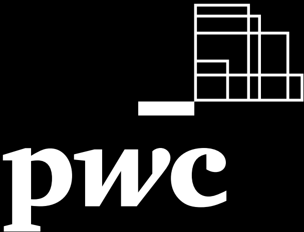
Conoce los nuevos desafíos a los que se enfrenta la industria de seguros

PwC Colombia



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Contenido

El contenido de este documento es la recopilación de publicaciones PwC que evidencian los diferentes estudios recientes sobre la industria de seguros:
1. Insurance trends 2019 - Part of PwC's 22nd Annual Global CEO Survey trends series.
2. Insurance Banana Skins 2019 The CSFI survey of the risks facing insurers.
3. Fast, simple, streamlined - How insurance and financial-services firms facing disruption can innovate and thrive - Strategy& - Part of te PwC network.

1.

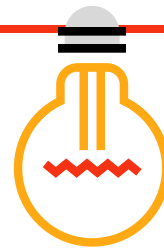
Facts de la industria de Seguros

La industria de seguros se encuentra en proceso de transformación, principalmente al enfrentar nuevas tecnologías, regulaciones y cambios ante la demanda de los consumidores y un mayor número de competidores.

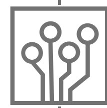
Las aseguradoras se han venido adaptando a los cambios que a las nuevas tecnologías demandan. Estas empresas vienen centrando su estrategia en las necesidades de sus clientes.

Como tendencia mundial, las alianzas con InsurTechs han mejorado las operaciones de estas empresas.

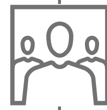
2.



Desafíos de la industria pg. 4



Cambio tecnológico: más del 80% de las empresas de seguros afirman que la Inteligencia Artificial (IA) ya es parte de su modelo de negocio. La combinación de sensores, IA y el aprendizaje automático impactan las prácticas de anticipación de pérdidas y compensación, convirtiendo la detección de riesgos, intervención y prevención, más eficiente.



Cambio del consumidor: lograr por medio de la tecnología que los clientes obtengan respuestas, monitoreos y mantenimiento en tiempo real, aumenta el valor en la relación entre asegurador y asegurado.

Entrada a nuevos mercados: la innovación deber ser el corazón del negocio. Ahora los equipos de trabajo se enfocan en desarrollar nuevos servicios y al mismto tiempo cambian las ideas convencionales sobre los modelos de negocio.

Nuevos modelos de seguros cambian la relación con los clientes pg. 8

Las alianzas con empresas y plataformas de tecnología crean valor a los clientes.

Las habilidades en el equipo de trabajo son clave para innovar y crecer pg. 9

Más del 80% de las compañías de seguros se preocupan por el impacto que las habilidades tienen en su estrategia de crecimiento. Por eso, más del 90% destacan la importancia de la Data para entender las preferencias de los clientes y de las decisiones que toman sobre la gestión de riesgos empresariales.

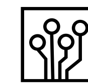
5 prioridades para acelerar la transformación del negocio pg. 10

· Reimaginar el negocio.
· Reinvertar los servicios para dar más valor.
· Simplificar los procesos legales para tener mayor eficiencia.
· Enfocarse en el desarrollo del talento.
· Ejecución acelerada para adaptarse al cambio y crecer.

3.

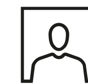
Riesgos de la industria pg. 11

Hoy los riesgos no son los mismos que hace 4 años. La tecnología toma el primer lugar y la ciberseguridad el segundo.



1. Tecnología pg. 22

2.Riesgo cibernético pg. 24



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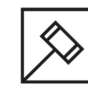


4. Regulaciones pg. 26

4.

¿Cómo mejorar la estrategia empresarial? pg. 32

Hay 3 puntos claves para mejorar la estrategia
1. Enfoque en el consumidor
2. Uso de tecnologías para mejorar el área operacional
3. Cultura organizacional y talento

5.

¿Qué deben tener en cuenta las aseguradoras? pg. 43

· NIIF para aseguradoras
· Reaseguro

Insurance trends 2019

Digital transformation shifts from threat to opportunity

Part of PwC's 22nd Annual Global CEO Survey trends series

From threat to opportunity

Until recently, insurance was one of the global economy's most disrupted sectors. The pace of technological change and shifts in consumer behaviour had led to a new wave of competition that many insurance companies found threatening. Yet, as shown by responses from 140 insurance industry leaders taking part in PwC's 22nd Annual Global CEO Survey, that initial trepidation over digital transformation is turning into optimism.

A clear sign of this shift in sentiment is the easing of concerns in the survey results, specifically about the speed of technological change and other disruptive developments (see Exhibit 1). Moreover, when asked about implementing their own artificial intelligence (AI) initiatives, which companies are using to create more seamless interactions with customers, more than 80% of insurance CEOs said that AI was already a part of their business model or would be within the next three years.

80%

of insurance CEOs said that AI was already a part of their business model or would be within the next three years.

Although the current wave of new technology investment focussed first on improving customer experience and reducing costs, it is now shifting to new business models. The increasing use of sensors, AI and machine learning in combination has affected the practices of loss anticipation and compensation, moving them towards more proactive risk detection, intervention and prevention. The possibilities already can be seen in health monitoring and alerts from wearable devices, which are now being built into health coverage. Further examples include the use of Internet of Things (IoT) technology to reduce property claims and control crop damage risk, deploying integrated real-time data from ground sensors, aerial surveillance and satellite imagery. The win-win is better outcomes for policyholders and lower risks and claims for insurers.

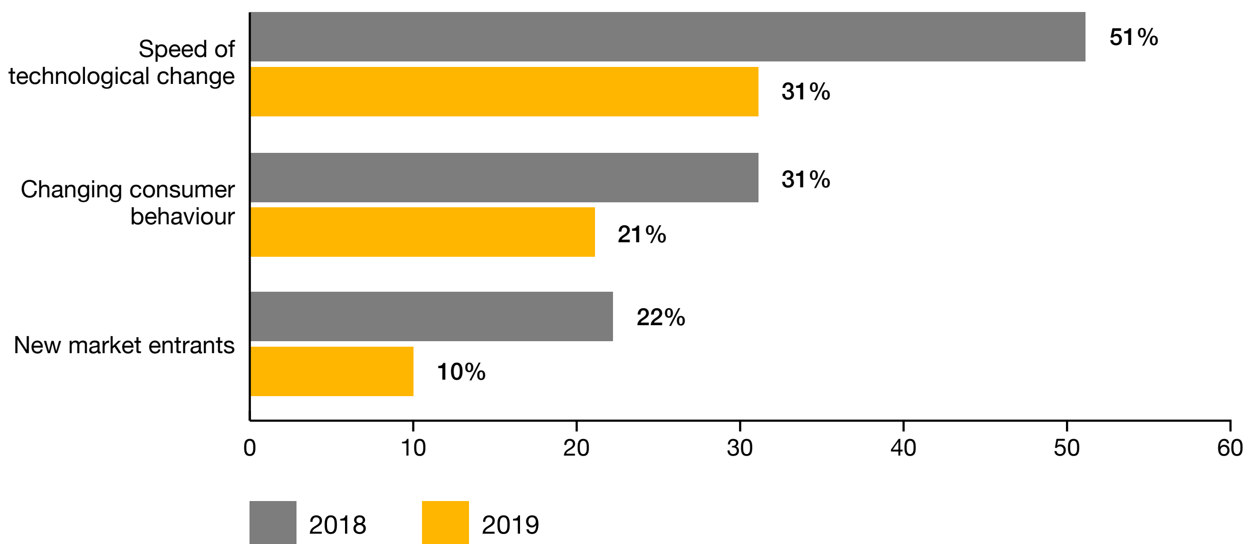
Meanwhile, the intelligent interaction at the heart of new risk models is taking customer experience and engagement to a new level. For example, smart devices are embedding insurers in people's homes, enabling policyholders to benefit from real-time equipment monitoring and maintenance. This connectivity is strengthening policyholder trust, which is central to the insurance promise. Although insurance always has benefitted society by helping people provide for retirement and ill health and recover from catastrophe, preventing loss and incentivising healthy lifestyles further increases its social value. In all these degrees, the nature of the relationship between insurer and insured — even what we mean by 'insurance' — is changing, in a way that will be felt this year.

EXHIBIT 1

Concerns over disruption ease

QUESTION

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



Source: PwC's 22nd Annual Global CEO Survey
Base: Insurance CEOs (140)

Although insurance always has benefitted society by helping people provide for retirement and ill health and recover from catastrophe, preventing loss and incentivising healthy lifestyles further increases its social value.

Marking out the front-runners

As the CEO Survey findings highlight, some insurers are embracing the future and capitalising on opportunities much faster than others.

72%

Insurance CEOs relying on organic growth to drive revenue.

Until a few years ago, innovation was often stuck in labs and incubators and only slowly reached customers. Today, frontrunners have shifted innovation into the heart of their businesses. A telling instance is the extent to which increasingly digitally aware compliance teams now collaborate in the development of new products, rather than simply vetting them at the end of the process. This shift in organisation and mind-set enables the companies to bring new products and services to market more quickly while at the same time challenging conventional ideas about insurance business models. The pace of change is also visible in the emergence of simpler products, which are available in modular units that are easy to understand and distribute digitally.

In turn, innovative companies are looking beyond the industry's traditional confines to participate in business ecosystems that cut across health, wealth, agriculture, financial management and beyond. The starting point is getting a holistic view of what customers want and need — solutions that encompass health, retirement provision and inheritance planning, for example — and then determining what capabilities are available in-house and with whom to partner to deliver the rest.

Many of the insurers out in front are located in Asia, where the young demographic is most open to digital transactions, especially mobile. The pace of development in much of Asia is also less encumbered by regulatory brakes on innovation or outdated legacy systems. Other notable developments in that region include easy and intuitive forms of distribution, facilitated by online retail giants.

When asked about their plans for driving growth over the next 12 months, CEOs tended to say they would rely on organic growth (72%) and operational efficiency (70%), and it's clear that both of these priorities should go hand in hand. This translates into a renewed emphasis on efficiency and cost reduction, freeing up resources with which to develop future talent, organisational capabilities and customer offerings. There is also growing interest in InsurTech capabilities, often in partnership but sometimes brought inhouse, as a source of talent and innovation.

70%

Insurance CEOs relying on operational efficiency to drive growth.

How are new insurance models changing the relationship with consumers, and what will it take to succeed?

While customer-centricity has long been a prominent buzzword in the insurance industry, most insurers have struggled to truly understand what it means and how to deliver it.

That's changing.

Consumers want choice, flexibility, simplicity and personalisation in what they purchase, the channels they use, and how they interact with carriers. Both the amount and precision of customer intelligence are growing to make this possible. For the first time

in history, insurers, aided by InsurTech enterprises and advances in digital technology, are innovating with customer needs and experience at the centre. Historically, the relationship with consumers has been built around renewal and claims payment. Today, digitally enabled consumers are open to a much more interactive relationship with carriers, which have the opportunity to offer services on an as-needed basis. For example, you can insure your car only when you drive, your golf clubs when you hit the links, and your camera when you go on vacation. Then, you can toggle off coverage via your mobile phone when you're back home. That's the kind of flexibility customers want. InsurTechs such as Trōv, Cuvva and Slice are making this on-demand, usage-based personalised insurance a reality.

Another distinct development is how insurers are partnering with technology companies and platform providers to create new value propositions for customers. ZhongAn's recently announced partnership with Grab is a great example of insurers and technology companies joining forces to offer customised insurance products to millions of consumers in Southeast Asia.

Making headway

However, challenges remain. Many insurers are still trying to break out of their legacy shells. The tangle of legacy and complexity doesn't centre only on technology, but also on decision-making and working practices. Front-runners are decentralising decision-making from corporate centres to business units closer to customers. But that cultural shift takes time. And, although technology often dominates the transformation agenda, success ultimately hinges on people. Developing new business models and competing in chosen ecosystems demand deep competency in data, analytics and AI. Yet, as more operations become automated, innately human capabilities that can't be replicated by machines — including creativity, empathy and leadership — are becoming an even greater differentiator. It's therefore troubling that more than 80% of insurance CEOs are extremely (36%) or somewhat (45%) concerned about the impact of skills shortages on their growth prospects. Exhibit 2 highlights the impact of these skills gaps on the cost of hiring talent and the ability to innovate and sustain quality standards and/or the customer experience.

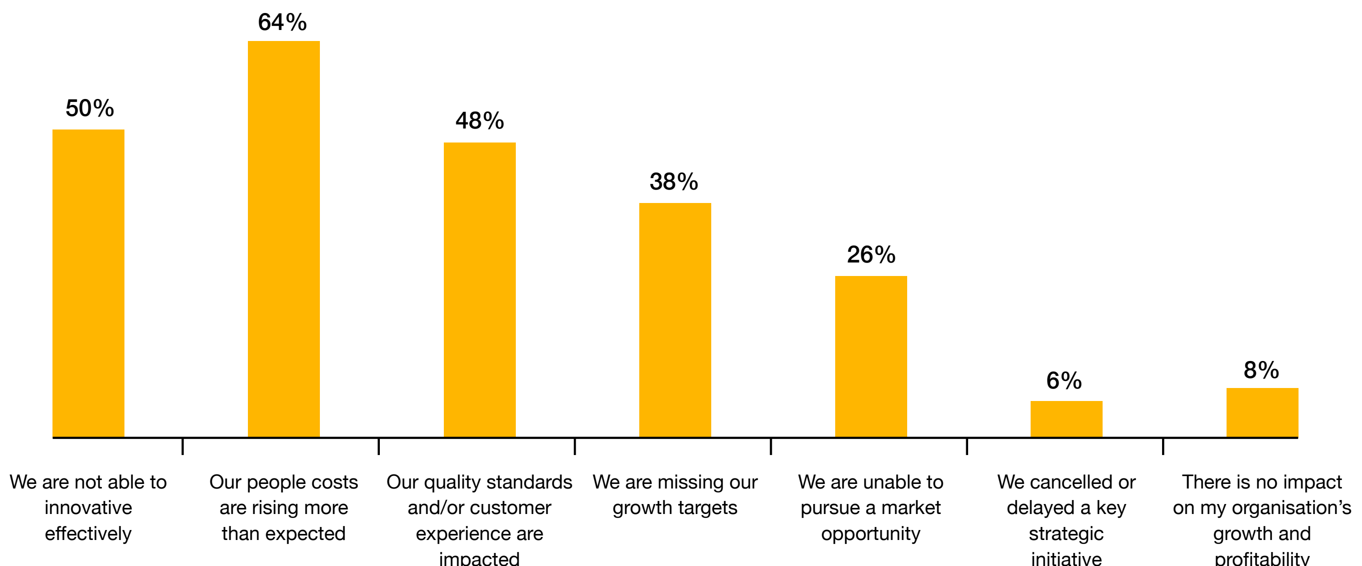
Moreover, although insurers always have built their success on data, digital transformation and associated changes in customer expectations have heightened data's value. More than 90% of insurance CEOs highlight the importance of data in understanding customer preferences (97%) and the decisions they make about managing enterprise risk (93%). Yet, only 10% of those who believe that data on customers' preferences and needs is critical or important say the data they receive is comprehensive. And only 39% believe that the data about the risks to which the business is exposed is comprehensive.

EXHIBIT 2

Skills shortages hold back innovation and growth

QUESTION

What impact is 'availability of key skills' having on your organisation's growth prospects?



CEOs also complained about the ongoing failure of data sharing within organisations, which reflects the still siloed nature of marketing, underwriting and claims.

Forging ahead

If you are an insurance executive, how can your business accelerate transformation and reap the rewards? In our view, there are five essential priorities for you to consider. They aren't mutually exclusive — indeed, recognising and addressing the interdependencies between them is a crucial part of making them work:

1. Reimagine your business

Digital transformation is opening up opportunities to develop deeper customer relationships and insights. But it's not a differentiator in itself.

The key to standing out is determining what your business does better than any other. In the short term, this might be cost/pricing competitiveness or claims settlement speed. But it's also important to look at openings for innovation in risk prevention and customer experience to transition to the future state in a commercially attractive way.

You then can identify and focus resources on the specific capabilities that can fulfil your customer promise. If you want to lead through innovation, for example, then it should sit in the centre of the business, not in an isolated lab or incubator.

2. Choose the ecosystem you want to serve

As opportunities open up beyond insurance and your business becomes both an orchestrator and a direct provider of products and services, it's important to judge what commercial ecosystem best plays to your strengths and relationships.

For example, could equipment insurance extend into a maintenance service? As a pension provider, could you extend your offerings into care services, inheritance planning or development of purpose-built retirement accommodation? Whatever you choose, you'll need to determine how to engage with your target ecosystem, with whom you might need to partner (i.e., who's the best match in terms of open platform functionality, data sharing and understanding of business costs) and how to cement customer and partner loyalty.

3. Simplify legacy systems to drive efficiency and create capacity for growth

The demands of transformation have to balance with the need to sustain existing business models and 'keep the lights on' using ageing legacy systems. But you can't continue to rely on slow and unwieldy capabilities when cheaper and more efficient AI, blockchain, cloud/ SaaS, robotic process automation (RPA) and intelligent process automation (IPA) solutions are available — which, in addition to enhancing risk selection, can help reduce costs.

It's therefore important to simplify, selectively decommission and and shift legacy capabilities to new capabilities. Although modernising different components and integrating them into existing platforms can seem like the most pragmatic option, this can be difficult. The alternative is creating fully modernised capabilities in one go and, once they're trialled and refined, moving over customers from existing platforms.

4. Focus on talent development

If talent drives transformation, how can you foster a culture that inspires your best and brightest, and build, buy or borrow any necessary skills that are missing?

Although much focus is on which jobs RPA and AI will replace, it's more likely that elements of jobs will be automated and augmented. It's therefore important to look at how tasks will change (e.g., claims handling and settlement), how your staff can make the most of the freed-up capacity and how your company can harness technology to support this.

As you look to foster organisational buyin, agility and customer focus, PwC's own experience highlights how

up-skilling existing staff can be highly effective and motivational. We assessed our 250,000 partners and staff, found opportunities to enhance our collective digital skills and knowledge, and have seen both enthusiastic uptake for up-skilling and subsequent, noticeable improvements in our people's digital competence. Moreover, and just as important for insurers, is having a culture, purpose and environment that inspires and retains people from outside (e.g., as part of InsurTech partnerships or acquisitions).

5. Accelerate execution

As the velocity and complexity of change increases, execution and change management need to become core competencies. It's important to revisit how change is designed, plans are created and budgets are made and implemented, and move away from old-style implementation marathons in favour of a series of agile sprints. As data becomes increasingly critical, it's more important than ever to break down any operational and technological siloes that hold up data sharing and inhibit execution.

The insurance industry is used to big decisions, big system implementations and big product launches. But today's market requires trying and learning from lots of little decisions. Inculcating that culture into your organisation is challenging but essential in driving innovation and change.

Insurance is emerging as an innovator. There's currently a unique opportunity for companies to be distinctive, as trepidation about disruption turns to optimism. The industry is ripe for change and the companies out in front are in a position to take advantage of an increasingly open and connected landscape.

The winners are differentiating themselves by envisioning customer needs beyond traditional insurance and have adopted a proactive approach to talent development and strategic collaboration. They're also distinguished by a readiness to embrace technology in order to create innovative business models, a recognition of data as their organisation's most critical asset, and an agile approach to execution and change management.

Insurance Banana Skins 2019

The CSFI survey of the risks facing insurers

CSFI
Centre for the Study of Financial Innovation

The Centre for the Study of Financial Innovation is a non-profit think-tank, established in 1993 to look at future developments in the international financial field – particularly from the point of view of practitioners. Its goals include identifying new areas of business, flagging areas of danger and provoking a debate about key financial issues. The Centre has no ideological brief, beyond a belief in open markets.

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Preface

This is the seventh Insurance Banana Skins survey that we have published since 2007 – the second in which the risks surrounding technology and cyber have come out on the top of the pile, and the first in which they are unequivocally the biggest upfront risk.

That is not to say that other risks have diminished. Indeed, the overall level of perceived riskiness within the industry is now at the highest since we began the series in 2007, and two old chestnuts (inappropriate regulation and poor investment performance) are right up there. But the risks associated with the take-up of modern technology and with cybercrime of one sort or another are way ahead of the rest – and both are rising.

This shouldn't be a surprise. After all, it is well known that many insurers are lumbered with legacy systems that need updating – and that integrating them is time-consuming, fiendishly complicated and, inevitably, very expensive. Equally, we are all aware of the risks around cyber – from simple hacking, from ransomware, from Trojans, even from malevolent state actors. We are less aware of 'silent' cyber exposure – but it is a real risk that is starting to take up much more C-suite time.

Of course, it is not all bad news. This latest survey, for instance, shows the industry (at least, the broader global industry) to be surprisingly nonchalant about Brexit. There is also, quite clearly, plenty of capital lying around, and corporate governance and management are not perceived to be big issues.

But the emphasis on technology and cyber ought to be a wake-up call. This survey produced 927 responses from 53 territories; it can hardly be dismissed as parochial or unrepresentative.

As usual, the CSFI's thanks go to our friends at PwC, who provided funding for the report, while allowing us complete editorial freedom. We are very grateful. I am also very grateful to my colleagues, Keyur Patel and David Lascelles, who have been responsible for the Banana Skins surveys for many years, and who have steered the series from an overwhelming concern with investment performance and equity markets to today's very different concerns around tech and cyber.

Andrew Hilton Director

Sponsor's Foreword

Welcome to Insurance Banana Skins 2019.

We are once again delighted to sponsor this market leading publication detailing the risks facing the insurance sector across the globe in the next 2-3 years. We continue to work with the CSFI on this excellent survey, which began with its very first edition in 2007 and is now on its 7th edition.

The world has changed significantly since Insurance Banana Skins first began. In 2007, the iPhone had just launched, Twitter was in its first year, we had yet to experience the Global Financial Crisis and Solvency II was still under development. A lot has changed in this time, and the insurance industry has continued to work and develop to respond to the changing needs of its customers, shareholders and regulators. We have seen real growth in new ways of conducting business and reaching customers through a myriad of new channels. The external environment has also changed – economically, politically and socially. These changes of course bring risks and challenges – areas of focus for management and regulators alike.

Digitalisation
Operational risks continues to be the key category of risk occupying Insurers' Boardroom conversations. Whilst there is a pressing need for better and efficient technology, in the era of digitalisation, the threat of cybercrime has become ever more prominent. Linked to this is the risk of change management, questioning whether insurers are embracing such changes in technology and the virtual world. As always, the successful management of change is dependent upon how it is perceived - do these risks present an opportunity for insurers to proactively boot out legacy systems for a more customer centric innovation or cause a disruption that requires a reaction to remain relevant? Either way, the need to upskill the workforce to face these opportunities/challenges, however it is perceived, is in critical demand.

Regulation
In our last edition, we saw regulation drop overall with change management rising as the top risk. In this edition we see a rise of regulatory risk. This has been driven by new areas of regulation that we have seen introduced since 2017 (IDD and GDPR in Europe and various new Conduct standards across the globe) coupled with upcoming new accounting standards, particularly IFRS 17. The task of addressing and implementing these new regulatory standards, in the mandated timeframe, is proving to be a challenge for insurers everywhere.

Sustainable Development
As a big riser in 2019, climate change features high in this Banana Skins ranking, narrowly missing the top 5 position. We expect climate change and sustainable development to continue to impact the insurance industry, business and country agendas across the world. How will climate change impact the industry's financial risk and more so, how will insurers and regulators step up to address this?
Challenging the status quo and encouraging a move from traditional thinking, attitude and behaviours were suggested as the most effective ways in which these top risks can be managed. The transformation of the industry with this new wave of industrialisation requires diversity in thinking to best capitalise in this market. Despite the changes and risks highlighted however, the industry's response to preparedness as a whole has suggested greater confidence in their ability to manage and address these risks.

We have had an incredible year with almost 1,000 insurance practitioners responding to the survey globally. We are indebted to our global PwC network of clients for taking the time to participate in this initiative – we are also indebted to the CSFI for their perceptive analysis – thank you.

For further conversations on any of the issues raised, please do not hesitate to contact us.

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About this survey

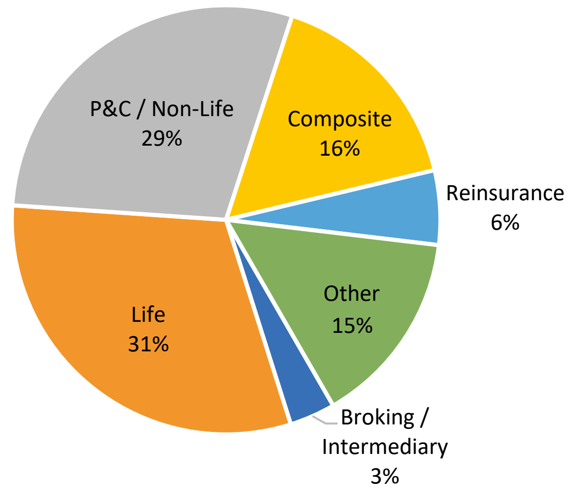
Insurance Banana Skins 2019 surveys the risks facing the insurance industry in early 2019, and identifies those that appear most urgent to insurance practitioners and close observers of the insurance scene around the world.

The report, which updates previous surveys in 2007, 2009, 2011, 2013, 2015 and 2017, was conducted in March and April 2019, and is based on 927 responses from 53 territories.

The questionnaire (reproduced in the Appendix) was in three parts. In the first, respondents were asked to describe, in their own words, their main concerns about the insurance sector over the next 2-3 years. In the second, they were asked to rate a list of potential "Banana Skins" or risks. In the third, they were asked to rate the preparedness of insurance institutions to handle the risks they saw. This report ranks and analyses each Banana Skin individually.

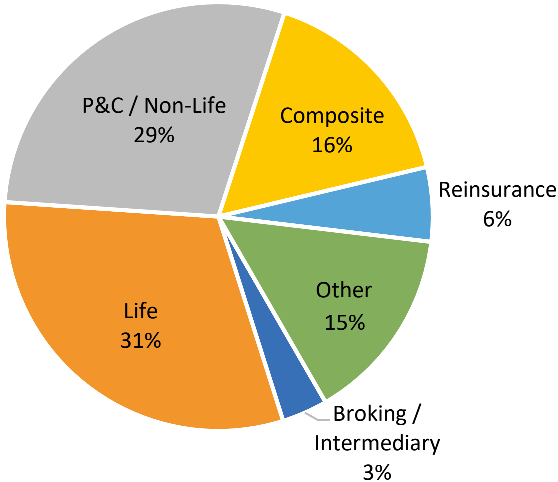
Replies were confidential, but respondents could choose to be identified.

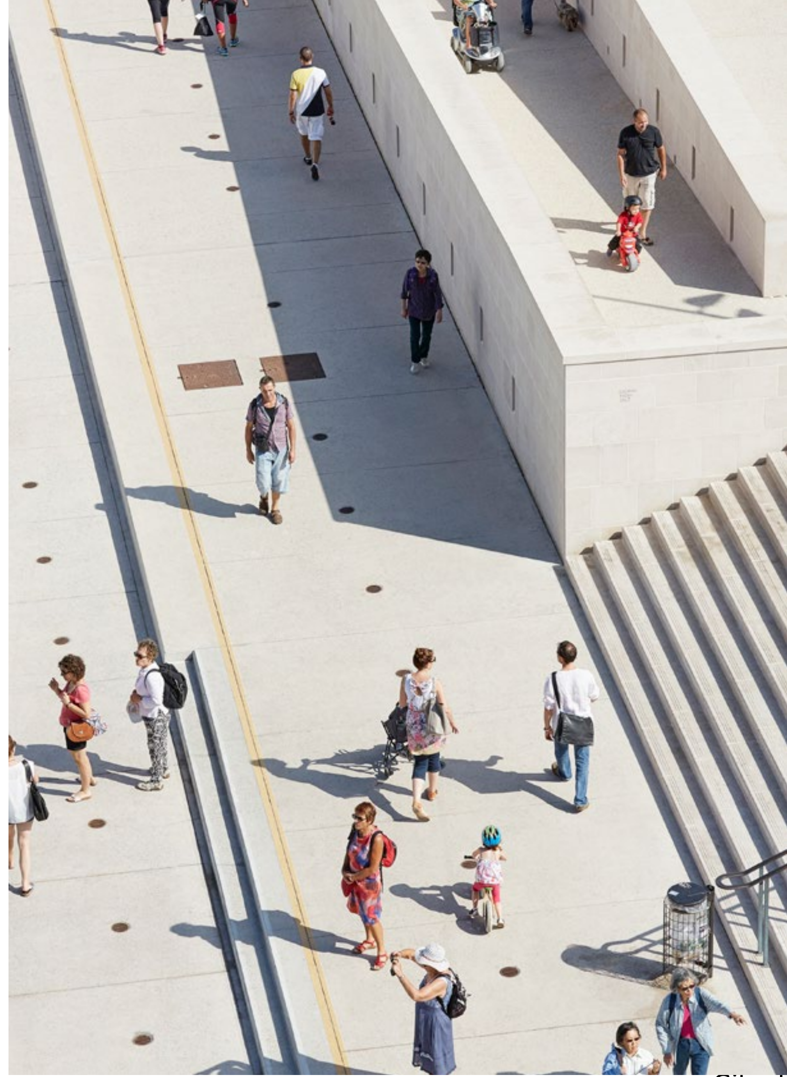
The breakdown of responses by sector was:



Three-quarters of the respondents were from the primary insurance industry[1]. The remainder were from the reinsurance and broking sectors, and non-practitioners such as regulators, consultants, analysts and other professional service providers.

The breakdown of responses by region was:




Gibral

Three-quarters of respondents came from Europe and the Asia Pacific regions. The next largest group was from North America, with the remainder split evenly between Africa, Latin America, and offshore insurance centres in the Caribbean.

The breakdown of responses by territory was:

Territory	Responses	Territory	Responses	Territory	Responses
Angola	3	Greece	11	Philippines	23
Argentina	10	Hong Kong	19	Poland	3
Australia	33	Hungary	1	Portugal	22
Austria	30	India	11	Saudi Arabia	1
Barbados	3	Indonesia	28	Singapore	46
Belgium	33	Ireland	6	South Africa	28
Bermuda	32	Isle of Man	4	South Korea	18
Brazil	21	Italy	4	Spain	32
Canada	58	Japan	25	Sweden	4
Cayman Islands	2	Kenya	2	Switzerland	10
China	23	Luxembourg	27	Taiwan	40
Colombia	1	Malaysia	14	Thailand	13
Czech Republic	6	Malta	6	Turkey	27
Denmark	25	Mexico	5	UAE	1
Egypt	2	Netherlands	30	UK	66
France	6	New Zealand	33	USA	57
Germany	13	Nigeria	1	Vietnam	6
Gibraltar	1	Peru	1		

each edition of Insurance Banana Skins, and the average score of all

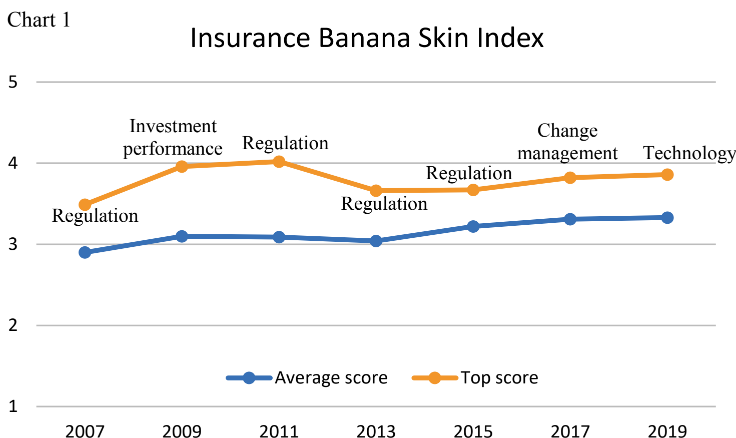
Mounting pessimism is reflected in Chart 1, where the blue line
score given by respondents to the basket of risks in our questio
shows the risk which achieved the highest score. This pessimism
rise in operating risks, notably advances in technology which cha

Summary

This survey identifies the risks, or “Banana Skins”, facing the global insurance industry in the first half of 2019 as seen by a sample of 927 practitioners and close observers of the scene in 53 territories.

Significantly, the overall tone of the responses this year is the most negative we have seen since we began the series in 2007. This is largely due to the scale of the challenges facing the industry through technological and structural change, and concern about the industry’s ability to manage them successfully. The results should also be seen against a background of growing economic uncertainty around the world, and heavier regulation.

Chart 1



Respondents were asked to score each of the 22 topical risks in this survey from 1 to 5, where 5 is the most severe. This chart shows the average score of the top-rated risk in each edition of Insurance Banana Skins, and the average score of all the risks.

Mounting pessimism is reflected in Chart 1, where the blue line shows the average score given by respondents to the basket of risks in our questionnaire. The red line shows the risk which achieved the highest score. This pessimism is due largely to a rise in operating risks, notably advances in technology which challenge the industry’s traditional structures. The other source of rising anxiety is the public environment, i.e. political and regulatory risk which could impose constraints on the industry. (See Chart 2).

Chart 2 **Major categories of risk***
(Score out of 5)

	2019	2017	+/-
Operating risks	3.46	3.39	+0.08
Economic environment	3.30	3.57	-0.27
Governance	3.12	3.18	-0.06
Public environment	3.20	3.14	+0.06

*The components of each category are listed in the survey questionnaire in the Appendix

These shifting perceptions are reflected in the ranking of individual risks in Chart 3. The three highest risks form a cluster around the theme of technological change and industry response. The top position occupied by technology risk is rooted in concern about the scale of the challenge facing the industry in this area, and is a pervasive theme in this report. Closely allied to it is the risk in No. 3 position, change management which exposes a high level of concern, even doubt, about the industry’s ability to address the formidable agenda of digitisation, new competition, consolidation and cost reduction which confronts it. Cyber risk at No. 2 is a major issue for the industry as it adjusts to the digital age, both as an operational risk and an underwriting risk.

Technology risk was also responsible for the high position occupied by human talent (No. 8), where there is concern that the industry may fail to attract sufficiently able people to enable it to address change successfully. The challenges of new forms of competition ranked No. 7.

Regulatory risk at No. 4 is seen to be rising strongly, driven by initiatives such as IFRS 17 and stronger capital and consumer protection requirements. Another fast riser is climate change (No. 6) which had not featured near the top of this survey series since 2007. The spate of weather and natural catastrophe events now makes this an urgent industry concern.

The next cluster of risks, investment performance (No. 5), macro-economy (No. 9) and interest rates (No. 10), showed no overall change, but the responses suggested that the industry is uncertain about the direction of the global economy and interest rates.

Chart 3

Insurance Banana Skins 2019

(2017 ranking in brackets)

1 Technology (3)
2 Cyber risk (2)
3 Change management (1)
4 Regulation (6)
5 Investment performance (5)
6 Climate change (-)
7 Competition (8)
8 Human talent (9)
9 Macro-economy (7)
10 Interest rates (4)
11 Political risk (11)
12 Cost reduction (13)
13 Reputation (17)
14 Guaranteed products (10)
15 Business practices (12)
16 Quality of management (14)
17 Credit risk (-)
18 Social change (16)
19 Corporate governance (19)
20 Capital availability (20)
21 Brexit (22)

The impact of political risk (No. 11) in the form of growing protectionism and populist policies could tax both the international and domestic insurance markets through trade wars and deeper interference. It could also aggravate reputation risk which has risen from No. 17 to No. 13 on the back of concerns about consumer rights, data security and the perception that insurance may be losing its “social relevance”.

On the other hand, institutional risks such as business practices (No. 15), quality of management (No. 16) and corporate governance (No. 19) continued to be seen as low level, though possibly in a view tinged by complacency.

Low level risks include capital availability (No. 20) where the concern is about the surplus of capital in the industry, and Brexit (No. 21) which is seen as a non-event by respondents outside the UK and the EU, most insurers being only distantly affected, or adequately prepared.

Big movers

This year’s survey has produced striking changes in the ranking of some Banana Skins, reflecting shifting perceptions of risk in a difficult market. Here are some of the big movers.

UP
Regulation (No. 4). A heavy regulatory agenda including IFRS 17 and consumer protection increases compliance risk and implementation costs.
Climate change (No. 6). The spate of natural catastrophe events has increased the urgency of this risk, and could be undermining insurance pricing models.
Reputation (No. 13). Data security, populist politics and “declining social relevance” could all damage insurance.

DOWN
Interest rates (No. 10). The industry has learnt to live with low interest rates, and the next move may be up.
Guaranteed products (No. 14). For similar reasons, products which offer guaranteed returns appear less problematic.
Social change (No. 18). The industry is preparing for the challenge of meeting social demands created by greater longevity, growing medical and care needs etc.

Response by type of respondent…
The survey shows similarities as well as differences between the responses of various insurance sectors. The challenges of technology and cyber risk are at the top of the list for all sectors: life, non-life, composite, reinsurance etc. Concern about regulatory risk is also generally high and there is a common concern about the quality of human talent in the industry. Differences are found mainly in the assessment of interest rate risk which the life insurers ranked high along with

investment risk, and climate change which ranked high with the non-life and reinsurance sectors. Concern about the macro-economic outlook was highest among life insurers and reinsurers.

…and by geography

A breakdown of responses by region displays similar risk priorities. The challenges of technology risk, cyber risk and change management ranked among the top risks for all regions. The rise in regulatory risk was also a common concern in all regions except Latin America. Concern about business conditions such as the outlook for the global economy and interest rates was highest in Europe. Political risk was ranked highest in the Americas, driven mainly by the rise in populist politics. Climate change featured highly in all regions except Asia Pacific.

Preparedness

Respondents were asked how well prepared they thought the insurance industry was to handle the risks they identified. On a scale of 1 (poorly) to 5 (well) they gave an average response of 3.11, an uptick from the previous survey's 3.02, suggesting greater confidence about the industry's ability to weather a difficult business environment.

Who said what

A breakdown of the results by respondent type and region shows a strong common concern with the impact of technology change and the industry's ability to manage it against a background of rising cyber risk, economic uncertainty and heavy regulation.

By sector

Life-insurrance

1. Techology
2. Investment performance
3. Regulation
4. Cyber risk
5. Change management
6. Interest rates
7. Macro-economy
8. Competition
9. Human talent
10. Business practices

The challenge of technological change and how to address it led the life insurance sector's list of concerns, as it did for most of the industry. More specific to the life sector were concerns about investment performance and the outlook for interest rates, both of them linked to the risk in No. 7 position: the economic outlook, which was judged to be shaky. The sector gave a higher than average score to regulatory risk, particularly because of the introduction of IFRS 17. Conduct and management risks were also noted as a higher threat.

Non-life

1. Technology
2. Cyber risk
3. Climate change
4. Change management
5. Regulation
6. Competition
7. Human talent
8. Investment performance
9. Cost reduction
10. Political risk

On the non-life side, the risk agenda is also dominated by concerns over technological change, specifically the entry of new forms of competition and distribution. Cybercrime features in a double capacity: as a threat to industry security and as an underwriting risk. Macro-economic risk did not feature in the top ten partly because some respondents saw recession benefiting insurance sales, while concern about interest rates and investment performance is also lower than average. For the first time, climate change ranks near the top.

Reinsurance

1. Cyber risk
2. Climate change
3. Technology
4. Investment performance
5. Regulation
6. Change management
7. Macro-economy
8. Political risk
9. Quality of management
10. Interest rates

Cyber risk, both as a security issue and an underwriting risk, is the top concern of the reinsurance sector, as in the previous survey. However climate change came No. 2, marking a dramatic new entry to the ranking. The challenge of structural change in the industry, driven by new technology and competition, is also high on the agenda. The high position of political risk reflects worries about the threat of protectionism in this internationally oriented sector of the business.

Composite

1. Cyber risk
2. Technology
3. Change management
4. Regulation
5. Investment performance
6. Climate change
7. Interest rates
8. Competition
9. Human talent
10. Cost reduction

Responses from the composite sector reflected those of the non-life side more than those of the life side, with a strong focus on cybercrime and technology risk, as well as on the growing risks posed by climate change. The rankings of investment and interest rate risk reflected the concerns of the life side. As with other sectors, the size of the regulatory agenda was a strong concern for the composites. The theme of the declining social relevance of insurance featured in a number of responses.

Brokers/intermediaries

1. Cyber risk
2. Change management
3. Human talent
4. Technology
5. Climate change
6. Regulation
7. Cost reduction
8. Business practices
9. Investment performance
10. Guaranteed products

Responses from the composite sector reflected those of the non-life side more than those of the life side, with a strong focus on cybercrime and technology risk, as well as on the growing risks posed by climate change. The rankings of investment and interest rate risk reflected the concerns of the life side. As with other sectors, the size of the regulatory agenda was a strong concern for the composites. The theme of the declining social relevance of insurance featured in a number of responses.

By region

Europe

1. Techonolgy
2. Cyber risk
3. Change management
4. Regulation
5. Investment performance
6. Interest rates
7. Climate change
8. Macro-economy
9. Competition
10. Political risk

The threat of cybercrime challenged the necessity for business and IT modernisation for the top spot in Europe's response, the largest group in this survey by region. Interest rate risk, the No. 1 Banana Skin in Europe in the last two editions of this survey, receded to No. 6, but was still considered more urgent than in any other region – and was associated with higher than average concern about the broader macroeconomic climate and guaranteed products. Reflecting the rise in populism, political risk rounded off the top ten.

Asia Pacific

1. Techonolgy
2. Cyber risk
3. Change management
4. Regulation
5. Investment performance
6. Reputation
7. Quality of management
8. Competition
9. Business practices
10. Human talent

The Asia Pacific response shared the same top five risks, in the same order, as both the European and global rankings. Beyond these, however, there was some divergence. As in the last edition of this survey, reputation risk was high at No. 6, and this year was linked to the threat of poor business practices at No. 9. Concerns about the quality of management and risk management at insurers were also notable. On the other hand, Asia Pacific respondents were more optimistic about economic conditions, ranking macroeconomic and interest rate risk significantly lower than average.

North America

1. Techonolgy
2. Cyber risk
3. Change management
4. Human talent
5. Regulation
6. Investment performance
7. Climate change
8. Political risk
9. Competition
10. Macro-economy

Concern that the insurance industry could struggle to attract and retain talent was strikingly high in North America, a trend we also observed two years ago. At the top of the table, technology risk received the highest score of any region surveyed, while the industry's ability to respond to changing insurance markets was marked as a concern. Political risk was also prominent. Elsewhere, North America's response was broadly in line with the global rankings, with a slightly lower emphasis o n previous years' top risks such as regulation, the macro-economic environment and interest rates.

Latin America

1. Technology
2. Change management
3. Cyber risk
4. Climate change
5. Competition
6. Macro-economy
7. Cost reduction
8. Political risk
9. Human talent
10. Regulation

Preparedness by region
Africa 3.31 (2.93)
Offshore Caribbean 3.27 (3.12)
Europe 3.16 (3.06)
North America 3.11 (2.86)
Asia Pacific 3.03 (3.00)
Latin America 2.91 (3.00)

The response in Latin America was characterised by high concern about changing insurance markets and distribution channels, in an environment where cost reduction is a priority. It was particularly attentive to structural changes to the industry coming from big technology firms and Insurtechs. The threat posed by climate change ranked higher than in any other region, while there were also significant concerns about the macro-economic climate. However, investment performance, the top risk two years ago, has fallen out of the top ten, and regulatory risk was also seen as less urgent.

Preparedness

We asked respondents how well prepared they thought the industry was to handle the risks they identified.

On a scale of 1 (poorly) to 5 (well), they gave an average response of 3.11, an increase from 3.02 last time. Breakdowns by region and sector are shown below, with 2017 scores in brackets.

Preparedness by region	
Africa	3.31 (2.93)
Offshore Caribbean	3.27 (3.12)
Europe	3.16 (3.06)
North America	3.11 (2.86)
Asia Pacific	3.03 (3.00)
Latin America	2.91 (3.00)

Preparednes
Reinsurance
P&C / non-lif
Composite
Life
Brokers/inter

Preparedness by sector	
Reinsurance	3.20 (3.06)
P&C / non-life	3.16 (2.99)
Composite	3.08 (3.10)
Life	3.05 (3.04)
Brokers/intermediaries	2.90 (2.88)

1. Technology (2017 ranking: 3)

2019 Score: 3.86 (2017 Score: 3.75)

The urgent need for business and technology modernisation poses the greatest threat to the global insurance industry over the next 2-3 years, according to this survey's respondents.

This is the first year that technology risk has topped our rankings. As a risk in its own right, it received the highest score of any Banana Skin we've surveyed since 2011. It is also a pervasive theme throughout this report, underpinning other high-ranking risks including cyber risk (No. 2), change management (No. 4), and competition (No. 7). By sector, it was ranked No. 1 for both the life and non-life sides of the industry; and by geography, in Europe, Asia Pacific and North America.

At the heart of responses was the view that many insurers are encumbered with legacy business models and IT infrastructure that are poorly equipped to handle the changing demands of the industry. But modernisation requires capital and skills that are in short supply, and an ability to forecast future needs that are far from certain.

The director of risk at a life insurer in The Netherlands said: "Old business models are dying/dead, and are only partially being replaced by new models. It's very likely many insurers will not succeed in wrestling themselves from legacy business, resulting in declining profitability and take-over". The treasurer of an insurance company in the US warned that: "The insurance industry as a whole is woefully behind other financial services firms in implementing technology".

Many respondents made the point that this challenge cannot be met simply by throwing money at it; that upgrading technology systems creates significant opportunities, but is also a "significant strategic risk if you bet on the wrong horse". The chief executive of a composite insurer in Belgium said: "The key is to make the right choices, i.e. which technologies do you want to give priority. When it is for process improvement, the choices appear to be quite clear. When it is for a commercial approach to end customers, the certainty to invest in/launch successful projects is much lower".

The consequences of making the wrong decisions could be wide-reaching. They include missing opportunities that are essential for keeping pace with competition, both from inside and outside the traditional insurance industry; increased vulnerability to potent threats such as cybercrime; and huge wasted investments in systems that are quickly obsolete.

The industry is highly likely to select large "industrial" systems to replace current legacy systems. This could well lead to today's legacy systems being replaced by tomorrow's legacy system. The industry should look to new ways of using proven technology to provide modern, flexible, adaptable systems.

Chris Powell, managing director and chief executive, Integrity Life, Australia

An actuary in the UK said: "Inefficient insurers risk being left behind, early adopters may end up wasting lots of money on the wrong solution, and new green-field entrants without legacy issues will continue to eat into the value chains of incumbents". The chief financial officer of a composite insurer in Poland said: "Potential failure would result from missed predictions on distribution and customer behaviour changes".

In an environment of low returns, ensuring systems are brought up to date to enable use of big data, process efficiency, security and agility [are] the cost of legacy against niche new entrants.

Non-executive director, insurance broker, Australia

A further worry is that the pressing need for technology modernisation increases dependence on IT specialists, often from external vendors. The head of risk management at a Swedish life insurer said: "IS/IT and other support functions, with little or no knowledge of the core business, sit in the driver seat". Another respondent warned that "Given current business models, the reliance on third and fourth party suppliers and the risks involved in managing them are far more prevalent."

A few respondents were more sanguine. Jordi Calbet, Head of Digital Acceleration at Zurich Insurance in Spain, said: "Some players are not only adapting but leading the change, so the risk is not for the industry but for some incumbents". Others noted that sluggish insurers might be sheltered by their size and position. The chief financial officer of a reinsurance company said: "Large organizations will struggle to implement technology changes quickly but may be protected by the barriers to entry in this industry, which include know-how, capital and regulatory restrictions. It is not cheap to operate in this space".

2. Cyber risk (2)

Score: 3.85 (3.80)

The threat posed by cybercrime to insurers narrowly misses the top spot in our rankings for the second survey in a row. It received the most 5/5 scores of any Banana Skin, and was the leading risk for the broking, composite and reinsurance sectors.

Concerns from past surveys have intensified: the insurance industry faces a barrage of attacks from criminals and state-actors, many which are extremely sophisticated, and is an enticing target because of the volume of valuable data it holds and its often outdated and piecemeal defences.

Cyber attacks are real, sophisticated and malicious. The risk is exacerbated by the growing dependence on the internet and connectivity, not just our corporate IT systems that may be exposed.

Martin Mulcare, Independent Director, SCOR Global Life Reinsurance, Australia

A respondent at a life insurer in Canada said: "Insurers tend to have a large amount of data valued by cybercriminals who are politically motivated or wish to turn a profit by selling their services/private data on the black market. Most of the industry seems to have the appropriate framework in place to somewhat mitigate this risk, but cybercriminals are continuously using more and more sophisticated approaches to stay one step ahead. Even with the most advanced security team and technology, this risk will always persist". The harm to insurers from a breach could include material losses from outages, loss of records, and the theft of intellectual property. An even bigger fear is the hefty fines and potentially "huge and severe" reputational damage and loss of trust that may follow a data breach.

Compounding this risk was widespread uncertainty around how to manage it. A respondent from the P&C industry in the Philippines said: "Cyber risk is present but the understanding about what we can do as insurers is still in its infancy, especially in the country. We don't have the expertise in the country and the market is not fully aware of the risks that they might be exposed to". Many respondents pointed out the imperative for insurers to collect data to remain competitive, even as the difficulty of keeping it safe rises.

We also received many comments that focussed on the industry's exposure to risk as a result of underwriting cyber insurance. "Insurers don't know how bad this can get – limited cover is the only option as disruption by digital crime is still not clearly understood", said the president of a general insurance company in Indonesia. A respondent in Hong Kong said: "Lots of insurers are trying to write cyber policies, but the potential impact of cyber insurance claims is still very much unknown (even if cyber itself isn't new, the scale of potential impact is unimaginable)". Another in the UK observed that: "Cyber coverage/exclusion contracts are yet to be really tested".

There was a minority of comments, however, that suggested cyber risk is being overblown. "It's topical, but the impact is no worse than a material insurance loss, e.g. a CAT event", said the vice president of risk at a life insurer Canada. A regulation specialist in the UK said the threat was: "High but maybe not as high as the amount of time and money people are spending on it".

3. Change management (1)

Score: 3.76 (3.82)

Though it has been overtaken at the top of the table, the risk that inadequate response to change will damage insurers continues to be seen as urgent. Perry Thomas, chief risk officer at Scottish Widows & Lloyds Banking Group Insurance, said: "In today's market this is the main determinant of survival of current market participants and the pace of that change has increased very substantially. The technology/digitisation arms race… between incumbents with their customers, and fintechs with their superior customer engagement experiences [is] a race between economies of scale versus cost efficiency."

These are changes driven by technologies such as artificial intelligence and the internet of things that are overhauling insurance markets, radically different customer expectations (see box), and modern distribution channels. Several respondents cited the example of driverless cars. An audit committee member at an insurer in Brazil said: "If people 'buy' mobility rather than vehicles, insurers will have to negotiate much more with mobility service providers

and much less with people who buy vehicles. The bargaining power will decrease considerably and the margins may fall. I do not see this in three years, but in the longer term, the threat is very large."

The world has been built on insuring the value of physical goods, such as property, but less so on insuring and measuring the value of non-tangible digital goods. There is therefore a protection gap in how we have thought of losses and insurance to date and how we will need to deal with them in the future. Take the debates of how autonomous vehicles would be insured, or how to protect against terrorism when the main damage may be consequential loss (e.g. Gatwick being shut by drone activity or a denial of service attack crippling an entity's access to markets), rather than building damage which is included in traditional policies.

Non-executive director, property and casualty insurer, UK

A persistent theme in the responses was around the industry's immobility and recalcitrance, with comments including: "too big, too slow, too much internal politics", and "passive resistance to change is the norm in the insurance industry". The chief compliance officer at a life insurer in Canada said: "Our industry's greatest risk is a failure to become truly customer-centric. This could lead to growing irrelevance, through digital disruption, and/or harsher regulatory intervention. Our products remain overly complex, too expensive and often do not meet the real needs of our customers. The quality of advice through our agency and other distribution channels is spotty, and our interactions with customers are more often than not driven by a sales culture and ripe with conflict of interest".

A risk of not changing fast enough is that insurers could find themselves side-lined into unprofitable parts of the business. The chief risk officer at a life insurer in Belgium warned of the: "risk of ending up as the manufacturer in the insurance value chain (where the customer is in the hands of a third party), and a squeeze on margins".

Taking a more optimistic view, a respondent in Singapore observed: "Sales continue to be strong with insurance penetration growing in most markets, suggesting that things are not changing as quickly as some might expect. Furthermore, insurers are investing in change". Another respondent argued: "The scare of massive disruption of just a few years ago has not materialised. Technology is making insurers more nimble and cost efficient".

How is demand for insurance changing? A widespread observation in this survey was that younger consumers in particular have very different expectations from insurance providers than past generations – if they feel that they need insurance at all.

The head of risk and compliance at a life insurance company in the UK said: "The received wisdom is that life policies are sold not bought. There is an increasing trend for consumers to complete their own research and a lack of willingness to pay for advice. I suspect there is therefore a risk that life companies will not adapt to changing patterns of distribution". Others noted that: "The dependency of current generations on social media creates an expectation of 'online all the time'" and "convenience and price are all that matter".

A senior vice president at a mutual insurer in the US said: "In the life/disability income protection markets we continue to see growing customer apathy – 'I don't need it' and 'it is too expensive'. Customer ignorance of the facts is clouded by indifference".

The feeling is that to reach these less engaged markets, the industry needs to fundamentally reassess the risks that consumers care about, rather than simply banking on what has been historically profitable. A main risk to the industry is whether service providers can: "create a more comprehensive value proposition, in order to broaden the ecosystem not only to basic coverage, but also protection (to prevent issues) and additional services (related to the main coverage) ", said Christian Balatti, Director, Strategy & Transformation, at MetLife in Argentina. The chief risk officer at a Belgium insurer said: "Customer behaviour towards new mobility, self-diagnoses, and connected ['smart'] homes is totally switching the way we have to think and design coverage, anti-selection, guarantees and responsibility".

4. Regulation (6)

Score: 3.62 (3.53)

A continuing heavy agenda of regulatory change is driving regulatory risk up the rankings. Respondents expressed frustration with the cost and distraction of compliance, and warned of the potentially damaging effects that disproportionate requirements could have in areas such as capital, consumer protection and product availability.

A London-based actuary said: “Recent changes in regulation have achieved little in giving added protection to insurers and/or policyholders. This not only does not reduce risks but also causes a loss of confidence in the industry and regulations themselves.”

A particular bugbear is IFRS 17, the new worldwide reporting standard which requires insurers to use a current discount rate to value liabilities. Many respondents described the measure as costly and unnecessary. A sector head at a P&C insurer in The Netherlands said: “The very large investment in IFRS 17 adds little benefit but needs major investments by the insurance industry.”

A specific concern is the risk that new regulation will tilt the playing field away from traditional insurers with their heavy legacies towards more lightly weighted new entrants. Regulation might hamper older companies' ability to adapt at a time when the industry is striving to transform itself. David Perez Renovales, director general of Linea Directa Aseguradora in Spain, said: “Regulators and supervisors do not seem to be aware of or aligned with the challenges and changes that the sector has to face in technology developments and the evolution of demand, habits and behaviour of consumers”. The chief risk officer of a Belgian composite insurer said: “The risk is mainly that such measures will slow down our transformation and limit our agility.”

Insurance supervision and regulation and the way it is applied across the board has already resulted in squeezing smaller companies out of the market as these companies find it increasingly difficult to digest the related bureaucracy and cost. This is particularly so in jurisdictions where rules are applied strictly (e.g. Germany, Austria). The ultimate goal of protecting policyholders is somewhat counter balanced by fostering concentration in the market and the creation of oligopolies. It is fine to have national (European) champions but there should be competition from local smaller insurers.

Chairman, P&C insurer, Austria

However, a number of respondents said that regulatory reform would ultimately benefit the insurance industry by improving its strength and reputation – even if change might take a number of years. A respondent from the Philippines said: “I think this is good for the industry and also for clients. Only reputable and stable companies will be able to comply”. Robin Low, a non-executive director of AUB Group, said of the recent Australian Royal Commission reforms: “[They] could have quite a high impact, but it is also an opportunity for those companies which want to show leadership.”

5. Investment performance (5)

Score: 3.52 (3.60)

Difficult investment markets feature heavily in the outlook for the insurance industry, and concern on this front remains high, though the risk score has slipped slightly because insurers are taking action to mitigate it.

Many respondents made the point that investment income is a key contributor to profits, though the low returns of recent years have forced insurance companies to earn more from their underwriting activities. Andreas Bachofner, director of Shires Partnership in the UK, said that “investment returns will not make up for poor underwriting. There should be more pressure on quality underwriting with a more long-term view.”

Respondents were concerned that low investment yields were encouraging insurers to take greater investment risks to raise their returns. The head of life and health products at a Canadian life company said there was still “over-investment in high risk assets. We are in bubbly times.”

For many respondents, the risk of a further downturn in the markets remains high. Owais Ansari, deputy chairman of FWU AG in Germany, said that “frequently recurring periods of high volatility in the global stock markets (driven by a variety of factors i.e. trade wars, Brexit, political uncertainty) [are a high risk]. For a long-termfocused life insurer, these repeated market shocks result in planning uncertainty and loss of confidence of the policyholders.”

In Japan, the deputy manager of a large life company said: “In the past, most of the cases where life insurance companies went bankrupt in Japan were [caused by] losses on asset management, and it is believed that the impact will continue to be significant.” But there was greater optimism in other quarters. The chief financial officer of a UK non-life company said: “I think this is a lower risk after the financial crisis especially for P&C companies, who have taken on low risk assets. Returns have also been lower, but the risk of loss is also lower.”

6. Climate change (-)

Score: 3.45 (-)

Climate change is seen as a much more urgent threat to the insurance industry than four years ago, when it ranked in the bottom half largely because it was considered a long-term risk. This year, it would have placed even higher up the table but for the perception that it has little impact on the life side of the industry, which had it at No. 19. It was No. 3 for P&C insurers and No.2 for reinsurers – and many respondents saw it as the top threat beyond the near future.

A common theme was the growing economic destructiveness of extreme weather events, including hurricanes and typhoons, floods, droughts, and wildfire. The president of a P&C insurer in Canada said: “The frequency and severity of events has more than doubled in the past 10 years and is expected to continue to increase as global temperatures continue to rise. New flood products have not been fully tested for price adequacy and wildfire risk is growing as well without models to assist in measuring exposure”.

Christoffel van Riet, board member and chief operating officer of Klaverblad Verzekeringen in The Netherlands, said: “It is not just about an unexpected hail storm. It is about a possible substantial change of the fabric of our societies as a result of potential massive migration driven by climate change invoked food shortages”.

Several respondents made the point that as a consequence of climate change, some risks will become very difficult or impossible to insure. Lisa Guglietti, chief operating officer P&C Manufacturing at The Co-operators in Canada, said: “The escalation in trends and volatility will challenge the sustainability of traditional insurance products unless we start putting more focus on prevention as opposed to indemnification. Many clients are unable to afford the risks that they are exposed to, and more alarmingly many of these same clients are unaware that they have this exposure”. The chief actuary at a P&C insurer in New Zealand said: “In the short term this looks like greater use of risk-based pricing; however, as the response evolves there will be more restrictions and potential withdrawal of cover”.

Massive over the long-term. A 3-degree world may not be insurable.

Chief executive, P&C industry, New Zealand

Moreover, the additional uncertainty about the frequency of catastrophic events is “breaking actuarial models”, as one respondent put it, particularly in the reinsurance industry. A respondent in India said: “If Global Warming increases the number of disasters, reinsurance pricing could produce shocks for the insurance industry”. A regional chief executive of a Chinese reinsurer said: “Many P&C insurers are not taking out adequate reinsurance protection as they want to reduce the cost of protection. This may result in sizeable financial impact to their capital”.

Respondents who ranked this risk lower were overwhelmingly from the life insurance industry, which had it close to the bottom of the table. One said: “There’s no direct risk for the life insurance industry. Indirect risk as it may impact financial markets”; and another: “As we are life insurer, our primary risk from climate change is in our investment portfolio”.

Another question which affected its ranking is how much time insurers have to prepare for climate change. A respondent in the UK said: “In the next few years, it will continue to worsen extreme weather events, but to a manageable extent”. But others were already seeing notable impacts on their business. A respondent in the Philippines said: “Change in weather has greatly affected the way we underwrite risks. We have seen a shift in the direction of typhoons lately. We have had to change some our business modelling because of this”.

7. Competition (8)

Score: 3.44 (3.49)

The question of whether the insurance industry will be able to meet the challenge from disruptive competition is one that probably attracted more comments than any other in this survey, and much disagreement.

Many respondents argued that the primary threat of disruption comes from the large technology companies rather than the Insurtech industry. “Digitization of distribution access is allowing powerful new entrants in… we should fear the technology giants”, said a respondent from the life insurance sector in Japan. The chief executive of an insurance broker in Canada said: “Current insurtechs are too small and too inexperienced to impact the industry. Bigger players like Amazon, Google and such could do it. Insurtechs have little capital and only provide one piece of the solution. They get bought out by current industry players with capital. Not too scary for now”.

Respondents noted other significant barriers to gaining scale. “Regulatory mastery is a high hurdle. Most innovation is focusing on processes not entire business models”, observed a sectoral chief executive at a large US insurer. Greg Tacchetti, chief information and strategy officer at State Auto Mutual Insurance in the US, said: “In the next 2-3 years, I see a popping of the current Insurtech bubble; there’s too much money chasing too many good but not profitable concepts”.

But others argued that technology-driven start-ups pose a considerable threat to incumbents. The managing director of a P&C insurer in Belgium said a main risk to the industry is “new entrants supported by

private equities or huge corporates willing to diversify their businesses. Data will make the difference, and the companies holding them are able quite easily to develop their own predictive models and propose very adaptative products (financial institutions sliced & on-demand).” For many respondents, the question was not whether some Insurtechs will succeed, but whether it would be as competitors to or partners with radiitional players. (see box)

One of the reasons this risk does not rank higher is that, on balance, many see new competition as a net benefit to the industry. The chief executive of a pension company in Denmark said: “Margin pressure and competition from non-industry players and disrupters are challenging the old established industry, but also keeping us on the toes and forcing the old industry players to be more innovative and agile, which will benefit customers”.

On the other hand, the chief executive of a P&C insurer in the UK said: “Disruptor competition at uneconomic price points = more medium-term pain until they exit or have to raise prices to profitable levels”. A respondent in Hong Kong said: “Business models are deeply flawed in many cases (how much term assurance do they think they will sell?), with the risk of detriment to customers and undermining the sector as a whole”.

Will Insurtechs partner with incumbents?

“I don’t believe that insurtech industry is a very large threat for insurers. It is still all about transferral of risk. Insurtech does not replace insurance, it is a tool used by insurance.” Actuary, Netherlands

“We see Insurtech more and more focusing on parts of the value chain and looking for distribution capacity (to be found at insurers). So less a disruptive force, more as partners.” Chief executive, composite insurer, Belgium

... Or compete with them?

I think some insurers will dismiss insurtechs as not having the “all in” ability to perform. And that would be a mistake. Chief financial officer, composite insurer, Canada

The insurtech industry will become the insurance industry for risks that can effectively use public data for underwriting. Chief executive, life insurer, US.

8. Human talent (9)

Score: 3.44 (3.40)

The risk that insurers will have difficulty attracting and retaining talent continues to climb the table, up from No. 15 four years ago. It was particularly high in North America, at No. 4.

A persistent concern was that insurance is being shunned as a career destination by talented graduates in favour of alternatives such as banking and technology. Comments about the industry included: “conservative and old fashioned”, “old hands at the wheel [and] failure to make the business interesting to the young”, and “bureaucratic institutions which stifle personal initiative”.

The chief financial officer at a P&C insurer in Malaysia said: “Millennials are impatient and may find the regulatory constraints in the industry limiting their ability to innovate and speed to market”.

A particular worry is that demand is most urgent for the types of technical roles where there are skills shortages – such as data scientists, actuaries, and regulatory specialists. The vice president of audit and risk at a Canadian insurer said: “Most people fall into insurance, not by choice. The image of the insurance industry presents challenges to attraction and recruitment of talents, particularly in fast-paced field such as technology, data science and quantitative risk management”. A respondent in Hong Kong asked: “Have you tried hiring an IFRS17 expert?”

Another factor seen to be weighing on the industry is the loss of experienced people. An executive director at an insurance broker in the UK, said: “Pressure on costs is weighing more heavily on individual employees with increased risk of burnout without any commensurate material compensation. Years of ‘soft markets’ have also seen a drain of experience as ‘more expensive individuals’ are culled and with them irreplaceable knowledge”.

9. Macro-economy (7)

Score: 3.40 (3.49)

The level of concern about the world economy has fallen slightly since the last survey two years ago: respondents see plenty of potential threats to growth but these have yet to materialise.

The dominant concern is that political tensions will set off trade wars at a time when economic conditions are fragile. Burcin Arkut, chief actuary at Aviva Turkey, said that the "global economy will face its biggest test since the last financial crisis leading to headwinds for the insurance industry." Respondents saw signs of fragility in overvalued markets and in the strong growth of credit and leverage in the banking system.

A particular concern was that softer conditions would force central banks to hold down interest rates, prolonging the low yield environment which has bedevilled the insurance industry for several years. "The maintenance of returns is a risk given the current interest rate scenario, the uncertainty about economic growth, and commercial tensions that do not seem to decrease", said the Finance Director at an insurance mutual in Spain.

But would a more difficult environment be good or bad for business? Although many respondents saw a downturn hurting premiums, others were less pessimistic. The chief executive of an insurer in Luxembourg said that "the current environment is bad from an economic / political perspective but the fear factor is good for the insurance sector as clients are looking for secure / safe solutions". A respondent from India said that "Safety as a virtue assumes maximum importance during times of macro-economic uncertainty. Hence I feel it actually could serve as a good environment for insurance and hence do not see it as a stress."

The level of concern about economic risk varied with geography. The region with the highest concern was Africa where it ranked No. 2. Ian Visagie, chief financial officer at Sanlam Personal Finance in South Africa, said: "Locally the uncertain political and economic climate will in all likelihood continue and have a negative impact on investment business, as well as the return earned on assets." Despite anxiety about China, the Far East region was the least concerned, placing macro-economic risk at No. 14. The senior director of a Hong Kong-based life insurer said that "life insurers are typically quite sturdy and can cope with economic change pretty well."

Other regions gave this risk a middle score, including North America. A respondent in the US said that the economy "is on a good path, but global macro is introducing risk". In Canada, a chief risk officer reported that "the current economic environment is a positive one for our business."

10. Interest rates (4)

Score: 3.36 (3.65)

Concern about interest rate risk is receding, mainly because the insurance industry - in particular the life side - is learning to live with a low interest rate environment. The risks have historically lain with excessive dependence on investment returns to sustain profitability, and on savings products that offer a guaranteed return. to bank on making healthy returns, in order to make a profit. This enabled them to write to combined ratios of well over 100%. This has stopped and therefore I do not see much impact of continued low interest rates." James Davenport, senior vice president, Finance, Mutual of Omaha in the US, said that life insurers have gotten used to a lower rate environment and can now better operate with rate uncertainty. A regional chief executive at an insurer in Luxembourg said that insurers used

However, there are still areas of the market which are seen to be vulnerable, particularly if low interest rates persist or if there are sudden changes. Nelson Machado, CEO Life and Bancassurance at Ageas in Portugal, said: "A big change can be a significant risk, but today's level is also a relevant issue."

Respondents were divided over whether the next move in rates would be up or down. If it is up, the pressure on insurers' balance sheets and P&L accounts would ease. There would also be a reduction in competition as new investment opportunities opened up for mobile capital. But if they stay low or even sink, market conditions would become more difficult. The chief financial officer of a Hong Kong insurer commented: "The pattern of gently rising rates may already be over. Time to put the champagne corks back in the bottles."

The head of risk management at a German composite insurer said: "The 'Japan scenario' of low interest rates for a very long time is becoming more and more probable for the European economy as well."

Insurance Banana Skins: The Top Ten since 2009

	2009		2011		2013
1	Investment performance	1	Regulation	1	Regulation
2	Equity markets	2	Capital	2	Investment performance
3	Capital availability	3	Macro-economic trends	3	Macro-economy
4	Macro-economic trends	4	Investment performance	4	Business practices
5	Too much regulation	5	Natural catastrophes	5	Natural catastrophes
6	Risk management	6	Talent	6	Guaranteed products
7	Reinsurance security	7	Long tail liabilities	7	Quality of risk management
8	Complex instruments	8	Corporate governance	8	Quality of management
9	Actuarial assumptions	9	Distribution channels	9	Long tail liabilities
10	Long tail liabilities	10	Interest rates	10	Political interference

	2015		2017		2019
1	Regulation	1	Change management	1	Technology
2	Macro-economy	2	Cyber risk	2	Cyber risk
3	Interest rates	3	Technology	3	Change management
4	Cyber risk	4	Interest rates	4	Regulation
5	Investment performance	5	Investment performance	5	Investment performance
6	Change management	6	Regulation	6	Climate change
7	Guaranteed products	7	Macro-economy	7	Competition
8	Distribution channels	8	Competition	8	Human talent
9	Natural catastrophes	9	Human talent	9	Macro-economy
10	Quality of risk management	10	Guaranteed products	10	Interest rates

Some risks come and go, some are hardy perennials, as this chart of the Top Ten Banana Skins since 2009 shows.

The last two editions of this survey show clearly that the industry has shifted its focus to risks related to technology – due both to rapid changes in the external environment and an urgent need to modernise internal IT systems and business models. These trends appear set to continue with the transformation of insurance markets by automation and modern distribution channels, and the pervasive threat of cybercrime. Regulation – the top risk in 2011, 2013 and 2015 – continues to rank highly as insurers grapple with its volume and cost. Another major issue is investment performance, which burst into No. 1 position during the crisis in 2009 and has remained in the top five ever since. Initially driven by the market crash the concerns are now about the persistence of low yields. Concerns about the macroeconomic environment and interest rates, which have been high in recent surveys, have receded a little this year.

Among governance risks, the quality of management and boards started high but has gradually fallen down the list, and is now generally seen as lower order – reflecting the view that insurance companies are increasingly better run. Risk management was a significant concern in the aftermath of the crisis, but has since seen improvements.

Risks which are seen to be rising sharply – and ones to watch out for in future surveys – include climate change, with a growing perception that it is making some markets difficult or impossible to insure. Competition, both from technology giants outside the insurance industry and Insurtech start-ups, is attracting a great deal of discussion. The industry's ability to attract and retain talent – especially in technical roles – is also climbing up the top ten.

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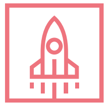
How insurance and financial-services firms facing disruption can innovate and thrive

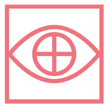
Executive summary

In an era of disruption, financial-services firms — and insurance companies in particular — need a shift in their approach to strategy. Developing and implementing a successful strategy in a nonlinear, fast-moving world can be easier than you think — if you focus in an active, iterative way on three core elements:

Portfolio: Which of your businesses deserve funding — and which don't.



Innovation: How well your organization is set up for experimentation and success in new ventures



Stewardship: How you direct resources toward your most important capabilities, to steer the business into the future.

Your whole approach to strategy should focus on these three elements — and nothing else. Forget traditional notions of strategic planning. Out with the slavish adherence to operating models and organizational design. Ignore the relentless pressures to upgrade every platform and system. Put all your strategic activity in service to those three elements: portfolio, innovation, and stewardship.

Resist thinking of strategy in terms of governance and top-down control. Instead, think of yourself and your top team as innovative stewards of the right mix of business lines, equipping deliver profitably. Simplify your thinking in this way, and the rest — including how you deal with technological disruption — will fall into place.

The only good strategy …

… is one that's implemented. If a strategy can't be put in place and maintained, it's not worth the trouble and expense of putting it together. Companies must ensure that strategy and implementation stay aligned as facts on the ground change.

This has become a matter of urgency for the financial-services industry, and for the insurance sector in particular. One symptom of this is the statements we hear over and over from executives:

> *We're concerned about disruption. If we don't reposition ourselves soon, it will be too late to react.*
> *We need to get closer to our customers.*
> *We need to move faster and with more agility.*
> *We need to figure out digital and innovation.*
> *We need to move to the cloud.*
> *We're not spending in the right places, and we might need to spend less overall.*
> *We're trying to be good at everything, and that's just not realistic.*

All these statements are reasonable, and all have strategic implications. But they don't get to the heart of the issue that is vexing financial-services firms. The problem is not that the world has changed; it's been changing for many years. The problem is that the map is muddled: There are too many options, they involve too many uncertainties, and worst of all, they aren't distinctive enough. Because they seem to apply to all companies equally, they aren't highly suited to any.

In short, decision makers in insurance and banking are overwhelmed by a high noise-tosignal ratio in their assessment of challenges and opportunities. They continue to make many methodical strategic plans, and execute most or all of them, because they aren't sure what to give up. Yet they also know that the world is moving too fast for this approach.

Their situation is made more complex by the nonlinear nature of business today. Small issues lead to big headaches. Minor resources turn out to have major impact. Straight-line projections turn out to be inaccurate. Plans that feel right don't lead to success. These are all symptoms of nonlinear trends — forces internal and external that accelerate or slow down in unexpected ways and that therefore prove unpredictable. The business structures, practices, and supporting mechanisms built for more straightforward, predictable times just don't work in the age of disruption. Yet it's not obvious how to reform or replace those old strategic approaches. Financial-services companies — and insurers in particular — are huge enterprises subject to more constraints than most. They must deal with heavy regulation, the obligation to support products sold half a century ago, and a culture generally more attuned to compliance than innovation.

To create and execute strategy in today's fast-moving, volatile environment, companies need a focused approach that will let them quickly develop new organizational muscles and reflexes. We're not suggesting companies discard their best practices wholesale. But they do need to think differently about the structures and mechanisms they rely on to develop and carry out strategy.

Crafting a streamlined strategy

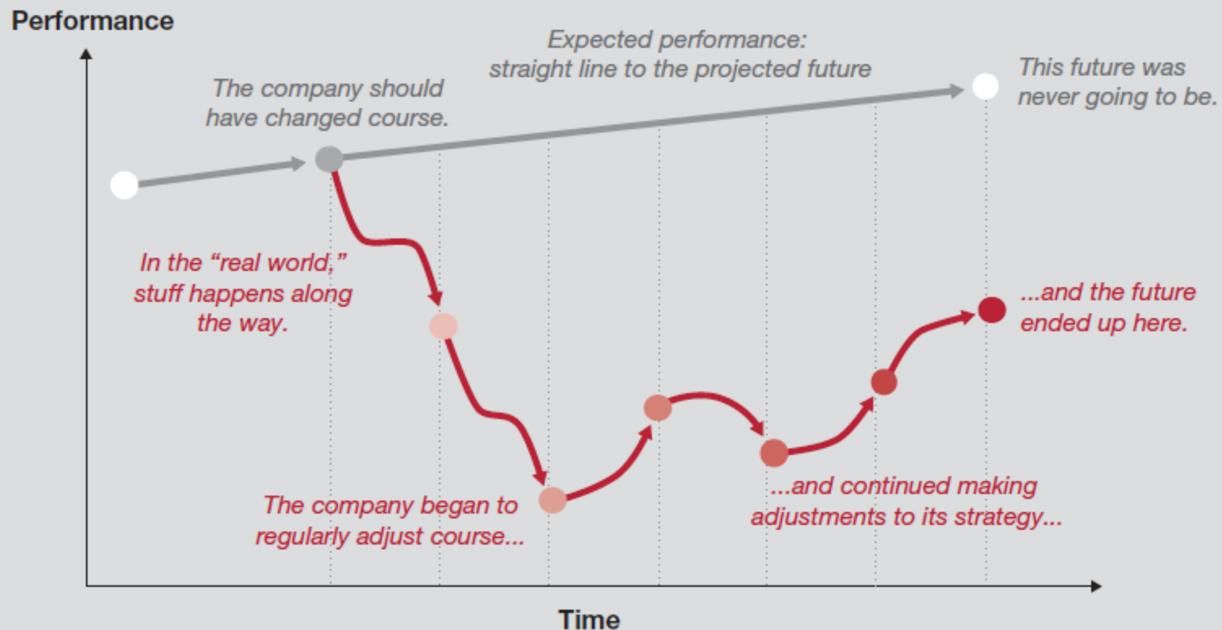
Fool's errand: sending a novice off in search of something that can't be found or is pointless; for example, dispatching an apprentice to the store for a bucket of striped paint.

In our 2018 article in strategy+business, "The Insurance Industry Needs an Intervention," we explained why many financial-services firms aren't getting the results they need. Indeed, if you're a leader of an established insurance company, you've probably already found that the traditional levers for executing strategy — textbook moves such as fine-tuning marketing programs, updating products, enhancing customer-service systems, and beefing up information technology — are not well-suited to the challenges you face. The source of your problem is, more likely than not, in the way these interventions fit together. As you manage each of the "trees" of the organizational interventions you have in mind, you lose sight of the "forest": the main thing you're trying to accomplish.

In essence, strategy is figuring out where to apply limited resources in order to capitalize on opportunities. But determining where to apply those resources — to answer the questions "What businesses are we in?" and "What capabilities do we need to compete effectively?" — has become a moving target. In a nonlinear world, a good strategy is not one based on a straight line to some supposed future — a future that likely will never come to pass. A good strategy adapts to ever-changing facts on the ground (see Exhibit).

EXHIBIT

A good strategy adapts to the continual change of a nonlinear world



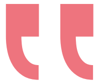
Source: PwC's Strategy&

Think of the real world as a game of gin rummy: Every time you draw a new card you need to optimize your hand. As facts on the ground change, you adjust your awareness of them and your sense of the whole. You can do that only if you are willing to play a limited number of cards, a few that represent the whole system you're trying to manage — and play them well.

In other words, this type of adaptive success requires a streamlined, focused approach to strategy. You will need a clear idea of the businesses you are in, the brands you own, the way you're organized (including whom you partner with and how you structure your financial and legal entities), and how you distribute your products and services, all fitting coherently together.

When you streamline your strategy, you reconsider the structures of your enterprise: the mechanisms, practices, and relationships through which you distribute, sell, operate, and manage. These structures must not only fit together to advance strategy but must do so without distracting or diverting your focus, or otherwise wasting time. You can't adapt to 21st-century conditions without simplifying your 20th-century structures. Cut away the weeds and bramble; reduce the noise and confusion.

You don't just streamline because of rapid change and disruption. Your goal is to set your company apart from others. If you chase every trend that comes along, your strategy will probably look much the same as your competitors'. When you aren't disciplined in streamlining your strategy, you fall into old habits, continue with the same projects, and renew your budgets year after year. Your future resembles your past, and your costs remain just as high. Instead of executing strategy this way and acting the same way your competitors do, focus on what sets you apart from them. Focus in particular on the three elements of a differentiated strategy: your portfolio, your capacity for innovation, and your stewardship.



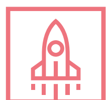
You don't just streamline because of rapid change and disruption. Your goal is to set your company apart from others."

Portfolio.

Executives often address strategic planning and their portfolio of businesses as two separate issues, giving short shrift to the latter. In theory, strategic planning is fine; but as boxer Mike Tyson famously noted, "Everyone has a plan till they get punched in the mouth." In practice, strategic planning is often geared toward traditional, ingrained spending habits. Businesses — other than those that are hemorrhaging red ink — keep getting funding simply because they exist.

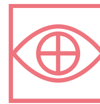
But why not approach strategy with a zero-based mind-set? Find ways to shutter the businesses you should no longer be in and shift scarce resources away from those that are subscale (too small to compete effectively). To reinforce the importance of being flexible and adaptable, shift your focus away from strategic planning and toward managing the portfolio: Invest in the businesses that will give you the capabilities you need to realize your strategy.

You don't just streamline because of rapid change and disruption. Your goal is to set your company apart from others."



Innovation.

In an unpredictable, nonlinear world, better ideas come from having more ideas. Playwright and political activist George Bernard Shaw, who observed that "imagination is the beginning of creation," also said, "A life spent making mistakes is not only more honorable, but more useful than a life spent doing nothing." Creating a culture that fosters new ideas and that encourages trial and error and rapid course correction will likely succeed over continuing one that plans everything out and expects predictability.



Stewardship.

In our conversations with company executives, we discovered that many have a de facto strategy: to keep doing what they've been doing, only better. The reasons for this vary, but the most common is institutionalized planning processes, which tend to entrench habitual spending; pay lip service to longer-term, off-cycle investments; and discourage ideas that require change.

The tried-and-true processes and practices by which many leaders govern — annual budgeting, cost-benefit analyses, project gating — are no longer reliable for putting the money where it needs to go. They're legacy approaches, designed for manufacturing or production efficiency, rather than for innovation, customer focus, and speed. In addition, many of the challenges that companies face today, such as creating a new product or revamping the customer experience, require a cross-functional and cross-product response. That is hard to achieve with traditional — especially siloed — organizational structures and operating models.

Governance implies oversight and maintenance, leading by reinforcing established ways. Instead of governing, steer toward your desired future. An ethic of stewardship — the conscious allocation of resources, including executive time and attention, to your most important capabilities — will help you steer in new directions and find new means of operation.

Let's take a deeper look at these three elements and how they interconnect.

Think portfolio

Consider the portfolio on three levels: which businesses you should keep or exit, which operating model you should follow, and which capabilities make you stand out in the eyes of your customers and distributors.

Which businesses? Scale has become an increasingly important condition for success, in the near and long term. We define scale as the sheer heft or technological might to deliver your products and services at a level of efficiency and effectiveness that rivals the market's best players. In many industries, technology enables a rapid trajectory from startup to market leader, making the winner-take-all effect much more common. Scale should therefore be a foremost consideration in deciding which businesses you should keep.

Many companies don't have the basic portfolio they need for their strategy. Even leaders who understand the value of making portfolio adjustments tend to think first of buying, when selling is sometimes the better move. They also tend not to think about how the maturity of their business and its prospects should affect their decision making. For example, there's no point in fully integrating a business you might sell off or close down. It may be smarter to starve it for short-term profit or invest in it to get the best sale price. And if the timing for a deal isn't right, the lessons you learned while making this decision can still influence your other strategies.

What kinds of portfolio decisions should leaders contemplate? For starters, they should consider spinning off product lines that no longer serve the company strategically or practically, that represent a steady drain on resources, or that entail onerous capital requirements or regulatory constraints. That money can be put to better use funding a more core investment, initiative, or activity. You might invest in a new business to gain scale, enhance distribution, or diversify further. You might consider outsourcing certain key functions if doing so would improve economics or give your company access to better capabilities. Finally, there's partnering — through an equity investment or joint venture — to create or gain access to capabilities that are not available through acquisition or that would be too difficult to build organically.

Which operating model? The notion of core capabilities is relatively simple. Understand what you're good at, leverage it, and win in the marketplace. However, if you're not good at it, or if you can't do it better than your competitors, look to a third party. There are many well-known examples of companies that outsource their IT, call centers, investment management, claims settlement, or underwriting. Perhaps a joint venture is the way to get the capabilities you need.

Consider other aspects of your operating model. Do you have the right legal entity and capital structure in place? Are you sharing the functions you've built internally to optimize scale, quality, and control? Does your organizational design fit your purpose?
Which capabilities? How are you leveraging the things you're good at into marketable capabilities? We're thinking of such capabilities as enabling customers to view their accounts; get needed information; and manage transactions as they want, when they want, and through the channel they want. Also, evaluate your ability to understand your customers: who they are and what their behaviors and preferences are in shopping and transacting. You may also need to improve how you hire and cultivate the right employees to build, expand, and hone these capabilities.

Today, an integral element of any company's strategy is its ability to adapt rapidly. Your capabilities are only as good as your ability to keep them sharp and up to date. Although disruption hasn't hit the insurance world as hard as it has other industries, insurers are hardly insulated from it.

Finally, having the right capabilities is often about acquiring them, which could mean buying up potential threats in markets you've dominated. Take, for example, Sun Life's acquisition of Maxwell Health, an absence management software company. Together, these companies have created a carrier-distributed technology platform that offers services and features including payroll, human resources management, online enrollment, administrative dashboards, and mobile apps. Or consider the deal in which Reinsurance Group of America (RGA) acquired LOGiQ3 Group, which enabled RGA's innovation and digital business unit to ramp up its technology, consulting, and outsourcing services for life insurance and reinsurance enterprises. Both examples illustrate how companies are making acquisitions to venture into new adjacent areas that not only promise added value to clients but are potentially disruptive.

Your creative energy and IT budget should go into developing more comprehensive, more distinctive digitally enabled capabilities that will make you stand out and position you to compete."

Think innovation

Every business needs discipline in how it's organized: in its business models, processes, organizational design, IT infrastructure, data management, and so on. Every company also needs rock-solid professionals to manage these organizational elements. But this discipline can come at the expense of innovation. Often, these well-meaning architects of organizational design issue standards and rules that make components too expensive, too complex to maintain, and ill-suited for anything but a static environment. Executives often get dragged into or paralyzed by decisions about pruning the trees instead of strengthening the forest.

For example, you will gain no competitive advantage if you limit your IT choices to vendors of immediate solutions. These lead you to "table stakes" systems — systems that fulfill your immediate business needs but don't set you apart from competitors. Nor should you devote energy to enhancing these relatively limited systems. Instead, your creative energy and IT budget should go into developing more comprehensive, more distinctive digitally enabled capabilities that will make you stand out and position you to compete.

Why are table stakes systems so similar? Because financial-services companies are generally similar in their operating models, technological capabilities, operational capabilities, and even strategies. Every insurer needs a claims system, policy system, and financial system. Every company must be able to serve customers where they want to be served; provide value to its distributors; have the right technology in place to support better decision making; operate at scale with competitive economics; and maintain security and control. You may need to invest in these systems, but you should manage them either for differentiation — making them part of your unique, strategically relevant capabilities system — or for cost, gaining the functionality you need with as little money, time, and attention as possible.

In the end, one thing becomes painfully clear. All too often, the strategic activities in your company — deliberation, prioritization, project formulation, and funding approval — are devoted to these table stakes activities. They inevitably drain money, time, and attention from the significant innovations you need to make, in the areas where your enterprise can set itself apart from competitors. If you have the opportunity to reduce these draining activities or cast them aside, don't wring your hands. Think of these cuts as the inevitable measures you have to make to become truly competitive.

Focus on speed and flexibility. In times of rapid change, companies need to move quickly, using agile work processes, to compete. Speed is important in the insurance sector, whether you are starting a greenfield business with a simple product, as Atlanta-based Haven Insurance Group did with its online term life-insurance sales system; enhancing customer experience, as Idea Bank did with branches on commuter trains; or distinguishing your offerings with new services, as some companies are doing with financial and health wellness programs that lower insurance rates.

Flexibility is also important. You need to focus continually on the specific capabilities they have defined to meet market needs in real time. This imperative has profound implications on your stewardship: on annual planning and prioritization, how you approve and fund specific initiatives, and even the ways in which you deploy your workforce.

Some large companies, for instance, are tapping freelancers to fill intermittent or specialized needs. Some are providing digital training to employees and introducing more agile, less hierarchical structures. In this form-follows-function approach, companies can deploy ad hoc teams for single-purpose projects, and long-standing teams can employ agile work methods and self-governance to meet evolving needs.

Set your organization up for innovation. Bet on experiments that will generate new ways of doing things that are likely to solve problems or create opportunities. In fintech and insurtech, companies

are toying with innovations in discrete segments in the value chain, such as roboadvice, personalized insurance, and automated underwriting. New medical advances such as predictive medicine and wearable devices, and health improvements such as decreasing morbidity and mortality risk, present opportunities for innovation in other parts of the value chain. These new solutions can be hatched in a number of ways. Some leading companies have formed an innovation arm. Others are investing in startups, which gives them ready access to new ideas about how to operate. Still others are creating "tiger teams" or pilot programs to test new ideas or approaches.

Think of your business model and the way the business is organized as you would think of a modern-day patent series, with each new entry building on a previous innovation already in place. Because the basic elements of the financial-services ecosystem are heavily regulated and well established, innovation — and indeed disruption — can happen only within the basic structure of the existing ecosystem. Those areas of the ecosystem are increasingly well supported by technology; plug-and-play systems, such as cloud-based software environments, are already available. The upshot: Innovate only in areas where you can have impact.

Think stewardship

Many business leaders seem to practice management by maintenance. They solve problems that come up in the most expedient way, not by marshalling their company's scarce resources — its people, technologies, financial capital, and management attention — in a way that steers the business toward the future. Instead of thinking of yourself as a maintainer of the business or a facilitator of the governance of the enterprise, consider yourself a steward.

Stewardship *refers* to a managerial approach in which you continually direct resources, including your own time and attention, toward your most important capabilities, the ones that will make or break your strategy. You thus steer the business into the future. This is a more apt way to think about how you organize your enterprise. It's forward-thinking; it suggests driving innovation in a way that governance does not. As a steward of the strategy, you are in charge of mobilizing, prioritizing, funding, and executing. Through these efforts, you define and build your most important capabilities, now and in the future.

Leaders need to be able to discard best practices or policies that obstruct or hinder innovation. They need license to pursue new ways of working and to bend the rules when justified. The concept of stewardship suggests this is not only OK but desirable.

For example, it's important to let silos intersect or overlap, because you need to give precedence to getting the right people and the right expertise on teams without requiring a Herculean effort. Digitizing the customer experience requires coordination across products, customer segments, and functions. Sales and distribution are probably better organized from the customer perspective than by product or geography, as they often still are. Yet none of these necessarily calls for deconstructing the org chart.

At the same time, a stewardship approach could also lead you to stick with the status quo. Maybe one or more of your businesses is a cash cow that requires only a modest investment to stay the course. Perhaps in a new market or product area, the threat of disruption isn't high because of barriers to entry such as capital or regulatory requirements. Sometimes there is no first-mover advantage; or, like the dinosaurs, you don't see the meteor coming, and even if you did, you probably couldn't prepare for it.

Leaders need license to pursue new ways of working and to bend the rules when justified. The concept of stewardship suggests this is not only OK but desirable."

Balance your IT dollars. Given technology's outsized role in the platforms that power financialservices companies, determining how to fund IT for the short and long term may be among your most difficult decisions. The executives we talk to generally have a firm understanding of technology's trajectory and how customer needs are evolving. They've thought through potential strategies that would position their key assets for capability and versatility. But they tend to go astray in separating day-to-day incremental improvements from long-term strategic moves. They shortchange the platforms and systems that will enable their strategy — say, great customer interaction mixed with a high-service model for distributors and the best information money can buy.

All the technologies and platforms that run the business — for example, those that handle data, data integration, analytics, and related innovations — must be funded at reasonable levels for the foreseeable future. These are table stakes that enable every strategy at expected levels of market performance, so they must be part of the planning and funding model. But funding only the status quo will not advance you. Surprisingly, some companies behave this way, pretending to adopt the latest customer-experience approach without a tangible commitment to establishing the supply lines needed to create that capability.

A short-term focus can be insidious. Companies spend a huge chunk of their IT investment on business-as-usual tweaks or minor improvements to eliminate workarounds or keep up with compliance requests. Then, as systems and platforms age and the patchwork fixes build up, the technologies become so tangled that they can no longer support the business strategically. They can no longer help it grow and improve service or efficiency, let alone become more profitable. This problem even has a name: technical debt.

A longer-term view gives companies the flexibility they need to build the most urgent capabilities on an ongoing basis to respond to the typically fine-grain, customer-driven demands.

Tie your blueprints and road maps to the strategy. These tools delineate the capabilities and actions required to achieve your vision. Blueprints define the functions and business capabilities needed to make the strategy happen, including how departments and people must interact. Road maps outline how a plan might unfold, noting the broad steps and their prerequisites, and spelling out alternative routes if the sequence of actions changes.

Together, blueprints and road maps convey at a high level what it will take to get something done, roughly how long it will take, and what the interdependencies are. They formalize the need to maintain technology that supports the capabilities. They also help set a rational spending level, based on the capabilities' relative urgency and importance to the business and other stakeholders, including regulators.

Invest in platforms and partners for the long term. Products, customer expectations, and technologies may change rapidly. Regulations, however, do not. In financial services and insurance, with their heavily prescribed processes, regulated product design, and mandated reporting requirements, the value chain resists rapid change.

This gives you an opportunity to set a time horizon for your strategic capabilities investments, determining how long they are expected to operate. In other words, you can invest rapidly, leapfrogging your competitors' capabilities. But once the new system is in place, you can move more slowly, knowing that you are keeping up with your industry.

This time-horizon approach is so logical that it should become standing best practice in the industry. Unfortunately, it conflicts with some of the so-called best practices in project funding and project management."

Base all decisions about strategic investment on a considered view of the time horizon. This affects IT systems such as enterprise resource planning or cloud development, as well as strategic partnerships such as joint ventures or outsourcing relationships. For example, fundamental technology platforms — the call center platform; core policy- and claimsprocessing systems; assets for storing, analyzing, and modeling data; HR systems; financial reporting systems — can have a fairly long shelf life.

Once you have a rational acquisition and replacement strategy established for these major components, don't let them stagnate. Rather, set up agile teams to modify and improve functionality as needs evolve. These standing agile teams can get more skilled at what they do and thus can keep in sync with the business's ongoing and high-priority needs. Supporting applications and platforms can be continually developed: Iterate them to incorporate innovative change and to deliver products and services to the market with increasing speed, while still treating them as long-term assets and aspects of your core capability.

This time-horizon approach is so logical that it should become standing best practice in the industry. Unfortunately, it conflicts with some of the so - called best practices in project funding and project management that companies have zealously adopted in recent decades. Those practices came with unintended consequences: overhead bloat; inadequate skill building because teams are organized for one-time use, which also drives up costs; and a bias against funding projects that lack an immediate payoff, such as future-building platforms. Ultimately, some of these practices only encouraged more technical debt. Generally speaking, they were designed for yesterday's challenges, many of them for a slow-changing environment. And yet companies continue to follow them, despite the fact that they can grow stale and outlive their usefulness. (See Bruce Brodie, "Best practices in insurance and beyond: It's time to stop looking backward," PwC US, 2017.) Now there is an opportunity to change them.

Focus on essential strategic assets. The old project-based approach favored whatever short-term needs seemed urgent and important. Instead, by establishing strategic platforms, companies can make tactical, short-term service or efficiency improvements and support the ability to build long-term assets and capability. A scaled agile framework, such as Agile/SAFe, used for lean enterprises, core systems, and applications, can help simplify annual planning, funding, and gating processes while enhancing the long-term view of controls and security for platforms.

Companies need to be able to uphold their promises to customers and remain viable — while also playing the cards in hand in real time. A stewardship approach lets you make rational choices about your operating model — choices such as large-scale automation or AI as part of your digital transformation — informed by an understanding of the many customer journeys you serve (including college funding and retirement investments) and the critical moments of specific customer interactions.

Achieving efficiencies, making more informed decisions through analytics, getting closer to the customer — there's no either/or in these actions.

Does your strategy have a shot?

In today's fast-moving business environment, leaders are constantly bombarded with calls to update, upgrade, and optimize everything, including product design, analytics, and customer service and technology platforms. Cutting back on high-profile initiatives whose value may have withered can be seen as impolitic. If you don't follow every best practice that your competitors have, the implication is you could be sabotaging competitive advantage.

Banking and insurance are not immune to disruption, so keeping abreast of change is critical. Moreover, your major areas of capability in financial services are circumscribed by customer needs, product life cycles, distribution requirements, and regulation. There's simply less opportunity to set your company apart.

But it's easy to lose sight of a basic truth: There's no payoff in fine-tuning capabilities that won't differentiate your company. Strategic success requires a streamlined response. Companies need to focus their energy, attention, and resources on the things that will give them a competitive advantage. Leaders need to focus on the business portfolio to be sure investments are being directed to the businesses that will deliver the essential capabilities. Instead of worrying about table stakes business models, processes, infrastructure, and systems, concentrate on how well the organization is set up for innovation. Rather than managing by maintenance, think about stewardship — about steering the business toward the future.

This means having a longer-term view that properly establishes the platforms essential to supporting the strategy. In that way, you can prioritize the most urgent capabilities on a continual basis to fulfill more short-term market demands.

To determine whether your strategy has a shot at being implemented, ask yourself (and other members of your top management team) these questions:

• Do you have the scale and resources to support all the businesses you are in?

• Can you articulate your strategy in a way that sets you apart to customers and distributors?

• Are you directing scarce resources in the right places to create those capabilities that will set you apart?

• Are the strategic technology platforms in place that will let you build that differentiation?

If you didn't answer "yes" to all four questions, you need to change your approach to strategy. Remember, as facts on the ground change, you need to keep strategy sharp and implementation aligned. You can do that only if you are willing to play a limited number of cards and play them well.

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Strategy& is a global strategy consulting business uniquely positioned to help deliver your best future: one that is built on differentiation from the inside out and tailored exactly to you.

As part of PwC, every day we're building the winning systems that are at the heart of growth. We combine our powerful foresight with this tangible know-how, technology, and scale to help you create a better , more transformative strategy from day one. As the only at-scale strategy business that's part of a global professional services network, we embed our strategy capabilities with frontline teams across PwC to show you where you need to go, the choices you'll need to make to get there, and how to get it right.

The result is an authentic strategy process powerful enough to capture possibility, while pragmatic enough to ensure effective delivery. It's the strategy that gets an organization through the changes of today and drives results that redefine tomorrow. It's the strategy that turns vision into reality. It's strategy, made real.

¿Qué deben tener en cuenta las aseguradoras?

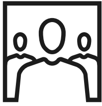
IFRS for insurers:
All insurance companies reporting under IFRS (International Financial Reporting Standard) will be impacted by the new reporting standard when it becomes effective in January 2022. IFRS 17 will result in significant changes to the way that financial information is presented, and adoption will require significant planning.

IFRS 17 presents opportunities to harness data more effectively, to improve the structure of your finance function and to better inform your decision making. Ultimately IFRS 17 is about what story you want to tell about your company… and if you really grab the opportunities that implementing the standard presents, imagine the sort of business you could be running in 2022.

Reinsurance:
The last twelve months has continued the recent reinsurance market trend of reserve releases, an absence of major catastrophe losses and falling rates in key market areas. There has also been an increase in interest in cyber and emerging market risks as the industry reacts to the changing landscape. All of these are forcing companies to adapt to the new normal.

This has produced an upsurge in M&A activity as the reinsurance market responds to the challenges faced from poor investment returns, an increased requirement for cost control, the influx of new capital into the ILS market and from hedge funds, the increase in regulation as Solvency II reaches its implementation date in Europe and the challenge arising from lower placement of risk by primary markets.

Resilience, flexibility and adaptability are key to success and the most successful and well led companies are responding with changes in their data, systems, structure and processes designed to ensure their long term success.



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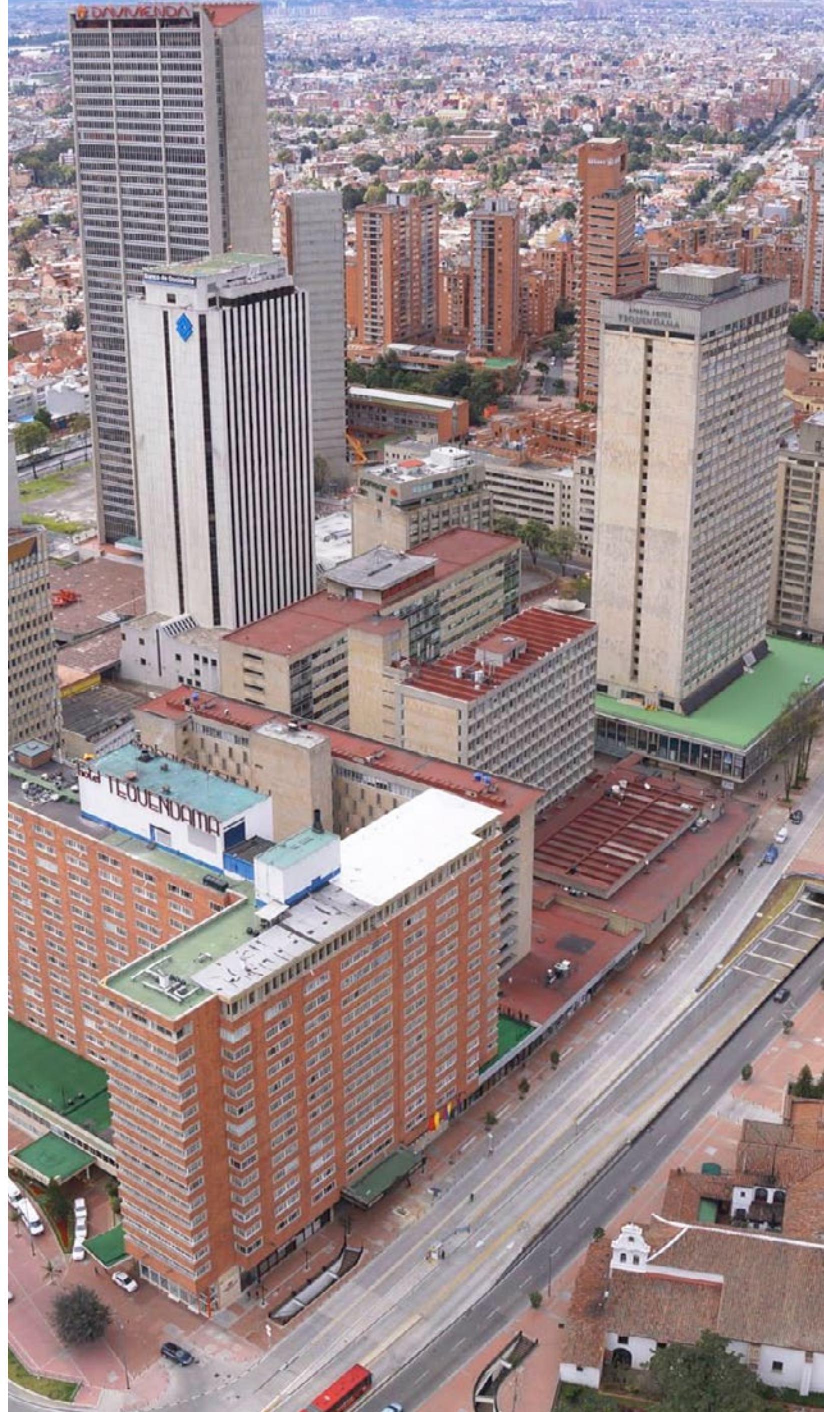

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