.

Some policies, such as automobile and homeowners, can be repriced relatively quickly, **mitigating the possible effects of inflation.**

Even before the current bout of generalized inflation, repair and replacement costs for automobiles and their components have risen consistently, as the technological sophistication and the cost of the specialized labor required to repair and replace those vehicles have escalated.

Note that homeowner's insurance claims were also on the upslope prior to the current general inflationary environment, tracking rising home prices and reflecting supply chain issues for materials such as roofing.



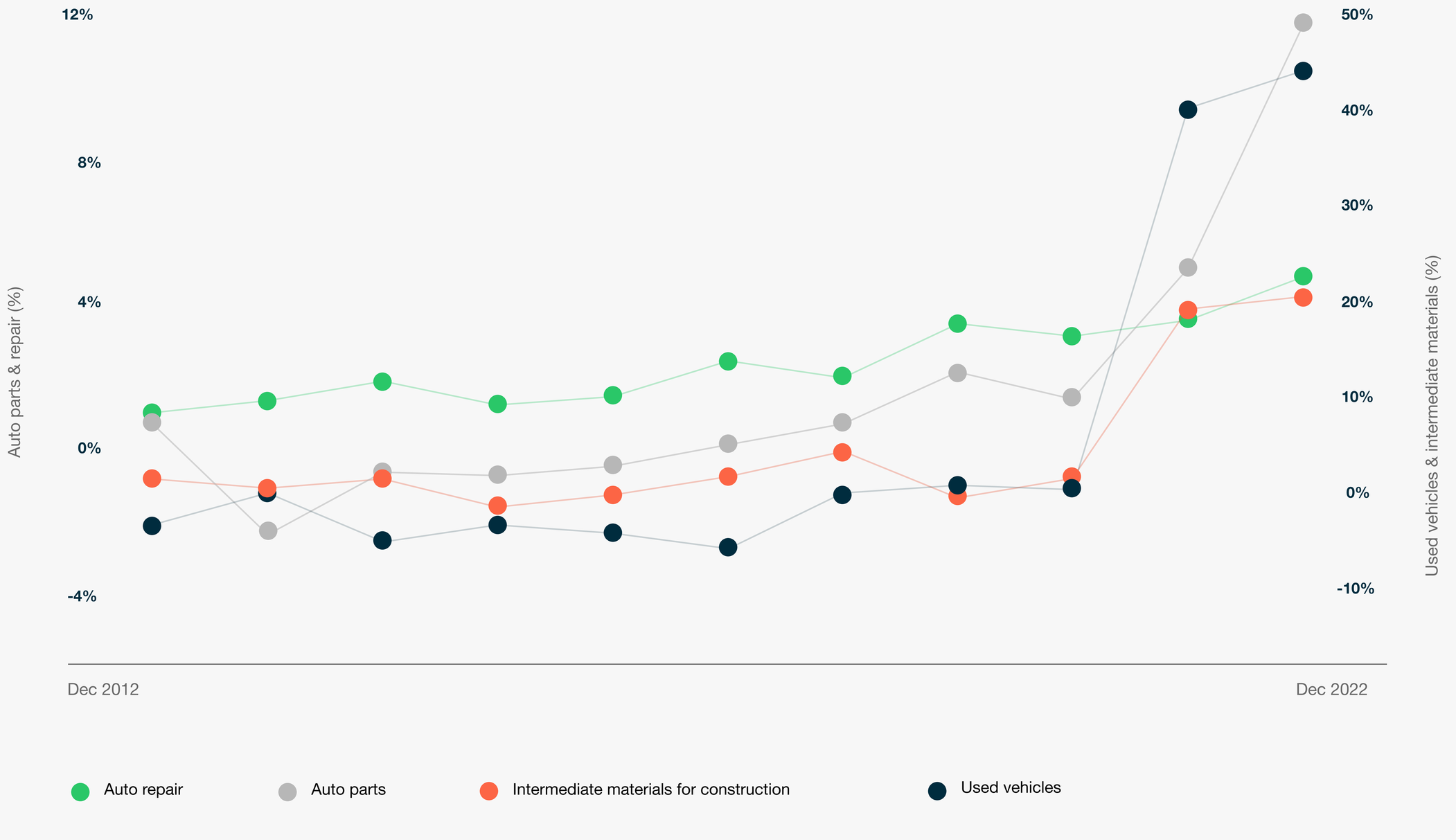
Changes in End-Customer Behavior

With raging inflation and flagging consumer confidence, end-customers become averse to new purchases and to taking on the risks that come with them.

With interest rates also on the rise, **insurers are likely to see a slowdown in new business written for home construction and home buying, automobile purchases, and other high-ticket items** that require financing.

This in turn results in increased competitive pressure, demands for increased sales and marketing expenditures, building delightful online experiences, and redoubling efforts in customer support and account servicing.

Inflation in auto and homeowners insurance claims



SOURCE: BLOOMBERG

Inflation also makes pricing and repricing other, longer-horizon lines, such as long-term disability, professional liability, healthcare, and workers' compensation, much more difficult, placing additional pressure on reserves for future payouts and forcing reconsideration of insurers' loss ratios.

An Increasingly Mobile and Demanding Workforce

Inflation drives up people costs, especially in markets where there are many more positions than potential employees stepping forward to fill them. This in turn drives up operating costs faster than expected, increasing overhead and weakening the bottom line.

What can insurers do to **attract and maintain workers** when they are constantly tempted by higher compensation at competing businesses?

Are raises the only answer, or do insurers have to return to some of the more flexible work practices they adopted during the height of the pandemic?

Can providing better, more satisfying and more challenging work provide additional incentive to join or stay with an insurer?

A Vision for the Future – Enabling What's Next

With the complexities of inflation and the current economic environment in general, there are no single cures or "magic bullets". Mitigation will involve efforts on many fronts.

The right technology and partner can play a key role in **addressing inflation's effects and protect insurers** from some of its uncertainty. There are steps you can take today to improve the situation and your organization's ability to adjust quickly to changing conditions.

An Eight-Point Action Plan

In order to survive and thrive in this environment, Earnix recommends immediately implementing this action plan, a practical mix of outwardly-focused and internal enablement efforts:

1. **Beef up** market monitoring capabilities to enable real-time reactions
2. **Build** strong simulation skills and technologies
3. **Enable** machine learning (ML) models
4. **Build technology** and infrastructure that enables quick deployment of pricing changes
5. **Control** the rising cost of claims through increased prevention efforts and quick claims processing
6. **Invest** heavily in customer retention and customer engagement
7. **Deploy** telematics and other product personlization tools
8. **Prioritize** high-ROI projects over prolonged infrastructure investments

A Technology Roadmap to Get There

That might seem like a daunting to-do list, but the **technology is available today** to make it happen, with proven implementation steps you can start taking today.

Get the Data House in Order

Every insurance organization wrestles with multiple data issues, including insufficient data, bad data, missing data, outdated data, and duplicate data. These maladies stand in the way of sound analysis and decision-making, including the implementation of artificial intelligence (AI) and machine learning (ML), cornerstones of modern business.

The crucial first step of corralling and integrating internal and external datasets **removes the data nightmare** that all organizations face, and ensures that data flowing into data stores in the future can be captured and incorporated seamlessly, paving the way for full exploitation of advanced analytics and decisioning capabilities.

Employ Leading-Edge Technology

With the data house in order, leading-edge technology for dynamic decisioning and analytics can be brought to bear to make informed decision-making and quick reactions a reality.

When **dynamic decisioning and analytics are infused into every application** across the organization, and made available to all levels of the firm, smarter operational decisions become automatic. The technology allows insurers to identify, implement, and monitor strategic initiatives more confidently, while reducing the manual effort needed to manage daily performance.

Product-level implementations can be monitored automatically in real time, and adjustments made on a timely basis, to keep pace with changes in the industry, market conditions, and competition. In turn, keeping manual effort to a minimum helps rein in costs and frees up financial resources for strategic initiatives, and helping to protect the bottom line during these turbulent times.

In order to achieve these objectives, there are four key components that make up a full suite of insurance functionality, and all are available now from Earnix.

Pricing

At the heart of the Earnix solution is the engine that drives dynamic pricing. The AI-driven enterprise rating and pricing engine operationalizes advanced analytics, and builds in robust control and governance standards across the organization.This allows insurers to instantly deploy pricing to online channels, to serve up to millions of quotes and offers per day, and to leverage those digital channels in real time.

With this sophistication, insurers can also **focus their pricing analysis and risk mitigation** on the inflationary cost drivers specific to the business at the portfolio level, rather than taking a “one-size-fits-most” approach based on generic benchmarks.

Personalization

Nothing drives customer engagement more than personalized offers and attention. With Earnix, insurers can **reach a new level of personalized consumer experiences** to better serve diverse audiences, implement new market/product strategies in real time, and build a more relevant, value-adding organization.

Usage-based Insurance (UBI) and Telematics

Usage-based insurance and telematics are revolutionizing the way business is done and how customers are treated to highly-personalized experiences. The Earnix solution makes available a **leading-edge telematics app** that collects robust data around braking, acceleration, distraction, speed, cornering, and other real-world driving events, then uses ML to generate predictive scoring algorithms.

This allows insurers to assess the precise risk presented by individual consumers, to maximize profitability, and to align product offers to lifestyle and behavioral factors, going beyond simple financial or demographic data.

Consumer Engagement

Timing is critical to capturing consumer attention and incremental business throughout the customer lifecycle. The Earnix solution makes available an easily-deployed cross-channel consumer engagement application that **automatically delivers prices, personalizations, and communications** to consumers at the optimal time and through the optimal communications channel(s).

Act Across the Entire Organization	As inflation appears to be settling in for a long run, it's time to engage the entire organization in working through its effects. While the actuaries and data analysts are working through the financial side of things, other groups need to **build inflation into their planning and execution** as well, and the entire organization needs to "own" a revamped and more responsive customer experience (CX). Other functions across the organization, including claims, underwriting, investments, finance, marketing, and customer operations, must all be involved.
Attract the Best and Brightest	Finding and retaining great talent is a challenge that can be lessened by taking the above measures. Raises alone are not the solution to a productive workforce. When employees feel that the data they are working with is accurate, when they are equipped with the best tools and technology, and when they feel connected to their colleagues across the organization, their **job satisfaction rises,** their decision-making confidence in increased, and they feel empowered to act quickly and decisively for the benefit of the organization.

Summary

As you make your plans to address the many threats and opportunities posed by inflation, Earnix can help you lead the way.

At Earnix, we create agile, composable, and intelligent solutions that enable the world to reimagine their insurance operations. We help leaders in centuries-old industries evolve their best practices and incrementally innovate all aspects of their operations to better serve modern end-consumers.

By creating more agile and resilient infrastructure, our customers can **confidently take on large-scale transformation,** while instantly unlocking more value from every customer engagement.

We connect existing systems, new technologies, and diverse teams at all levels across organizations to not only improve what exists, but to accelerate "what's next."



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Mitigate the impact of inflation today

Partner with Earnix for the composable and intelligent solutions necessary to achieve an agile and resilient infrastructure.

Let’s reimagine insurance, together →

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Earnix is the premier provider of composable intelligent solutions designed to transform how global insurers and banks are run. Earnix solutions unlock value across all facets of the business, connecting with customers, and breaking away from the status quo imposed by legacy single systems.

Earnix’s solutions offer systemized, enterprise-wide value with ultra-fast ROI. It has been innovating for Insurers and Banks since 2001 with offices in the Americas, Europe, Asia Pacific, and Israel. For more information please visit: earnix.com.