

Emerging from the storm: The day after tomorrow for insurance

The insurance industry landscape that emerges from the turmoil of the financial crisis is set to be markedly different from today, enabling some insurers to pull ahead from their competitors and leaving others at risk of being left behind.

The financial crisis has already proved to be a watershed for the insurance industry in many parts of the world. What customers, investors, governments and regulators expect from insurers is changing rapidly and pervasively and the developments we see today are only the beginning. The environment will continue to evolve at a rapid pace over the next two to three years, ruling out any return to the relative stability and certainty that preceded the crisis.

This shake-up will challenge the competitive relevance of some insurers. However, it also offers agile and

farsighted firms a once-in-a-generation opportunity to catapult themselves to the front of what will be a very different racing order within many geographical markets and classes of business – as Rahm Emanuel, White House Chief of Staff, has said: ‘Don’t waste a good crisis.’¹ The companies that will come through strongest are not just looking at how to stabilize their businesses today and even tomorrow, but how the crisis will shape the competitive environment that emerges in the ‘day after tomorrow’ and what they need to do to adapt and succeed.



Surveying the damage: The immediate impact of the financial crisis on the insurance industry

If you asked an insurance executive in 2007 ‘what are the key developments shaping your industry?’ most would have cited at least some of the longer term themes we have listed on the next page. These underlying trends have not gone away and some have been accelerated by the financial crisis. However, as insurers survey the immediate impact of the financial equivalent of a major hurricane, more pressing concerns have come to the fore. The market and economic environment in which insurers operate is subject to considerable uncertainty. Success will depend on close monitoring of developments and the ability to move quickly to capitalize on opportunities as the situation becomes clearer.

Excerpt taken from the report *Emerging from the storm: The day after tomorrow for insurance*. For a complete copy of the report, please contact your local PwC contact or email financial.services@ca.pwc.com.

¹ *Wall Street Journal* web cast, November 21, 2008.

The day after tomorrow report examines how the financial crisis will change the industry landscape and the key considerations this presents for insurers. The report examines what we believe are the main features of this new environment:

one

Organic restructuring:

As insurers withdraw from some of their geographical markets and scale back particular lines of business, the market shares and opportunities for those that remain will sharply increase, leading to a significant reconfiguration in the list of leading players.

two

The end of innocence for retail investors:

What customers demand from savings and investment products and how they want to buy them will take a new direction within many territories; with companies that are slow to catch on becoming increasingly irrelevant.

three

Reawakening of M&A:

The strong underlying rationale for consolidation and restructuring within many markets means that acquisition activity is set to accelerate rapidly once valuation parameters are stabilized and funding becomes more readily available again.

four

Another rethink on reporting:

Without an industry consensus on a genuinely relevant, intelligible and comparable basis of accounting and disclosure, insurers will find it increasingly difficult to compete for capital.

five

Blurring the lines:

The relationship between the public and private sector will change as governments exert a stronger influence over the insurance market as a result of bailouts, regulatory reform and greater control over pensions and health care.

six

Overhaul of rewards:

Insurers will base much more of their performance-related pay on risk-adjusted measures, aligned to their business strategy. They will also face tougher regulation over how compensation is governed.

seven

Mounting uncertainty over tax:

Amid moves to increase tax revenues and tighten the tax rules on offshore business, the stability of the tax regime will be a key consideration in possible relocation, as will choosing where to domicile and where to do business.

eight

Challenging prospects for reinsurers:

While demand for reinsurance is likely to increase within emerging markets, this is unlikely to offset the decline in reinsurance buying in developed markets and may force many reinsurers to rethink how they sustain profitability and growth.

nine

Tilting the regulatory playing field:

Under pressure from governments, supervision will be more intense and regulations will be more subject to national priorities in their interpretation and application.



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