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Insurance Operations in a Changing Industry

New Developments Require New Strategies for Success

2023 INDUSTRY TRENDS REPORT

Market research conducted by Market Strategy Group LLC on behalf of Earnix

The Future of Insurance

The entire insurance industry now faces unprecedented levels of change and new uncertainties going forward.

Insurers need to develop effective strategies and embrace new technology innovations, not just to survive, but to thrive in the short term – and beyond.



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About the Survey

400

PARTICIPANTS

On behalf of Earnix, Market Strategy Group, LLC independently surveyed 400 global insurance executives from varied roles and departments, including C-level, IT, analytics, product, and underwriting.

<20K+

COMPANY SIZE

This survey included 321 carriers with less than 20,000 employees and 79 insurance companies with more than 20,000 employees.



REGIONS

The sample represented insurance companies from Europe, Australia, the Nordics, Canada and the USA.

2023

TIMEFRAME

The survey was conducted in June 2023.

Executive Summary

To say that the insurance industry is currently changing would be vastly understating the impact of so many new developments and market conditions. Insurance carriers today are confronted by unprecedented change, coming all at once and from a wide range of factors.

Whether they're reacting to continued inflation and supply chain issues, post-pandemic workforce dynamics, climate change, new and more aggressive competition, indecision about emerging technologies – or all of the above – insurers now find themselves at a pivotal inflection point.

To help insurance executives understand new changes in the insurance industry and how insurers can successfully respond, Earnix partnered with the Market Strategy Group, LLC to conduct a comprehensive independent research survey to uncover all these issues and more.

This report summarizes key findings from the survey to show how other insurers are thinking about and reacting to so much change. It also highlights real opportunities any insurer can put into practice now, not just to survive this period of upheaval but to truly thrive.

Key Findings

01 In a rapidly changing environment, insurance executives must increasingly spread their attention across many operational areas to effectively harness the strength and speed of change.

02 **35%** of C-suite executives believe that macroeconomic factors (e.g., inflation, risk of recession, rising interest rates, and low GWP growth) are the most significant trends driving change.

03 Many insurers report that other trends, such as the threat of cyberattacks and climate change, are also major factors.

04 Post-pandemic workforce dynamics are likely here to stay. This will force insurers to rethink remote work policies and ways to enable employees to focus on more engaging, strategic work in their quest to attract and retain top talent.

05 Insurance carriers are now focused on prioritizing profitability over growth, especially when it comes to fostering innovation in their firms. However, many executives report that their current IT infrastructure presents the biggest obstacle to innovation.

06 Personalization continues to be a clear priority for insurance leaders, although just **7%** say that they have fully executed their company's personalization strategy.

07 Emerging technologies such as artificial intelligence and machine learning are crucial to implement predictive modeling, dynamic pricing, and other critical use cases.

What is Causing the Insurance Industry to Change?

Economic uncertainty. Ever-evolving customer expectations. Technology-driven disruptions. Intense cost and competitive pressures. Climate change concerns. New regulatory implications.

With all of these challenges and many more, today's insurance companies are facing unprecedented change and real questions in how to respond. A better understanding of the conditions and factors shaping the industry's future will help insurers devise more informed strategies to compete and win.

Macroeconomic Factors: Economic Uncertainty Continues to Linger

Insurers reported that macroeconomic factors such as inflation, rising interest rates, geopolitical events, and more have all affected business processes and outcomes.

In the survey, respondents felt strongly that “changes to the macroeconomic environment” would have the most impact on their company. Specifically, they report that factors such as ongoing supply chain issues, inflation, and new insurance regulations would be some of the most significant macroeconomic conditions they expected to face in the next two years.

Further, **28% of C-suite executives report they are now focused on “dealing with macroeconomic factors,”** making this a higher priority than other initiatives like workforce dynamics and even personalization strategies.

Their concerns are well-founded since these adverse economic conditions can lead to less demand, rate increases, new cost and competitive pressures, more regulation, and the need to explore new business models to react to changing market dynamics.



Macroeconomic Factors May Influence New Ways of Thinking and Acting

For the last two years, which three industry trends have had the most impact on your area of the company?

Trends	Total	Geography		Function					
		North America (n=200)	Europe/Aus. (n=200)	C-Suite (n=40)	IT/Technical (n=72)	Actuarial/Pricing (n=71)	Analytics (n=76)	Underwriting (n=69)	Product (n=72)
Growing cybersecurity risks	40%	32%	48%	33%	43%	49%	29%	45%	38%
Changes to macroeconomic environment (e.g. inflation, interest rates, GDP)	36%	40%	33%	35%	31%	37%	37%	41%	36%

Economic conditions are top of mind for insurance carriers and executives alike. Factors such as inflation, supply chain issues, rising interest and other trends will affect their thinking for the next two years – if not longer.

KEY TAKEWAY

Economic conditions will continue to be a challenge, emphasizing the need for **innovative new ways** for insurers to model risk and develop more effective rating and pricing strategies.

Climate Change: The Potential for an Insurance Meltdown

Climate change's impact on the insurance industry is already a high-profile topic as many insurers have scaled back home insurance businesses in many countries around the world, including in vulnerable states such as California and Florida in the U.S. Some insurers are also choosing not to renew coverage or have stopped selling new policies completely.

Insurers recognize the existential threat posed by a growing number of wildfires, hurricanes, and other climate events. A combined **87%** of survey respondents reported that **severe weather patterns** are either "equally important" (**52%**), or "somewhat more important" (**27%**), or "far more important" (**8%**) to insurance operations in the next two years.

North American carriers are especially aware of the threat climate change poses. On a ten-point scale, North American insurers rated the **"anticipated significance of climate change on their operations in the next decade" at 8.06** – a clear sign that climate change will have a significant impact on insurance, now and into the future.



Climate Change Will Have a Significant Impact on Insurance Operations Over the Next Decade

On a 10-point scale, rate the anticipated significance of climate change on your operations in the next decade.



Climate change could cause the cost of home insurance to become exorbitant – and has already forced some insurers to leave certain markets.

KEY TAKEWAY

The potential effects of climate change are already forcing insurers to re-evaluate their policies to reflect new weather patterns. They must **develop new models** – not necessarily based on historical data – to project and mitigate new risk levels.

Cybersecurity Concerns: Respondents Are Very Concerned with Rapidly Increasing Risks



As cyberattacks continue to rise, they affect virtually every industry, yet in many ways, cyber threats are especially worrisome in insurance. Ransomware is a top threat, due in part to the role cyber insurance may play, yet data breaches, the sale of policyholder data, and even state-sponsored attacks all present real security risks.

This trend was supported by our research findings. When asked what factors have had the most significant impact on insurance operations in the last two years, **40%** of survey respondents named "growing cybersecurity risks" as their top concern.

Clearly insurance carriers realize they need to do more to protect personally identifiable information (PII) and comply with increasingly stringent data privacy regulations – especially as they migrate to a growing number of digital channels.

Cybersecurity Risk Is One of the Largest Trends Affecting the Insurance Industry

For the last two years, which three industry trends have had the most impact on your area of the company?

Trends	Total	Geography		Function					
		North America (n=200)	Europe/Aus. (n=200)	C-Suite (n=40)	IT/Technical (n=72)	Actuarial/Pricing (n=71)	Analytics (n=76)	Underwriting (n=69)	Product (n=72)
Growing cybersecurity risks	**40%**	**32%**	**48%**	**33%**	**43%**	**49%**	**29%**	**45%**	**38%**

Survey respondents now believe cybersecurity risk is the top trend affecting their business – ahead of other developments such as rising costs, new industry regulations, and evolving customer expectations.

KEY TAKEWAY

Continued reliance on legacy systems may leave many insurers highly vulnerable to a growing number of cyber threats. **Replacing outdated IT infrastructure with more modern systems** can help them address security gaps and stay a step ahead of the bad guys.

Cybersecurity Risk Is One of the Largest Trends Affecting the Insurance Industry. As insurers embrace more digital channels, collecting and managing customers' data – and avoiding ransomware, data breaches, and other attacks – are their top security considerations.

Workforce Dynamics: Challenges Related to Finding and Retaining Employees with the Right Skills



The pandemic had a significant impact on many workforce dynamics and has likely permanently changed the ways employees work, collaborate, and view their relationship with their employer.

These trends are true in insurance where carriers are exploring new ways to empower employees, hire new talent with important skills (e.g., strategy, pricing, and even digital marketing), and increase productivity.

Yet most insurers reported critical challenges related to responding to new workforce dynamics, especially difficulty attracting and retaining employees. Larger insurers rated this challenge an **8.05 out of 10**.

In some ways, this may not be surprising since many insurers still rely on manual processes supported by cumbersome tools and a legacy technology infrastructure. These outdated approaches waste too much time and effort and prevent employees from engaging in more rewarding work.

What Skills Are Insurers Looking For?

Respondents reported that when looking for new employees, they were most interested in those with skills related to strategic pricing, IT management, cybersecurity, and artificial intelligence/machine learning.

Skill sets	Total	Geography		Function					
		North America (n=200)	Europe/Aus. (n=200)	C-Suite (n=40)	IT/Technical (n=72)	Actuarial/Pricing (n=71)	Analytics (n=76)	Underwriting (n=69)	Product (n=72)
Strategic or dynamic pricing	15%	16%	15%	8%	11%	24%	9%	16%	21%
IT management	9%	12%	7%	15%	18%	6%	11%	4%	4%
Cybersecurity/fraud reduction	9%	7%	12%	8%	14%	7%	5%	10%	10%
Artificial intelligence	9%	6%	12%	13%	6%	11%	14%	9%	1%
Machine learning	8%	8%	9%	8%	11%	8%	8%	6%	7%

Insurers face many new, post-pandemic workforce dynamics, yet the majority reported difficulty attracting, hiring, and retaining employees with the right skills.

KEY TAKEWAY

As insurers continue to struggle to attract and retain employees with the right skills, they can **increase engagement and satisfaction** through the use of cutting-edge technology that simplifies daily tasks while empowering employees to truly make a difference.

Bringing it All Together

So many new trends and external events present a new world of evolving risk and uncertainty for insurers today. The stability they enjoyed for predictable pricing strategies and consistent business growth is a thing of the past, leaving them to question what strategies and tactics they should implement to respond to operational disruptions and new market dynamics.

The good news: Many insurers share a common vision for what should come next and how to prioritize various best practices in order to respond to change and gain a new competitive advantage.



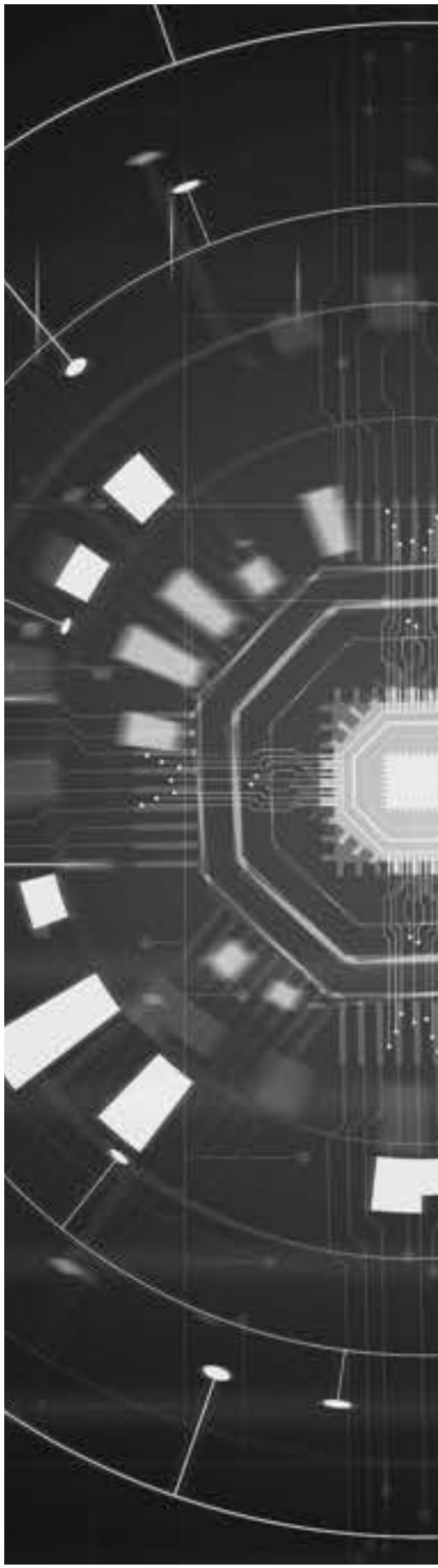
How Are Insurers Reacting to Change?

Each of the major trends causing so much chaos might have been expected at most as a once-in-a-decade event. Yet the fact that so many are happening all at once represents a perfect storm of extremely difficult market dynamics and adverse conditions.

From outward appearances, it is understandable that insurance carriers would have an extremely hard time navigating such a challenging landscape – or that they might even fail completely.

Yet insurers have more power than they may think. By embracing a proactive mindset now – before the competition – they can quickly embrace new technology, reconsider conventional approaches, improve collaboration and productivity, and seek new innovations to achieve their most important business goals.

Implementing New Technology: Changing Industry Regulations Will Require New Technology



An average of **38%** of respondents reported that changing industry regulations will require them to consider new tools or technology (e.g., AI/ML, personalization, dynamic pricing, and predictive analytics). This was the top answer given.

Additionally, nearly all respondents (**98%**) reported that they plan to use predictive modeling to anticipate customer reactions to specific offerings.

While the insurance industry has been notoriously slow to adopt new technology, it finds itself at the crossroads of needing new innovation to respond effectively to evolving regulatory requirements and shifting customer sentiment.

Insurers Realize They Will Need New Technology

How have changing industry regulations affected your team?

Impacts	Total	Geography		Number of Employees	
		North America (n=200)	Europe/Aus. (n=200)	< 20 K (n=321)	20K+ (n=79)
Requirement to use new tools or technology	**38%**	**38%**	**39%**	**37%**	**44%**

Survey respondents recognize insurance technology can help them manage operations more efficiently, reduce costs, and increase customer satisfaction.

KEY TAKEWAY

The entire insurance industry is notoriously slow when it comes to adopting technology. Yet new and evolving industry regulations may now accelerate many insurers' decisions since new innovations now give them a **better way to manage risk** and remain in compliance.

Continue to Focus on Personalization: Few Companies Have Fully Executed Their Personalization Strategies

Personalization remains a clear priority for insurance executives and leaders, yet the majority of carriers haven't completely executed their vision yet. Many view data privacy and competitors' offerings as the top challenges to their own personalization efforts.

Yet there are signs of continued progress. For example, more than **75%** of respondents reported that they would be using third-party data in their personalization offerings in the next two years – evidence of their commitment to larger, more innovative personalization strategies.

48%

PERSONALIZATION OBSTACLES

Of the **71%** of insurers who have fully executed their personalization strategies, **48%** of them believe that data security was – and will continue to be – a major obstacle.

Personalization Obstacles

"Data security/data privacy concerns" was the top obstacle cited related to developing personalized products and services.

Impacts	Total	Geography		Number of Employees	
		North America (n=200)	Europe/Aus. (n=200)	< 20 K (n=321)	20K+ (n=79)
Data security or data privacy concerns	**48%**	**45%**	**51%**	**46%**	**56%**

Survey respondents recognize insurance technology can help them manage operations more efficiently, reduce costs, and increase customer satisfaction.

KEY TAKEWAY

Insurers are accelerating their personalization strategies with insurance technology that uses predictive modeling, advanced data analytics, third-party data, and other capabilities to **bring cross-channel personalization to life**.

Encouraging Collaboration: Many Insurers Are Experiencing Insufficient Collaboration

The survey revealed that many insurers believe that collaboration is critical. **34%** of respondents reported that increased collaboration is a top driver of innovation, coming in third on a list of workforce strategy priorities.

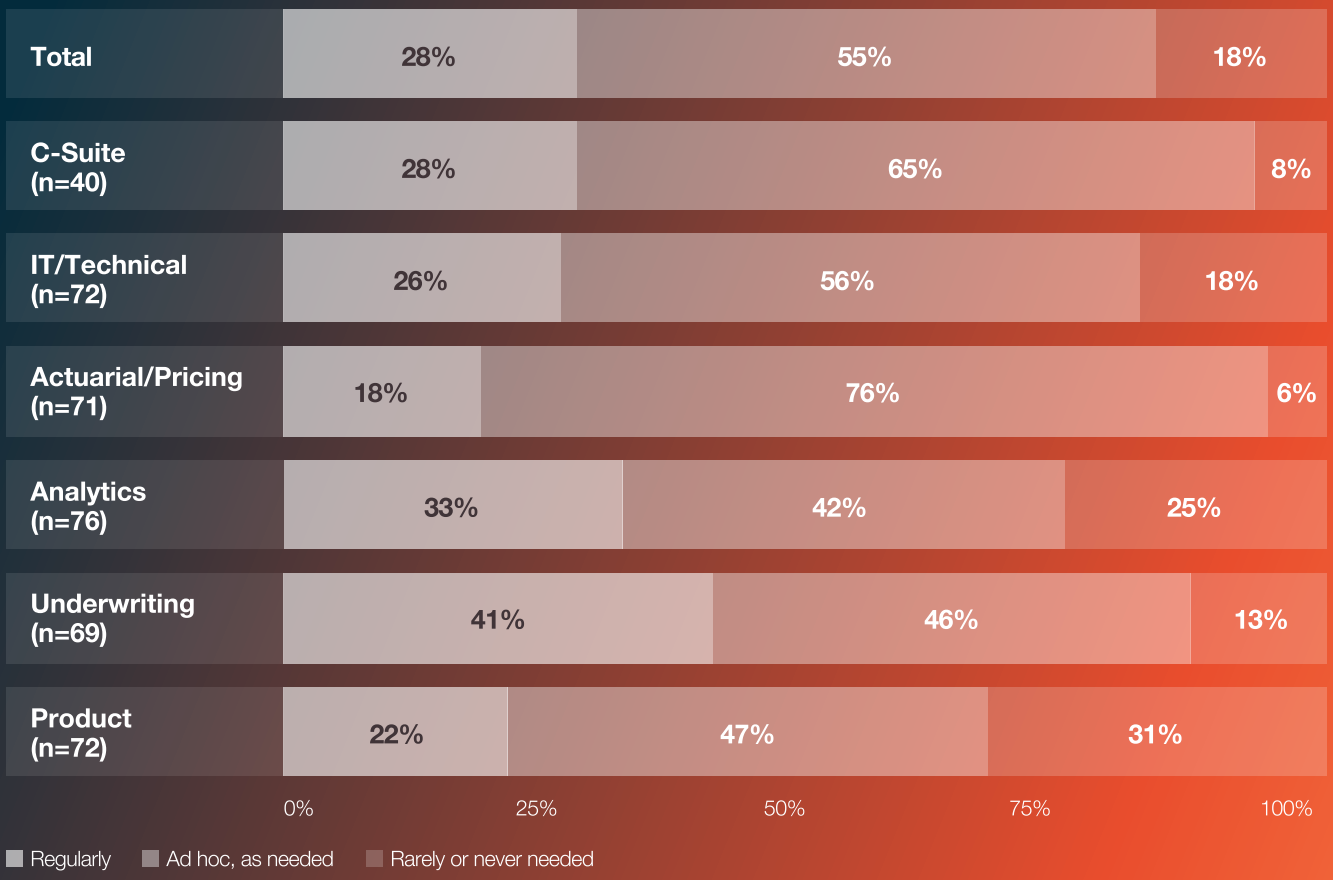
Yet there is a significant gap when it comes to what is really happening inside most insurers. More than two thirds of executives believe that their team members either collaborate “rarely or never” (**8%**) or “on an ad hoc basis” (**65%**).

Such a scenario represents a real opportunity for insurers to break down barriers to teamwork and do all they can to increase collaboration and productivity.



Cross-Functional Collaboration

How often does cross-functional collaboration occur between your area of the company and other functions?



Insurers may not be seeing as much internal collaboration and cross-functional teamwork as they may need to achieve short-term objectives.

KEY TAKEWAY

End-to-end rating solutions – addressing everything from underwriting to the presentation of product offers – can help **increase internal collaboration**. As a result, insurers can gain new efficiencies, improve overall performance, and enhance profitability.

Focusing on Profitability: Nearly Half of All Leaders Plan to Prioritize Profitability Over Growth

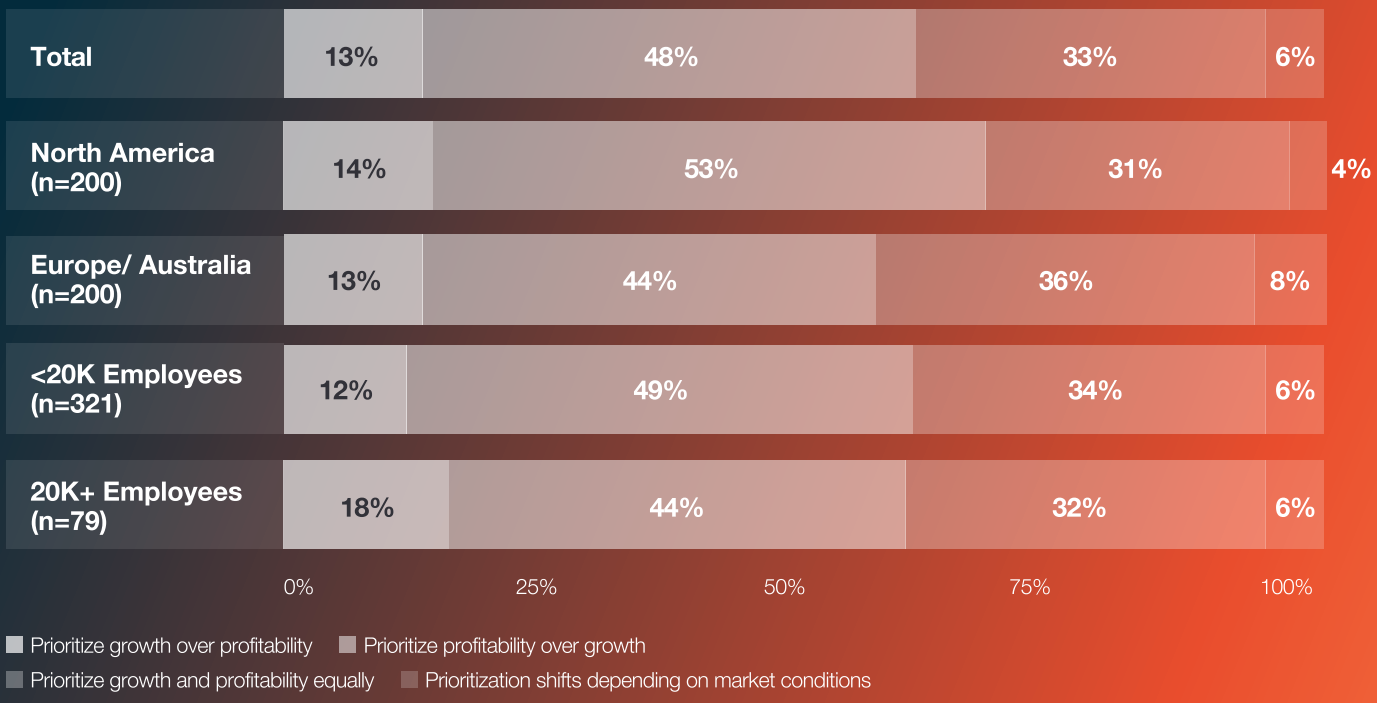
In such turbulent times, it is not surprising that many insurers are moving away from policy growth metrics, and instead, choosing to focus on the bottom line.

Nearly four times as many executives reported that they would prioritize profitability over growth (**48%**), as opposed to those who would prioritize growth over profitability (**13%**), in part to promote new innovations in their company.

Such a shift is understandable. New underwriting challenges, investment income uncertainty, rising claims costs, increased regulatory pressures, and other challenges have altered today's insurance landscape. Instead of pursuing aggressive growth strategies, carriers need to improve their short-term financial health to mitigate risk, improve investor confidence, and position themselves for future success.

A New Focus on Profitability

Which of the following best describes your company's prioritization of policy growth versus profitability?



In the past, policy growth was an important benchmark in the insurance industry. While it still is, many insurers are choosing to focus on profitability as a response to challenging macroeconomic conditions.

KEY TAKEWAY

Outdated IT infrastructure and legacy technology add up to hidden costs that affect the bottom line. **To improve profitability**, insurers should focus on next-generation solutions that drive innovation and streamline internal processes.

Bringing it All Together

In the face of challenging market conditions, insurance companies must adopt a multifaceted approach to navigate uncertainty and ensure their sustainability. While many strategies are possible, embracing new technologies can be an extremely effective way for insurers to achieve their most important objectives.

For example, many insurers reported that they would respond to changing macroeconomic conditions by improving integration across enterprise applications, implementing dynamic pricing models, or using technology to change existing underwriting processes.

Additionally, innovative insurance-focused technology such as advanced analytics, automation, AI-driven insights, pricing and rating modeling platforms, and more can help insurers enhance operational efficiency, streamline claims processing, and provide personalized customer experiences.



Conclusion

If the old saying is true, every challenge is an opportunity in disguise. This old adage seems especially true in the insurance industry today where carriers around the world face unprecedented challenges they couldn't even imagine just a few short years ago.

For example, these recent developments have had an adverse effect on insurers' profitability, forcing many to lay off employees, exit potentially lucrative markets, or change competitive strategies. All of this highlights the need for immediate action, most notably, the implementation of innovative technology.

In the past, insurers had the luxury of stability: They could essentially stay the course without prioritizing a cycle of continuous improvement and still achieve goals related to growth, customer acquisition and retention, and market share.

Yet such a difficult landscape now raises more questions than immediate answers. Carriers must quickly develop and implement new strategies, both to react to short-term challenges but also to position themselves for future success in such a new insurance environment.

While leaders will inevitably focus on all aspects of their business – areas such as financial stability, workforce dynamics, and cross-functional collaboration – they should also consider the role technology can play. **The ability to quickly react to changing conditions requires a strong technological approach**. Innovative insurance technology can now provide the foundational approach insurance carriers require, not just to survive today's dynamics and challenges but to thrive in the short term – and beyond.



Translating Findings into Action

While insurance carriers continue to face many real challenges, it is possible to overcome them and achieve their most critical business goals through the implementation of best-in-class technology. At Earnix, we create agile, dynamic, modular, and intelligent solutions that enable the world to reimagine insurance operations and to exceed their goals.

Earnix offers a robust solution that empowers insurance companies to proactively address changing market conditions. We help leaders in centuries-old industries evolve their best practices and incrementally innovate all aspects of their operations to better serve modern consumers.

By creating more agile and resilient infrastructure, our customers can confidently take on large-scale transformation while instantly unlocking more value from every engagement. We connect existing systems, new technologies, and diverse teams to not only improve what exists, but to accelerate “what’s next.”

Our proven underwriting, pricing and rating solutions deliver all the tools needed to model customer demand, run complex “what-if” scenarios, quickly deploy the optimum pricing strategy, and comply with stringent regulatory requirements. It also eliminates the need for disparate, siloed pricing and rating tools and third-party systems that simply can’t deliver the business insights modern insurers require.

Earnix's real-time data insights empower insurers to navigate challenging market conditions with agility. By continuously monitoring customer behaviors, economic shifts, and regulatory changes, insurers can quickly adjust their strategies to mitigate risks and seize opportunities. Our open analytics capabilities enables insurers to bring their own data and models into the Earnix solution for increased flexibility, more modeling options, and better results in the market.

This proactive approach helps insurance companies remain competitive, retain customer loyalty, and achieve sustainable growth even in turbulent times and enables them to navigate the complexities of a rapidly changing market landscape.

Next Steps

See how Earnix is already helping insurers respond to constantly changing market conditions to gain critical market advantage over the competition and sharpen their competitive edge at earnix.com.

Grow through change with Earnix →

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ABOUT EARNIX

Earnix is the premier provider of mission-critical, intelligent solutions that are designed to transform how global Insurers and Banks are run. Its solutions unlock value across all facets of the business, breaking away from the status quo imposed by legacy monolithic, inefficient 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.

MARKET STRATEGY GROUP, LLC

ABOUT MARKET STRATEGY GROUP

Market Strategy Group is a Chicago-based boutique management consulting firm with a bold vision to be a leading innovator to the world's biggest problems, convener of solutions-based creative thinking and contributor to the global economy.

Our team works hand-in-hand with leading companies to help them solve their toughest and most complex problems by bringing an approach to executable strategy that combines deep industry knowledge, rigorous analysis, and insight to enable confident action.

We see business differently. To us, winning isn't about going from Point A to Point B or zero-sum winning and losing. It's about aligning three distinct dimensions – business direction, people & processes and markets & customers – to drive growth.