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# *Sustaining competitive relevance*
## Insurance industry summary

*Key industry findings from the PwC 15th Annual Global CEO Survey*

This is a summary of the findings in the insurance sector, based on interviews with 121 industry leaders in 42 countries. To explore the full results of the PwC 15th Annual Global CEO Survey, please visit www.pwc.com/ceosurvey

**42**
*countries*

Commitments to doing more business globally are accelerating in 2012 despite economic, regulatory and other uncertainties. CEOs see the fundamentals for future growth still squarely in place.

To understand how businesses are preparing for growth in their priority markets, we surveyed 1,258 CEOs based in 60 different countries and talked to a further 38 CEOs face-to-face for our 15th Annual Global CEO Survey. "Delivering results: Growth and value in a volatile world" explores CEO confidence in prospects, and how they are building local capabilities and creating new networks for new markets.

CEOs are adapting how they go to market, reconfiguring processes, and at times entire operating models. They are also addressing risks that greater integration can amplify and are focused on making talent more strategic to pursue market opportunities.

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"The insurance industry should be proud of the way it has dealt with the financial crisis and responded to a number of major recent catastrophes around the world,' said David Law, Global Insurance Leader at PwC. 'Yet, few insurers have been able to demonstrate the value they can bring to a changing world in areas ranging from providing effective support for an ageing population to understanding and managing the implications of a more volatile climate. So in addition to grappling with the current economic turmoil, it's vital that CEOs develop and communicate a clear vision of the future of insurance and the value their businesses will deliver to customers and stakeholders."

## *Introduction*

As the findings of our latest CEO survey highlight, dealing with the immediate pressures of market volatility and regulatory upheaval has left little space on boardroom agendas to think about how to sustain competitive relevance in the years ahead.

Insurers that can manage their way through the current turmoil, while still anticipating and planning for change, will be able to take advantage of the opportunities opening up in a fast-evolving competitive landscape. The businesses that are set to come out on top are already looking at how to develop the innovative solutions needed to help people manage an increasingly complex and uncertain environment, in which natural catastrophes are becoming more common. They are also looking at how to develop the trusted, affordable and understandable products that would provide effective support for a rapidly ageing global population. An equally important differentiator is being able to market and sell these products in a way that satisfies the demands of increasingly informed, empowered and technologically-enabled consumers.

Businesses that get this right have an opportunity to transform the way they are valued by policyholders and investors, which will be reflected in stronger brand loyalty and higher share values. The industry as a whole will also be able to reaffirm the vital importance of insurance to the social and economic fabric of modern life, leading to stronger political support at a time when governments are playing an increasingly active role in the economy. In contrast, businesses that are unable to prepare for the future could soon find themselves on the back foot competitively and struggle to secure sufficient capital.

60% believe that the crisis [in Europe] has had a significant impact on their finances and say it has triggered changes to their strategy, risk management or operational planning as a result.

**60%**

## *Tough conditions set to continue*

Insurance CEOs are encouragingly optimistic about their future prospects: 90% are confident about improving their company's revenues over the next 12 months and 95% about doing so over the next three years. This makes them among the most upbeat business leaders in our entire survey.

However, insurance CEOs are clear about the immediate challenges they face. They see the greatest threat to growth in the short-term as economic uncertainty (see Figure 1). "Uncertainty is a killer from a business-planning point of view," says Brian Duperreault, President and Chief Executive Officer of Marsh & McLennan Companies Inc. The one event that is dominating the horizon is the ongoing sovereign debt crisis in Europe. Around 60% believe that the crisis has had a significant impact on their finances and say it has triggered changes to their strategy, risk management or operational planning as a result. While the Eurozone states have been at the centre of the storm, our survey confirms that the impact on insurers' strategies and finances is being felt around the globe. "Significantly, with the Euro crisis, we have seen the market's confidence in the ability of policymakers to make the right decisions decrease," says Tidjane Thiam, Group Chief Executive of Prudential PLC.

The businesses that are set to come out on top are already looking at how to develop the innovative solutions needed to help people manage an increasingly complex and uncertain environment.

Nearly half of insurance CEOs believe that the economy will continue to get worse over the next 12 months. Only 12% expect it to improve – one of the most pessimistic outlooks in the survey. Martin Senn, Chief Executive Officer of the Zurich Financial Services Group (ZFS), sees a 'challenging environment' ahead: "In our base scenario, we project that activity in developed countries will be below potential for several years to come. Growth in emerging markets is also likely to level off somewhat from current levels though we anticipate it will remain comparatively robust. We expect that interest rates are going to be low for quite some time; inflation will be low; and volatility in financial markets will be high. So it will be a challenging environment."

Insurance CEOs see the second biggest threat to growth as over-regulation. Clearly, many insurers are facing a huge workload in the lead up to Solvency II. The changing capital demands are also going to be a key factor in determining business plans for the future and providing further impetus to the continuing overhaul of risk and capital management. About three-quarters of insurance CEOs anticipate at least some further change in the way they manage risk over the next 12 months and nearly 40% are planning to modify their capital structure.

**Figure 1: Threats to growth**

Q: How concerned are you about the following potential economic and policy threats to your business growth prospects?

| Respondents who stated 'extremely' or 'somewhat concerned' | Insurance (%) |
|---|---|
| Uncertain or volatile economic growth | 79 |
| Over-regulation | 72 |
| Lack of stability in capital markets | 65 |
| Government responses to fiscal deficit and debt burden | 60 |
| Inflation | 47 |
| Exchange rate volatility | 44 |
| Bribery and corruption | 36 |
| Protectionist tendencies of national governments | 36 |

Base: Insurance CEOs (121)
Source: Insurance CEOs taking part in the PwC 15th Annual Global CEO Survey

> ***"Insurance companies have a different business model to banks, so they need to be regulated differently. There should not be regulatory overspill from banking into insurance."***
>
> **Martin Senn**
> ZFS

Yet despite the potential upheaval, the CEOs we spoke to are convinced that the risk-based approach will provide long-term benefits for the industry. Of greater concern is the possibility that the fallout from the financial crisis will spur some regulators to apply excessive and inappropriate controls on insurers. "I completely recognise that there are inadequacies and they need to be addressed, but going from there to blanket regulation is a concern for us. We are an industry based on trust and we couldn't operate without regulation that the customer can believe in but, that said, we could reach a point where regulation becomes excessive and counterproductive," explains Tidjane Thiam of Prudential PLC. "Insurance companies have a different business model to banks, so they need to be regulated differently. There should not be regulatory overspill from banking into insurance. We think that a company like Zurich, which is a pure insurance company, does not pose any systemic risk. Many regulators accept this, but with some the discussion is still ongoing," says Martin Senn of ZFS.

## *Uncertainty is holding back growth*

The extent to which immediate concerns about over-regulation and the economic outlook are holding back investment and business development within the insurance sector is evident in our survey. It is notable in particular that only 15% of participants are planning to carry out a cross-border acquisition in the coming year. Apparently, uncertainty over capital demands and valuations is making many organisations reluctant to commit to anything more than limited bolt-on deals.

Our survey also underlines the extent to which investment and growth in developed and emerging economies are moving at different speeds. "When we look at the developed world in these uncertain times, a slow growth environment is what most companies will have to learn to manage," Daniel S. Glaser, Group President and Chief Operating Officer of Marsh & McLennan Companies Inc. comments.

"Now, in the emerging world, it's important that no one takes a one size fits all strategy. We need to invest where there is growth and not hold the emerging world back because of the uncertainty in the developed world."

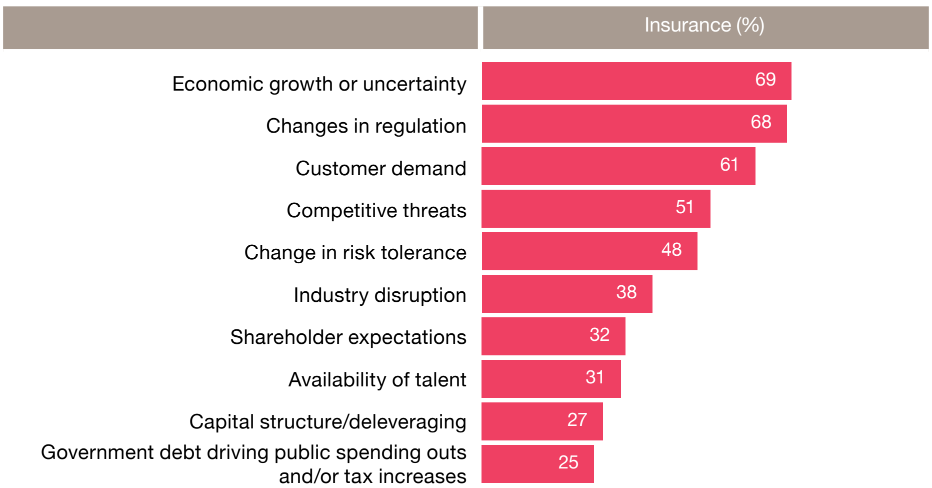
This disparity is reflected in the main targets for growth in our survey. Nearly half of insurance CEOs see emerging markets as more important than developed markets to their company's future. More than 80% of insurance CEOs expect to build up their operations in East Asia, South-East Asia, Africa and Latin America over the next 12 months, compared to less than 40% in Western Europe. Describing the potential for further insurance market growth and penetration in Asia, Tidjane Thiam of Prudential PLC, says: "Then you get Asia where it's a young industry, a young story. It's much more about penetration than about the macroeconomic context and that's why we've been able to grow through the current difficulties because we're really riding two waves: the GDP growth wave; and then the wave of increasing market penetration."

## *Risk of standing still*

Insurance CEOs recognise the risk of standing still: 70% plan to change their strategy over the next 12 months, some quite significantly. Yet, as Figure 2 highlights, most are responding to the immediate challenges of regulation, economic instability and pressure on consumer spending as a priority before looking at how to prepare their businesses for the medium and longer term developments ahead. It is especially noticeable that shifts in government policy and shareholder expectations, which are set to have a decisive impact on profitability and growth in the sector, are cited as a driver for strategic change by less than a third of sector CEOs. This encapsulates the overriding challenge facing all insurance CEOs at this unprecedented time. While the hugely disruptive regulatory and market demands they currently face appear all-consuming, they cannot afford to lose sight of the opportunities to provide solutions to some of the key global issues over the next decade and beyond.

**Figure 2: Factors spurring a change of strategy**

Q: Which of the following factors influence your anticipated need to change strategy?




Base: Insurance CEOs (84)
Source: Insurance CEOs taking part in the PwC 15th Annual Global CEO Survey

While the hugely disruptive regulatory and market demands they currently face appear all-consuming, they cannot afford to lose sight of the opportunities to provide solutions to some of the key global issues over the next decade and beyond.

The forces shaping the future of the sector include the shift in the focus of global growth towards the emerging markets and more government control over how insurers operate and direct investment. Insurers also have to contend with more volatile and uncertain climatic, geophysical and geopolitical environments.

Insurance itself is changing. Power is already passing from intermediary to consumer in many personal line markets and has the potential to do so in others. Adoption of social media is creating broader networks of like-minded affinity groups. These trends could have deep implications for the design, marketing, pricing and servicing of insurance. In turn, technological developments are enhancing risk insight and will lead to changes in how insurers make decisions and manage both their clients' exposures and their own.

The key considerations for insurance CEOs are: will their business and operating model still be viable in this rapidly changing landscape and how should they respond?

## *Missing an opportunity*

Another area of opportunity and threat highlighted in our CEO survey is environmental risk. Continued increases in climatic volatility will affect claims and losses for insurers on the one side. On the other, environmental risk represents a valuable opportunity to help clients manage their exposures more effectively, using developments in environmental research and risk analytics to develop innovative and cost-effective solutions. Given the scale of the issue, it's therefore, perhaps, surprising that only about 10% of insurance CEOs are planning to significantly step up investment in addressing the impact of climate change.

## *Growing government influence*

Our survey highlights concerns among insurance CEOs about governments' longer term response to the financial crisis. They're less likely than, CEOs in almost any other sector to believe in the possibility of closer international regulatory and tax policy harmonisation (see Figure 3). While around a half of insurance CEOs believe that the world will be more open to cross-border capital flows, more than a third are concerned about the protectionist tendencies of national governments.

As insurers look to influence government policy and regulatory developments, it will be crucial to think about how to strengthen public trust. It's notable that CEOs in Japan and Australia are among the most positive in our survey, despite

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**Tidjane Thiam**
Prudential PLC

**Figure 3: Changing dynamics of the world economy**

Q: How strongly do you agree or disagree with the following statements regarding the changing dynamics of the world economy?

| Respondents who stated 'agree' or 'agree strongly' | Global (%) | Insurance (%) | All FS (%) |
|---|---|---|---|
| New financial and/ or product regulations will largely be harmonised because of cooperation among governments | 31 | 28 | 35 |
| Tax policies and rates will increasingly converge among nations | 36 | 30 | 37 |
| The world will be more open to free international trade and capital flows | 45 | 43 | 41 |
| The world will be more open to the movement of labour | 44 | 48 | 45 |
| The world will be more open to cross-border capital flows | 56 | 52 | 56 |
| Emerging markets are more important to my company's future than developed markets | 59 | 48 | 53 |
| The government in the country in which you are based has handled the implications of the global economic crisis effectively to date. | 44 | 44 | 50 |

Base: All respondents (Global, 1258; Insurance, 121; All FS 369)
Source: PwC 15th Annual Global CEO Survey

*'You need an environment that's open and transparent, where it's safe to speak up and give your views, because there will be no innovation without some element of dissent. Innovation really starts with, "Why do we do it that way?"'*

**Daniel S.Glaser**
Marsh & Mclennan Companies Inc

the losses they've faced over the past year, having underlined their critical importance to society in the aftermath of the earthquake and floods. But, our survey reveals that rebuilding public trust is surprisingly low down the list of insurance CEO priorities in 2012. Only 15% are planning to make significant changes in this area.

Protectionism could also have an important influence on how insurers develop their businesses. Such curbs could reinforce the importance of partnership as a viable and cost-effective route to market. 45% of insurance CEOs are looking to enter into a strategic alliance or joint venture over the coming 12 months. Developed markets are likely to remain relatively open to foreign investment. As emerging-market insurers become more powerful and seek to extend their global reach, many of their developed-market counterparts could eventually find themselves targeted for takeover or under threat on their home turf.

Strategic partnership will also be important in extending coverage and providing access to customers. Tidjane Thiam of Prudential PLC points to the importance of local partners. "We have Standard Chartered, which is the dream partner in the region, and we've added another great partner in the region, UOB. We're very happy with that because we think that having regional partners is the best way to go," he says. Tidjane Thiam also emphasises the importance of flexibility and cultural understanding in adapting strategies to local markets. "You need to understand each part of the world, how things work, and accept that they will work differently for all these neighbours."

## *Pressure from new entrants*

Populations are ageing, not only in Europe and North America, but also in Asia. The opportunities for life insurers created by the growing demand for retirement products have long been clear and are likely to be reinforced by the cuts in welfare spending necessitated by the fiscal crisis. Yet insurers will face intense competition from banks, asset and wealth managers, as well as retailers and other new entrants looking to use their status as trusted brands to move into this hugely valuable market. Building on the growth of comparison sites, internet providers and virtual communities could also step in to take control over the customer relationship. Nonetheless, only about a third of insurance CEOs express concern about new market entrants.

The losses emanating from the financial crisis have eroded public faith in retirement plans. The internet and social media are making it easier to rate and compare value. Regulatory developments such as the Retail Distribution Review in the UK are adding to the need for greater transparency over charges and performance. The issue of trust mentioned earlier is clearly going to be important in strengthening the brand and attracting and retaining policyholders.

Many consumers are also looking for relatively simple, transparent and understandable products. The indications from our survey are certainly encouraging in this area. More than three-quarters of insurance CEOs are planning to invest more in new product development, a significantly higher proportion than in banking or asset management.

## *The right people in the right place*

The quality and availability of key talent are crucial to survival and success in this fast-moving marketplace. As regulatory pressures mount, many CEOs are reporting shortages in actuarial and compliance professionals. Looking ahead, effective talent strategies will allow insurers to seek out fresh sources of value and capitalise on opportunities that competitors without the right people may miss or be unable to exploit.

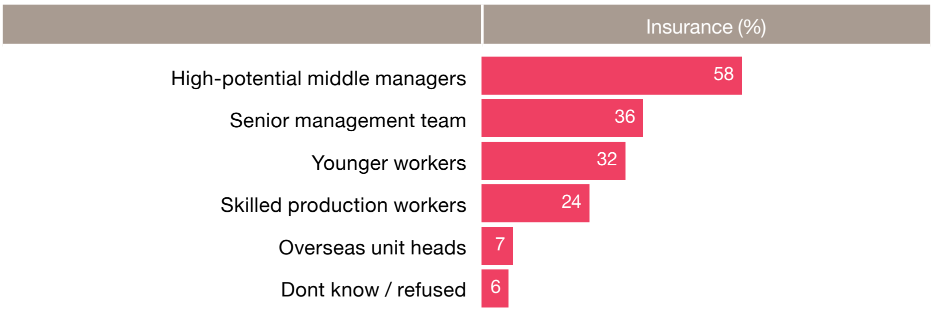
Martin Senn of ZFS stresses the particular importance of an agile mind and global perspective in today's changing environment. "I look for globally-minded people with the capacity to anticipate change and the flexibility to accept it," he says. As innovation becomes ever more vital, Daniel S. Glaser of Marsh & McLennan Companies Inc. emphasises the importance of creating the right climate: "You need an environment that's open and transparent, where it's safe to speak up and give your views, because there will be no innovation without some element of dissent. Innovation really starts with, 'Why do we do it that way?'"

Nearly 60% of insurance CEOs see shortages of skills as a significant threat to growth, much higher than other financial sectors.

**60%**

**Figure 4: Talent gaps**

Q: With which of the following groups do you currently face the greatest challenge with regard to recruitment and retention?




Base: Insurance CEOs (121)
Source: Insurance CEOs taking part in the PwC 15th Annual Global CEO Survey

The problem insurers face is a growing gulf between their business objectives and the availability of talent to meet them. Nearly 60% of insurance CEOs see shortages of skills as a significant threat to growth, much higher than other financial sectors. Some 30% have been unable to pursue a market opportunity or have had to cancel or delay a key strategic initiative as a result of these talent constraints. With market openings being so thin on the ground and the competition to capitalise on them so fierce, these talent constraints are potentially holding many businesses back.

As our survey further highlights, the talent gap is set to grow as demand continues to outstrip supply. Nearly 50% of insurance CEOs believe it's getting harder to hire good people in their industry. Only 10% think it's going to get easier. As Figure 4 shows, it's the high-potential middle managers capable of taking the business forward who are in especially short supply.

Difficulties in attracting and retaining talent are leading to pay inflation within many businesses, with more than 50% of insurance CEOs saying that pay costs have risen more than expected. As costs come under ever greater pressure, continuing increases in payroll expenses could soon become unsustainable.

Particular pressure on talent is being felt in the emerging markets, where suitably qualified and experienced people are already in short supply. As these markets expand and become more crucial to industry growth, this squeeze on available talent will only intensify. "Recognising that the world is somewhat split down the middle between slow growth and rapid growth, you'd better be able to operate in both at the same time. You have to manage that difficult slow growth and then completely switch gears and go to high growth. You have to find ways of moving your resources – and for us it's talent – from where it's not being utilised to where it can be utilised," says Brian Duperreault of Marsh & McLennan Companies Inc.

Many participants recognise the need to explore less expensive and more sustainable ways to manage talent. More than 80% of insurance CEOs anticipate at least some modification in their talent strategy, with nearly 20% planning major changes. Yet most participants accept that they lack sufficient information in key areas such as cost, productivity and talent mapping, analysis that will be crucial in developing and implementing a durable and proactive strategic workforce plan.

## *Getting the message across*

Share prices across the insurance sector continue to be disappointing. While this is primarily a response to economic uncertainty, the fact that many insurers' share values are trailing those of banking counterparts suggests that other factors are at play. In particular, confusing reporting is making it difficult for analysts and investors to judge strategy and discern the true value being created within many insurance businesses.

However, only 9% of insurance CEOs want to spend more time communicating with shareholders, despite this pressure on share prices and volatility in the capital markets. This could be due to the uncertainty created by Solvency II or the continued delay in the global insurance reporting standard. Nonetheless there is a pressing need to develop a clear strategy for getting the company's message across and marking it out from its peers. Otherwise its share price will be inexorably tied to what is set to be weak market confidence for some time to come.

So what is the answer? The search for a 'magic metric' for insurance reporting has so far proved unsuccessful. In the short-term at least, moving to a 'dashboard' of financial metrics built around the measures used to run the business and those which drive analyst valuations may be a more viable way to communicate the key drivers of shareholder value.

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>
> **Brian Duperreault**
> Marsh & McLennan Companies Inc.

## *What's next?*

While most insurers are finding it difficult to look beyond the current market and regulatory upheaval, their survival and success also depend on being able to deal with the longer-term trends that are transforming the sector. Many businesses will be unrecognisable by the end of the decade and the list of market leaders could be very different as smart and agile players leapfrog slower moving competitors.

To help you judge the impact on your business, our latest research groups the main drivers of change and resulting strategic implications into a series of social, technological, economic, environmental and political (STEEP)dynamics[1]:

**Social:** The balance of power shifting towards customers

**Technological:** Advances in software and hardware that transform 'big data' into actionable insights

**Environmental:** The rise of more sophisticated risk models and risk transfer to address the increasing severity and frequency of catastrophic events

**Economic:** The rise of economic and political power in emerging markets

**Political:** Harmonisation, standardisation and globalisation of the insurance market

Drawing on the findings in our CEO survey, we believe there are a number of key questions that insurance CEOs will need to answer if they're going to turn these drivers of change to their advantage and emerge as leaders in this transformed marketplace:

What are the strengths within your business that would allow you to establish a leading position in this evolving landscape?

How can you communicate a clear and compelling strategic rationale to your investors and your people?

How can you sharpen the value and differentiation of your business by using developments in risk analytics to help clients manage the impact of emerging risk trends?

How can you strengthen confidence in your retirement products by making them more transparent and understandable?

How can you make sure your marketing, product design and fee structures keep pace with the changes in consumer expectations and distribution?

1 PwC Insurance 2020: Turning change into opportunity', January 2012

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