Caribbean Insurance CEO Survey

Battling headwinds in pursuit of growth

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What are CEOs saying about the future?

Our first biennial survey of CEOs of leading insurance companies across the Caribbean[1] has provided unique insight into this domestic insurance market[2]. These companies operate from one or several Caribbean islands. The Caribbean has great economic potential and growth opportunities. However, it remains vulnerable to climate change, natural disasters[3], disparate regulatory regimes and global protectionism. It is this tension that reflects the qualified optimism that CEOs feel about the growth of their businesses in the region. There is consistency between how Caribbean and Global insurance CEOs view threats and opportunities but also some signs that organisational evolution in the areas of digital transformation and customer centricity may need to catch up in the region. In other areas, there are clear signs of leadership and innovation. The Caribbean Catastrophe Risk Insurance Facility, the first global pooling mechanism to provide affordable natural catastrophe insurance coverage, is one example.

So what are CEOs saying about the future? PwC's Caribbean Insurance CEO Survey addresses that question and many others. This survey drills down in the areas of digital and customer centricity - two areas that CEOs identified as being the leading platforms for growth.

[1]For the purpose of this survey the Caribbean includes Bahamas, Barbados, Bermuda, Cayman, Jamaica and Trinidad and Tobago.

[2]For the purposes of this survey, the domestic insurance market comprises companies which provide some or all of the following services to individuals, companies or both: health insurance, life insurance, home and contents insurance, motor and marine insurance, travel insurance, pensions and other retirement and investment services.

[3]The World Bank Group, 2019

Three clear themes emerged:

1. Look inside out for growth

One third of CEOs believe that Caribbean economic growth prospects will improve over the next 12 months with the vast majority seeing no change. Growth prospects also tend to be territory by territory as opposed to being across the board. This makes those companies which have less span across the region more vulnerable to missing out on growth where it is expected to happen. It also points to the power of scale enabling investment into specific markets to happen quickly. Organic growth is the most favoured approach of regional CEOs.

2. Qualified optimism

As they look to the future, CEOs are sharpening their focus on digital and technological capabilities - seen as both a challenge and opportunity. Threats they are most concerned about are pricing and over-regulation. Over 40% of CEOs identified regulation and compliance as a top threat while nearly all said pricing was a major concern.

Strong concerns were also expressed in the areas of the evolving global tax landscape, market saturation, the speed of technological change and changing customer behaviours. Digital and customer centricity are seen as key levers for future growth.

3. A new take on digital and the customer experience

While generational change is still buffeting the insurance industry, CEOs are starting to consider new technologies and changing from product-focused to customer-centric organisations. Relative to other global regions, Caribbean entities appear to be slightly further behind in these areas but are now actively considering how they can form part of their growth strategies.

1

REALITY CHECK:

Look inside out for growth

Growth prospects appear to be patchy across the region and CEOs have identified market saturation as one of their top threats. Wholesale growth, therefore, is unlikely but opportunistic growth in specific markets will reward those with the agility and investment base to capitalise.

1/3

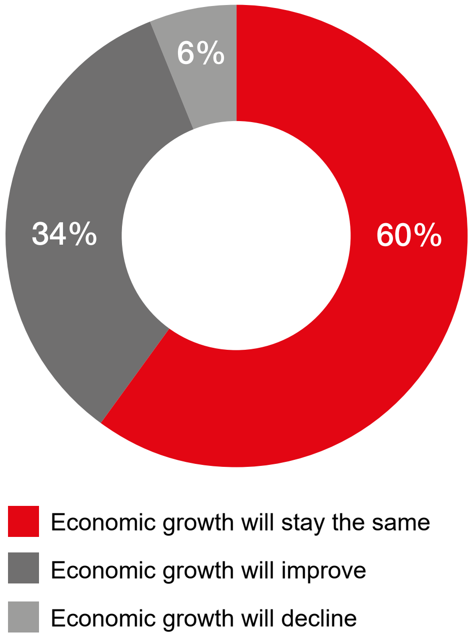
CEOs expecting improved growth prospects

EXHIBIT 1

CEOs are much more confident about growth from their organisation than economic growth across the region.

QUESTION

What is your outlook on economic growth in the Caribbean over the next 12 months?

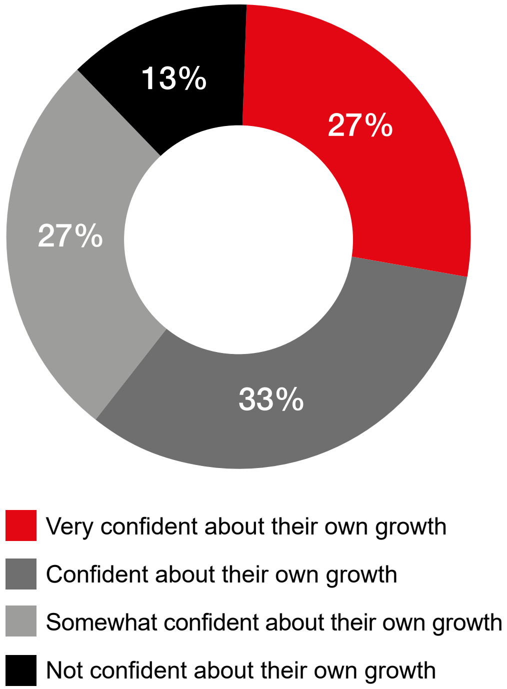


CEOs are measured about economic growth in the Caribbean. Some 60% think things will stay the same while 34% expect that things will improve. By comparison, according to PwC's Global CEO survey 2019, 37% of North American CEOs expect global economic growth will improve over the next 12 months[4]. Monetary and fiscal policy plays out differently across the region but still with the same general result: a relatively qualified economic outlook.

[4]PwC 22nd Annual Global CEO Survey

QUESTION

How confident are you about your organization's prospects for corporate growth or profitability over the next 12 to 24 months?



CEOs were much more confident with their own growth prospects. 60% said that they felt either confident or very confident about their own growth prospects in the next 12 to 24 months. Balancing growth and profitability is no easy task as major changes unsettle an industry that has been used to gradual change. Business as usual approaches are faltering in the face of generational shifts in customer needs, rising capital requirements, new regulatory burdens, low interest rates, disruptive technology, and more aggressive competitors. Many companies aren't getting the results they need from textbook moves, such as fine-tuning marketing programs, updating products, enhancing customer services, and improving information technology systems. Strategic success now requires a structural response, and companies can't adapt to current conditions without modernizing often antiquated structures.

EXHIBIT 2

CEOs anticipate growth or profitability to be derived from three key areas.

QUESTION

Where do you anticipate the growth or profitability to be derived from (select the top three on a scale from 1-3 in order of preference)?

- Organic growth/pricing 67%
- Use of technology 60%
- Geographic expansion 53%
- Cost containment 33%
- Mergers and acquisitions 33%
- New product/line offerings 27%
- Increased investment returns 27%
- New strategic alliance or joint venture 13%

CEOs viewed organic growth and some price hardening as the primary lever for growth and profitability. Technology and geographical expansion also featured strongly. Interestingly product development, the customer and cost containment featured much lower down their list. This is an interesting deviation from global insurance companies who view the following two areas as key for long term growth and profitability:

- Understanding and addressing customers' holistic financial protection needs rather than use the traditional bias just to sell products and services.
- Shifting cost curves to stay ahead is critical, as it's becoming harder and harder to sustain the same returns as in the past, insurers are facing pressure on both sides of the balance sheet.

"Embracing new technologies will remain a key focus in the coming years for our Group, as it is now a central theme within the global insurance community."

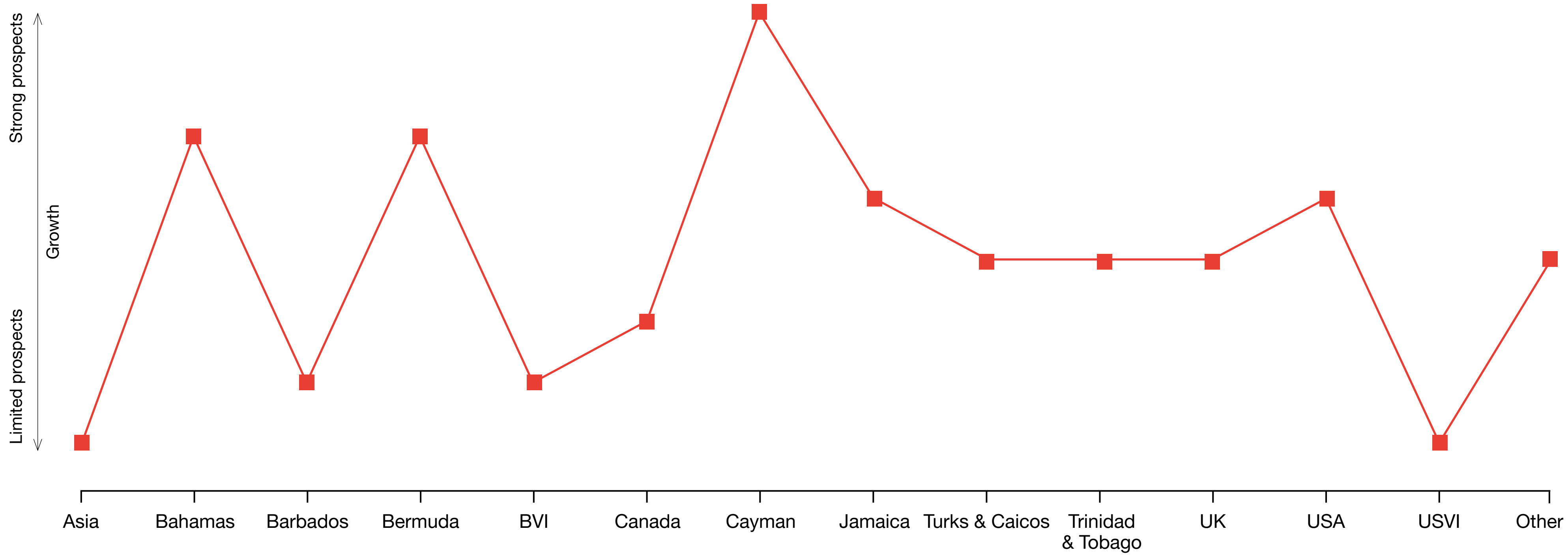
- CEO

EXHIBIT 3

Geographical opportunities are patchy but CEOs do view certain markets as having growth potential.

QUESTION

Which jurisdictions, excluding the jurisdiction in which you are based, do you consider the most important for your organization's overall growth prospects



There is limited interest in growth outside of the region. This might be reflective of CEOs adopting some of the strong nationalist and populist sentiments sweeping the globe. Most likely though, CEOs are keen to concentrate on markets which they are familiar with and have more influence over. Within the region CEOs show quite an appetite for geographical diversification. Some of this results from pre-existing deals activity which includes divestitures of capital-intensive or underperforming businesses with resulting acquisitions from in-region buyers. Much of this reflects a sense that scale provides capital and profitability advantages in a relatively saturated market.

2 THREATS AND OPPORTUNITIES: Qualified optimism

CEOs appear to be relatively unconcerned with some of the broad threats sweeping the planet, such as geopolitical uncertainty, and more focussed on things that are very tangible to their businesses. Regulation proves to be a very thorny issue CEOs have to contend with. Newer challenges and opportunities are manifesting - digital and the customer. CEOs identify that revenue expansion is likely to come from a far deeper response to these areas than others as they shift innovation into the heart of their businesses.

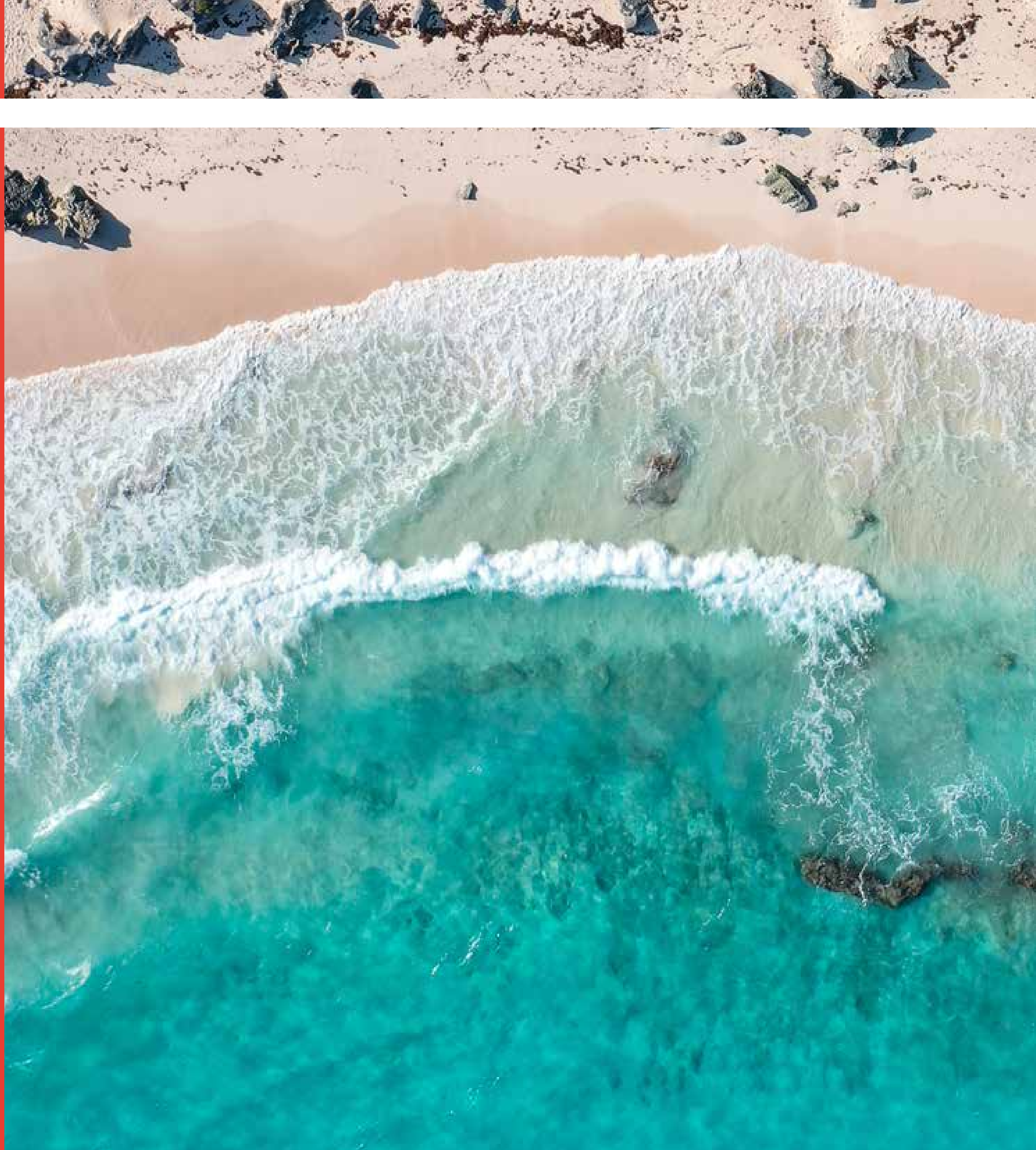
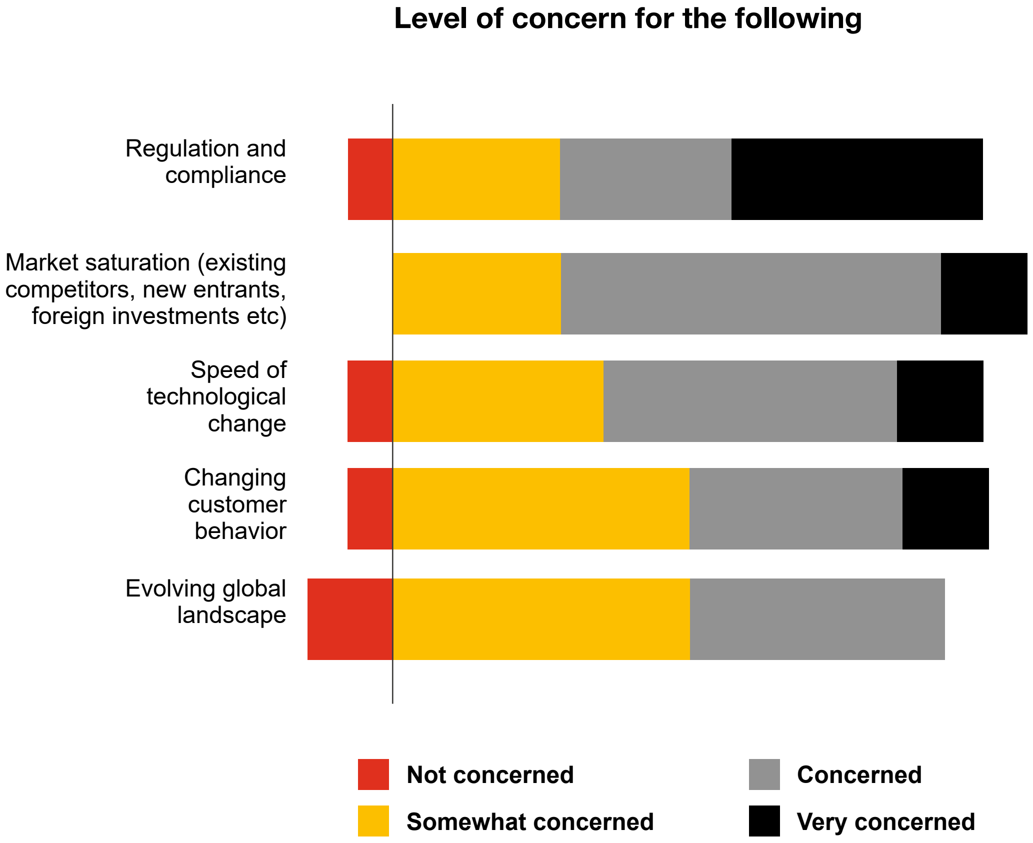


EXHIBIT 4

When it comes to threats executives are most worried about over-regulation.

QUESTION

Considering the following threats to your organization's growth prospects, how concerned are you about the following?



"A fundamental shift in mindset is necessary from compliance as an overhead to compliance as a core-competence. Both insurers and regulators need to make this shift. Innovative uses of new technologies will be critical."

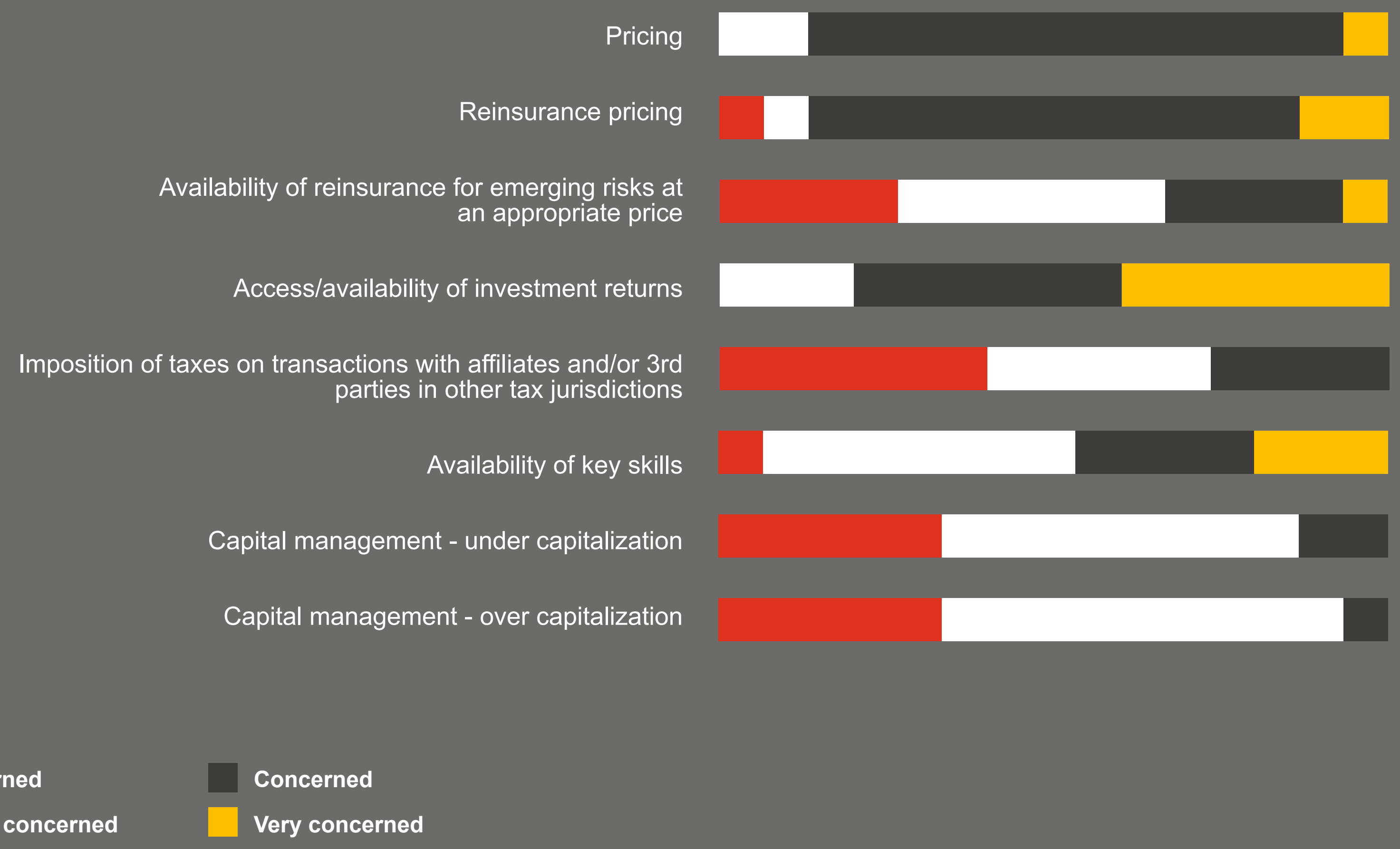
- CEO

EXHIBIT 8

Nearly all respondents identified pricing, both from a retail perspective and from a reinsurance buying perspective as areas to be concerned or very concerned about.

QUESTION

How concerned are you about the following industry threats to your organization's growth/ profitability prospects?



"The spread between what insurers are paying for reinsurance and what they are able to charge their clients is narrowing. That spread compression combined with a low interest rate environment on investments poses great challenges for market participants to generate shareholder value."

- CEO

EXHIBIT 6

Faced with competitive pressures, the ever changing needs of the customer and the fast pace of technological change, CEOs are sharpening their focus on what it will take to win.

60%
Digital and technological capabilities

26%
Customer experience

7%
Human capital

7%
Competitive advantage

QUESTION

Given the business environment you're in, which one of the following do you most want to strengthen in order to capitalize on new opportunities?

CEOs are concentrating on some of their core threats as they think about what will give them an edge. Technological evolution and changes in consumer needs are at the forefront of CEO thinking and now, strategies. Although the current wave of new technology investment is focused first on improving customer experience and reducing costs, it will begin to shift to new business models. Globally the increasing use of sensors, AI and machine learning in combination has affected the practices of loss anticipation and compensation, moving companies 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.

Strategy made real

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.

Another distinct development is how insurers are partnering with technology companies and platform providers to create new value propositions for customers.

strategy&
Part of the PwC network

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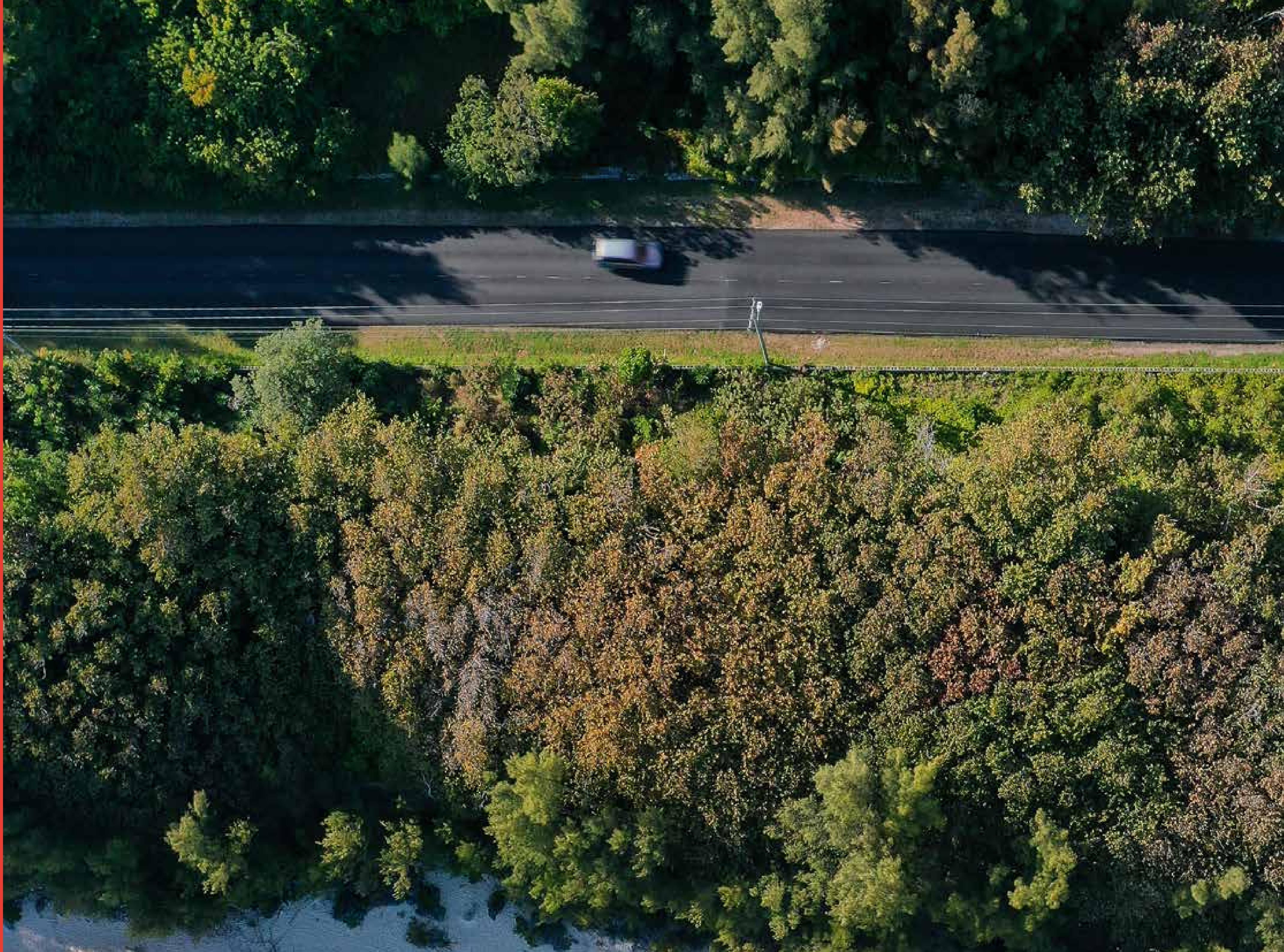


3

STRATEGIES FOR GROWTH

A new take on digital and the customer experience

As CEOs turn to what they can actively control inside their organisations, they confront the threats to their own organisations with capability driven solutions. Over the next five to ten years we predict that insurers will rely far more heavily on emerging technologies such as Artificial Intelligence (AI) to operate their businesses and deliver customer-centric solutions. For now, CEOs are concentrating on speeding up their adoption of technology to improve customer experiences and drive down costs.

The digital journey

As consumers, we know that digital has transformed the way we discover, engage and transact with businesses in every industry. From ordering taxis and takeout on our mobile devices to running our smart homes on voice-command, we expect all of our experiences to be fast and seamless.

Technology for insurers in the Caribbean will need to be adopted on a size and scale basis. It can be daunting for companies in the Caribbean to consider the buzz words of "blockchain", "AI/ artificial intelligence" and "robotics". However, smaller technology solutions can be applied. For instance, millennials are more likely to purchase insurance online than their predecessor generations. Telematics devices can be placed in vehicles to track how much and how well they are driving. Claims settlement can be automated electing for direct deposit payments rather than cheques, claim adjudication can utilize drone technology, and the customer experience can be enhanced by Skype, FaceTime and other real time chat functions.

With a general acceptance that digital is here to stay, most insurers have begun to incorporate digital into their organizations, implementing ad hoc capabilities to make their business faster and cheaper, creating online tools to further engage their distribution channels, and implementing table stakes technology in areas such as marketing, digital portals, customer self-service capabilities, and automation of some back-end processes.

As we move through 2019, digital is continuing to reshape the way leading insurers do business. The ecosystem of available capabilities has grown exponentially.

From our perspective, insurers will take one of two paths

1. Continue as followers, investing in only select digital capabilities that support their existing business model. This is a bottom-up, project-driven approach.
2. Take a digital-first mindset by better understanding the end-to-end customer experience and how business models need to evolve in order to increase growth and reduce costs. This is a top-down transformation.

Six areas to focus on in your digital journey:

- **Changing the playing field: The digital agenda**
- **Building a digital platform**
- **Enabling your digital platform**
- **Key opportunities beyond core transformation**
- **Better know your customers by serving them better**
- **Don't forget about back-end processes**

"Industry leaders are starting to leave behind the "fast-follower" mentality, reallocating their investments into core capabilities that give them a more customer-centric view, as well as ways to differentiate themselves in the market."

- CEO

Changing the playing field: The Digital Agenda

Taking a digital-first approach and synchronizing investments across functions and processes will promote success by enabling a digital strategy that is a "North Star" that guides continuous improvement rather than just a point in time assessment.

The companies that develop a meaningful competitive advantage will design and implement digital platforms that can handle disruption and positively change cost structures. They will:

- Build scalable systems, even for niche offerings,
- Deliver an end-to-end customer experience, and
- Change their business models to foster a test and learn environment that helps them improve how they go to market.

These leaders will be the most likely to quickly adjust and grow as the industry continues to become more digital.

Six aspects of the Digital Agenda:

Reimagine core market & product

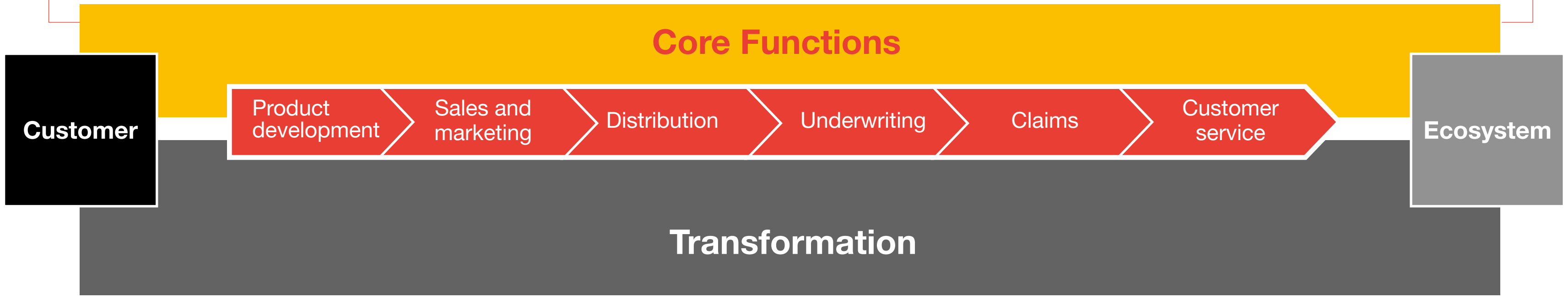
- Reaching the un(der)insured
- Spread of value propositions for microsegments
- Leveraging peer-to-peer networks
- Emerging solutions for shared economies
- Usage & behaviour based personalized insurance

Redesign the customer experience

- New models of holistic advice (robo/bionic)
- SoMoLo (social mobile local) omni-channel experience
- Online aggregation & comparison
- Targeted engagement & retention models
- Consolidation of self-directed services
- Education & shared knowledge

Redraw organizational boundaries

- Rise of B2B2C[6] platforms
- Ecosystem partnerships
- Frictionless capital flows across the value chain



Continuously reinvent use of data & analytics

- Connected car and automated driving systems
- Connected health
- Remote data capture & analysis
- Quantification of emerging risks

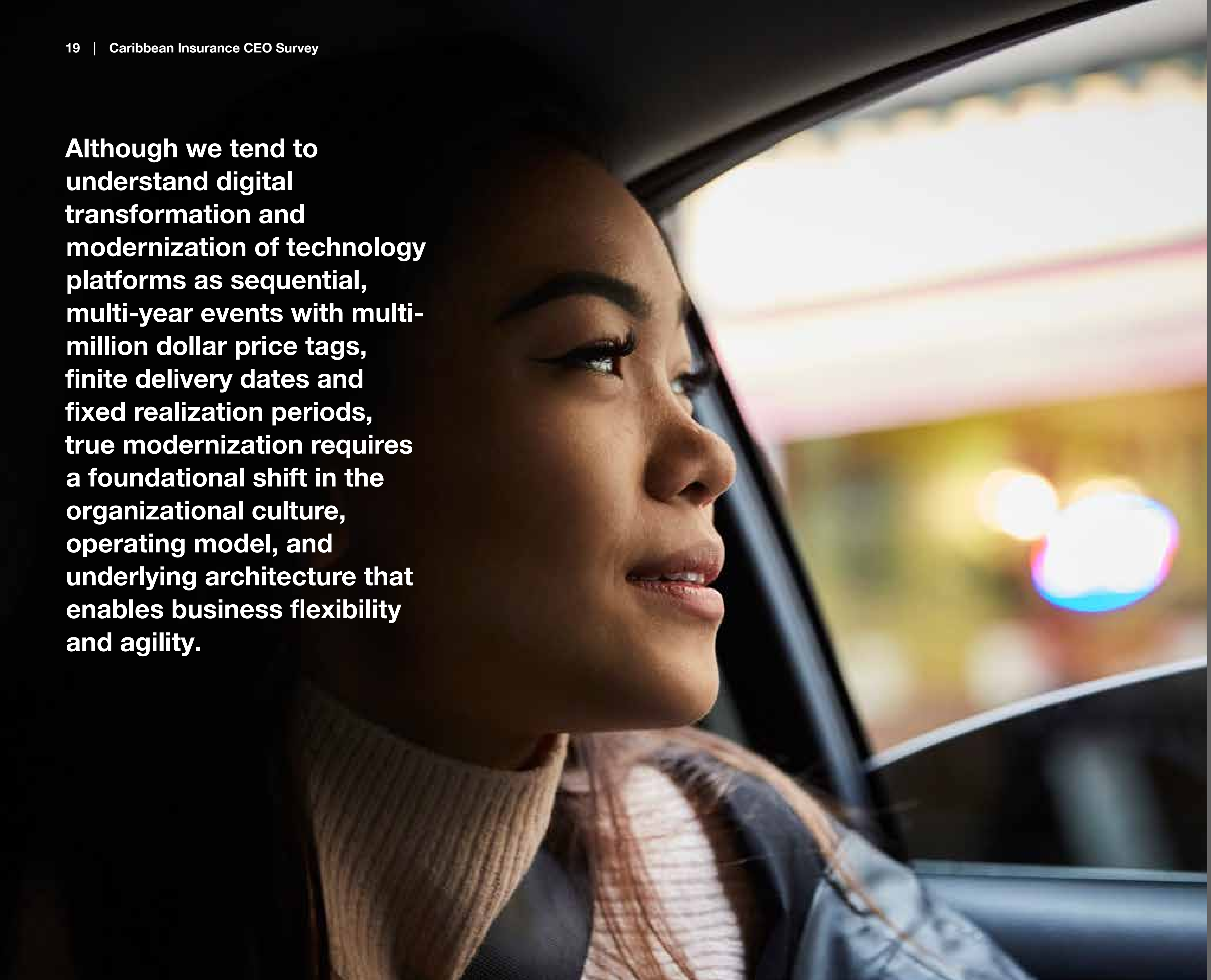
Redefine the risk profile

- Sophistication of preventive insurance models
- Shift from probabilistic to deterministic model
- Granular risk and/or loss quantification
- Pay-when-you-need service

Reconstruct operating model & expense structure

- Crowdsourcing & democratization of information
- Robotics and automation in core insurance
- As-a-service solutions for core insurance
- Advanced fraud prediction

[6]Business to business to consumer (B2B2C) is an e-commerce model that combines business to business (B2B) and business to consumer (B2C) for a complete service transaction.



Although we tend to understand digital transformation and modernization of technology platforms as sequential, multi-year events with multi-million dollar price tags, finite delivery dates and fixed realization periods, true modernization requires a foundational shift in the organizational culture, operating model, and underlying architecture that enables business flexibility and agility.

Building a digital platform

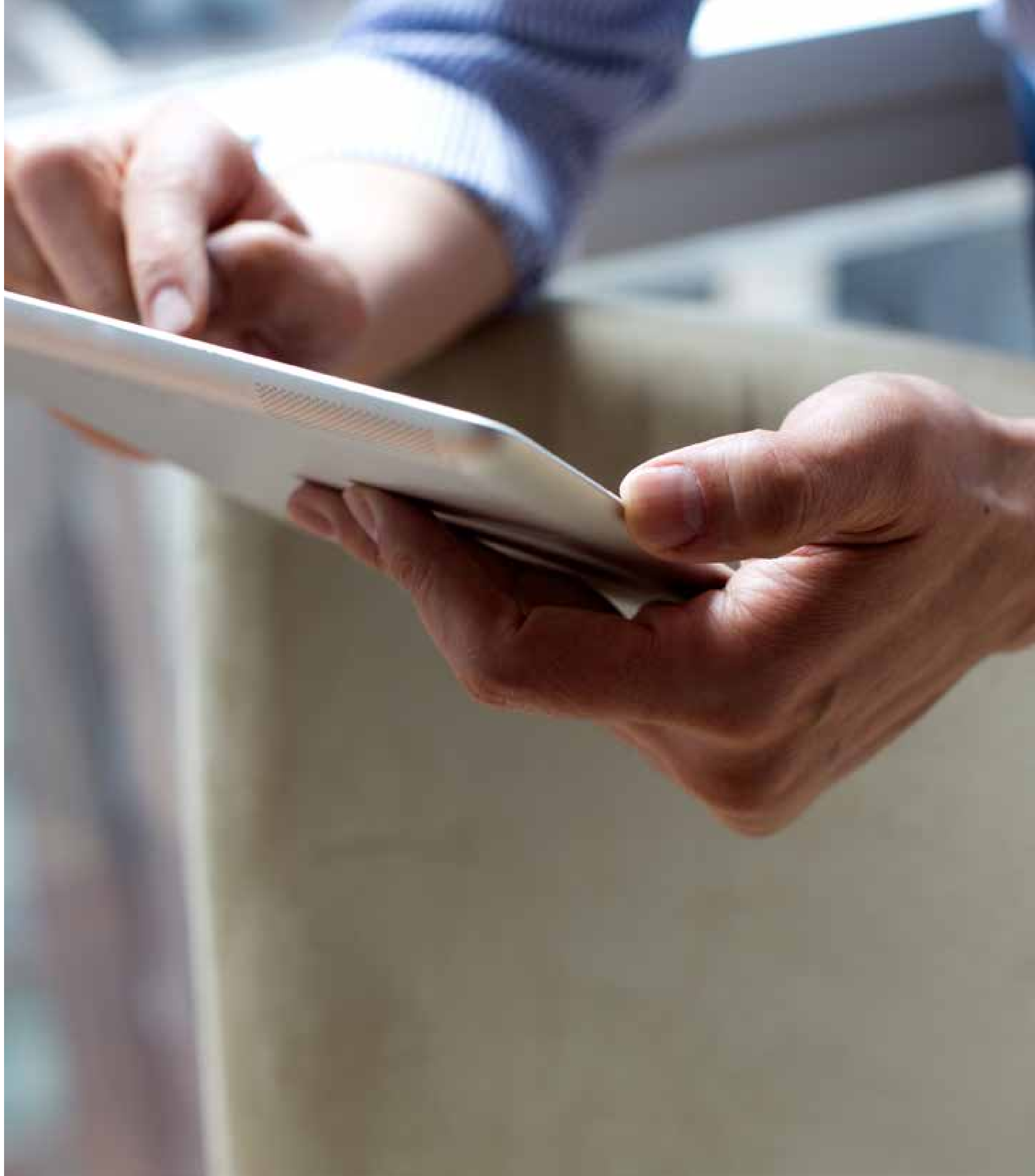
Building a digital platform that will take your company into the future – not just respond to current needs – is critical to prolonged success.

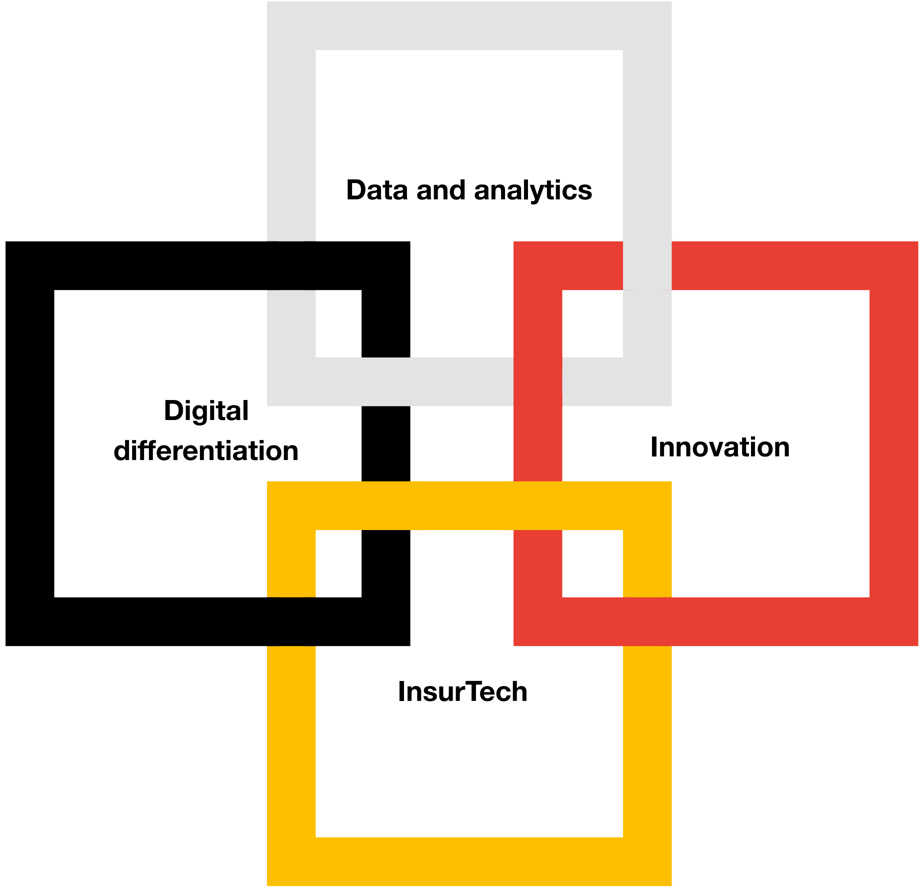
Insurers are currently enabling access to data across various domains and dimensions, but the companies going the extra mile to design a futuristic platform architecture are the most likely to benefit in the long term.

Enabling your digital platform

Gone are the days of a simple buy/build/rent conversation where companies could seek to house all capabilities within their own walls. Technology is revolutionizing the way insurance is bought and sold. The rise of flexible, digital B2B2C platforms is giving rise to faster, better, and previously unconsidered partnerships.

Global industry leaders are identifying how they can extract value from partnerships in all areas of their organization, whether by providing newer customer engagement models, adding revenue streams, or reducing cost structures, all while building digital ecosystems that can easily integrate with these strategic partners. These partnerships are enabling companies to respond more nimbly to changes in market trends, consumer expectations and nascent technology, creating frictionless capital flows across the value chain.





Key opportunities beyond core transformation

Regardless of where you are on your core transformation journey, there are several opportunities that you can leverage to unlock the full potential of your transformation.

Digital differentiation:

Putting the customer at the center of the business is a driving success factor for any core transformation effort. With the maturation of customer portals and digital platforms, insurers can now focus on customizing the digital layer while retaining the back-end core systems as “out of the box” as possible.

Data and analytics:

As the volume of data has grown, insurers have implemented new big data technologies and reporting structures. The challenge remains to translate data into insight, and we have seen **an emerging trend of establishing a chief digital officer** and corresponding analytics business units that can span across the various data silos and business units.

Innovation:

Within the context of innovation, a significant majority of global carriers dedicate **one to five percent of their IT budgets to research and development (R&D).** We believe carriers should pursue a two-pronged approach to innovation that leverages both internally generated innovation as well as strategic partnering with emerging InsurTech companies.

InsurTech:

Carriers should think beyond their internal businesses to identify and collaborate with an increasingly robust InsurTech community of start-ups. This will allow carriers to **implement innovative technologies through a combination of partnering strategies**

Better know your customers by serving them better

While many insurers have been actively investing in customer facing digital capabilities for the past several years, the industry as a whole is not yet fully realizing customer and economic value. As insurers continue to respond to constantly evolving customer expectations, a holistic, data-driven approach that drives a detailed understanding of the customer and the contribution of digital initiatives to actual business value will be critical to meaningful ROI.

Developing a detailed understanding of customers and their end-to-end journeys is necessary to improve customer value. Knowing your customers – not just as segments but individuals – will help you pinpoint opportunities and effectively optimize their experience across all channels and throughout their lifetimes. Tying these digital initiatives to measurable business value from the beginning is critical to justifying the case for investment and creating a framework for measuring the effectiveness and impact of various initiatives.

With a strong, flexible framework in place, companies will be able to re-focus time and money into revenue-driving capabilities like external partnerships, invest in data-driven digital capabilities to improve customer value, and build back-end processes to support platform scalability.

Don't forget about back-end processes

All the recent hype about InsurTech and customer interactions has shifted attention away from digital considerations beyond technology and customer experience. However, leading companies' back-end processes will support a digital environment. In a rapidly advancing industry, the companies out in front are transforming their processes to automate repetitive, business rule-driven work; this is rapidly reducing costs, improving controls, enhancing quality, enabling scalability, and facilitating effective 24/7 service.

Future profitability and ROI hinge on being extremely responsive to business and market conditions and making business processes digital. The market leaders of the future will have fully digitally enabled operating models that feature a low cost profile, increase automation and efficiencies, offer an easy end-user experience. All of this will help them accelerate innovation and invent the future of insurance instead of just reacting to it.

4

ROADMAP FOR THE FUTURE

What lies ahead

The world of insurance has already become digital. Whether you are a personal lines insurer assessing digital sales and service platforms or a life insurer trying to understand interactions with your end consumers, most of the industry has adopted digital agendas and many companies are seriously trying to become digital-first organizations. Current frontrunners are redirecting their roadmaps and investments to high priority business areas to differentiate them in the market.

Most of the global insurance industry has adopted digital agendas and many companies are seriously trying to become digital-first organizations.

- Industry leaders are starting to leave behind the “follower” mentality, reallocating their investments into core capabilities that give them a more customer-centric view, as well as ways to differentiate themselves in the market. Whether you are a “fastfollower” (as opposed to just a follower) or a market innovator, you are likely to share essentially the same approach to establishing an agile organization.
- The companies that develop a meaningful competitive advantage will design and implement digital platforms that can handle disruption. They will build scalable systems, deliver an end-to-end customer experience, and change their business models to foster a test and learn environment that helps them improve how they go to market. These leaders will be the most likely to quickly adjust and grow as the industry continues to become more digital.
- With a strong, flexible framework in place, companies will be able to re-focus time and money into revenue-driving capabilities like external partnerships, invest in data-driven digital capabilities to improve customer value, and build back-end processes to support platform scalability.

Over the next five to ten years, all insurers will be able to take advantage of a broader ecosystem of available tools, leveraging test and learn capabilities that promote innovation in an industry that has not been reinvented for quite some time. Anyone still waiting on the sidelines is in jeopardy of falling so far behind recovery could be extremely difficult.

Survey Methodology

PwC conducted surveys of 15 CEOs between December 2018 and April 2019. With organisations spanning over 20 Caribbean countries our sample was weighted to the largest regional insurance carriers:

- 53% each had annual gross written premium in excess of $100m
- 1/3 were public companies and another 1/3 were subsidiaries of larger conglomerates.

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