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The Future of Insurance Starts Here

Strategic Priorities 2021: The Insurance Industry Shift Hits Hyper-Acceleration for Digital Business Models

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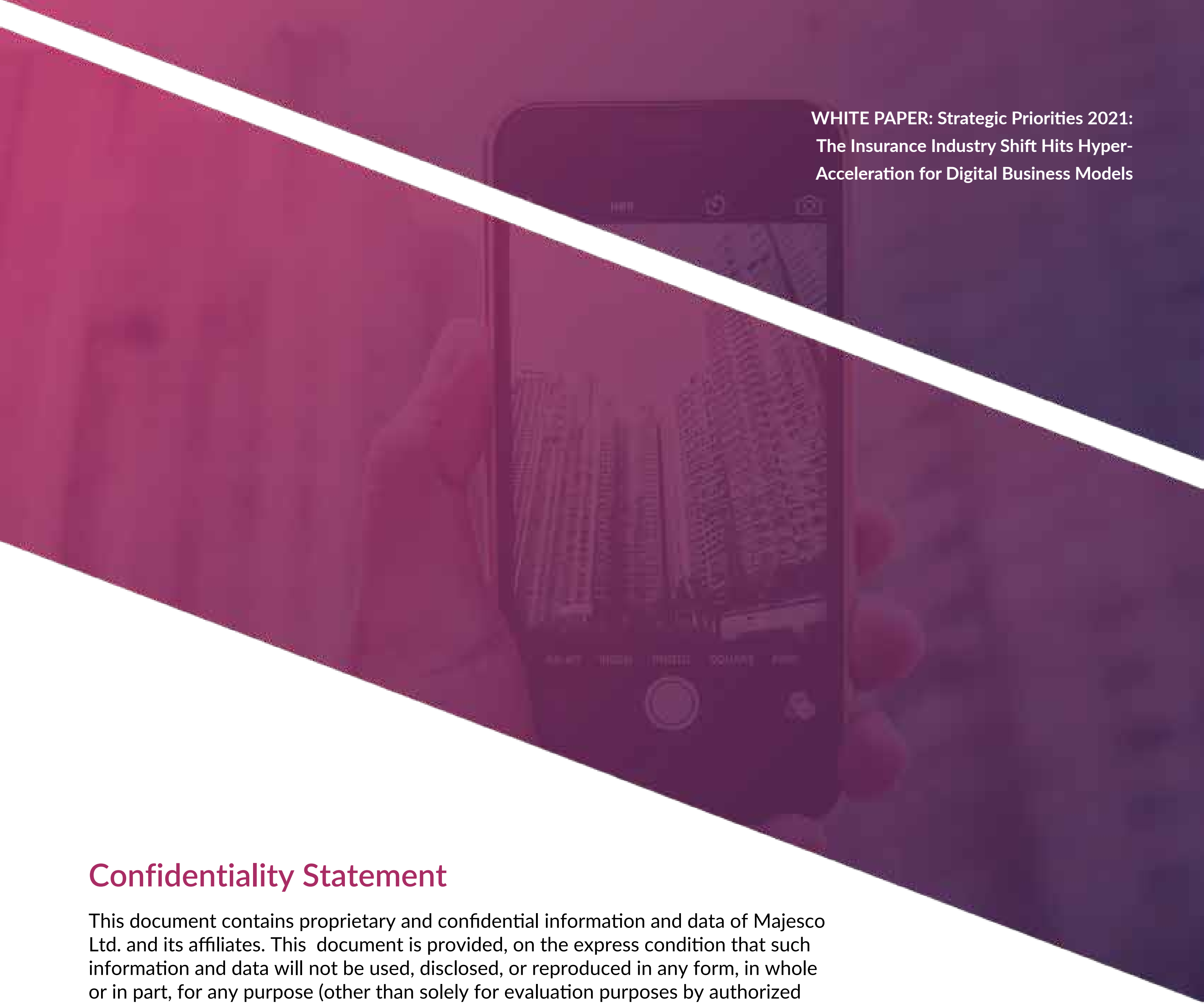

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Strategic Priorities: Insurance Transformation Gains Momentum

Executive Summary

"As COVID hit, insurance strategies, priorities and plans all took on a new view, a new focus and in many cases a new urgency – through the eyes of digital engagement, for customers, employees and channels."

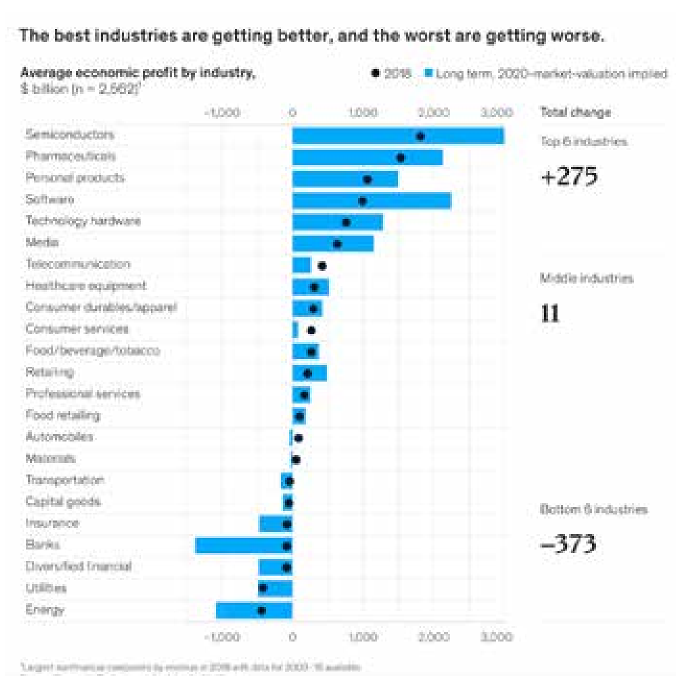
"Covid has acted like a time machine: it brought 2030 to 2020," said Loren Padelford, vice president at Shopify Inc. "All those trends, where organizations thought they had more time, got rapidly accelerated" [1]

This quote from the December 26th Wall Street Journal article, "Covid-19 Propelled Businesses Into the Future. Ready or Not" noted that business changes that normally might have taken years unfolded in months and that shifts that began as temporary fixes are likely to become permanent due to the pandemic. The disruption of 2020 creates significant opportunities for those in the insurance industry to accelerate their digital disruption, from new customer experiences to new products and services, channels and business models … if we embrace the disruption.

As COVID hit, insurance strategies, priorities and plans all took on a new view, a new focus and in many cases a new urgency – through the eyes of digital engagement, for customers, employees and channels. The good news was that many initiatives were still relevant. But many initiatives needed to accelerate because originally defined market assumptions and strategies substantially changed overnight.

COVID impacted all industries, but some were better prepared than others. McKinsey, in a multi-year, multi-industry research initiative, assessed economic profit by industry and identified what they term an "economic profit gap," which became evident in 2010 and has been widening ever since.[2] Within the industries tracked, insurance is in the bottom 6 industries, showing a gap that was growing even before COVID (see Figure 1).

FIG. 1 *Average economic profit by industry (McKinsey)*



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"What has become obvious during 2020, is that these leaders had future-ready, digital business models that proved more resilient and experienced – in many cases – dramatic growth."

Fast forward to 2020, COVID accelerated these trends and widened the gap between the top (leaders), the middle (followers) and the bottom (laggards) aligning to our Strategic Priorities research tracking Leaders, Followers and Laggards over the past 6 years. What has become obvious during 2020, is that these leaders had future-ready, digital business models that proved more resilient and experienced – in many cases – dramatic growth. Just consider these examples:

- Streaming media vs. traditional cable
- At home cooking vs. eating out
- Curbside Pickup or Delivery vs. eating out
- Digital e-commerce vs. in-store buying
- Home delivery vs. in-store buying

Further emphasizing this, a recent report by Andreessen Horowitz noted that in the first six months of 2020, e-commerce in North America as a percentage of overall commerce **increased more than in the entire decade beforehand!** It went from 16% in January 2020 to 27% in July 2020, after starting 2010 at only 6%.[3]

Parts of the insurance industry also experienced this. AccuQuote, a national online life insurance agency, saw a 20%-30% uptick in life insurance applications.[4] This aligns with a Forbes report that noted online life insurance sales increased 30-50% for companies with speedy apps that used data/algorithm driven underwriting, particularly for those 45 and under, the prime growth market of Millennials and Gen Z.[5] In another Forbes article, they noted that P&C usage-based insurance (UBI) accelerated in North America as people reevaluated traditional auto insurance and opted for UBI. Prodigy, a provider of software for auto dealers that lets customers compare and buy insurance when they purchase a vehicle, said online insurance sales grew 300% in 2020, and that Millennial buyers tended to gravitate toward the UBI option.[6]

"Our 2021 Strategic Priorities research, based on post-COVID insurer survey results, shows a dramatically widening gap between Leaders and Laggards – 64%, a year-over-year increase of 20% – when looking at their focus on key strategic initiatives in the past year."

Companies with resilient, future-ready digital business models were better positioned to ride the trends and crisis, increasing their competitive advantage and establishing them as a next-gen leader. Some insurance leaders were better prepared than others with digital, online buying and servicing capabilities and different products – like online life and UBI insurance – that aligned with customer needs, demands and a shift to all things digital.

Now nearly a year after the emergence of COVID, companies – both insurers and their customers – realize it will never go back to "normal". As a result, insurance leaders have a unique opportunity to re-envision their future of insurance today and redefine their strategies and priorities for 2021 and beyond.

Our 2021 Strategic Priorities research, based on post-COVID insurer survey results, shows a dramatically widening gap between Leaders and Laggards – **64%, a year-over-year increase of 20%** – when looking at their focus on key strategic initiatives in the past year. Followers were "treading water" to keep even with the previous year – with a 12% gap to Leaders.

Even more striking and concerning is the widening of the gaps between Leaders and the others in their outlooks for their companies over t**he next three years of 102% and 28% for Laggards and Followers respectively, reflecting a 40% and nearly 10% gap growth for each.** These gaps do not bode well for insurers' ability to create economic value, grow and remain relevant with the ever-increasing pace of change and disruption. We will provide a deeper dive into Leader, Follower and Laggard insights from this year's survey in a follow-up companion report to this one.

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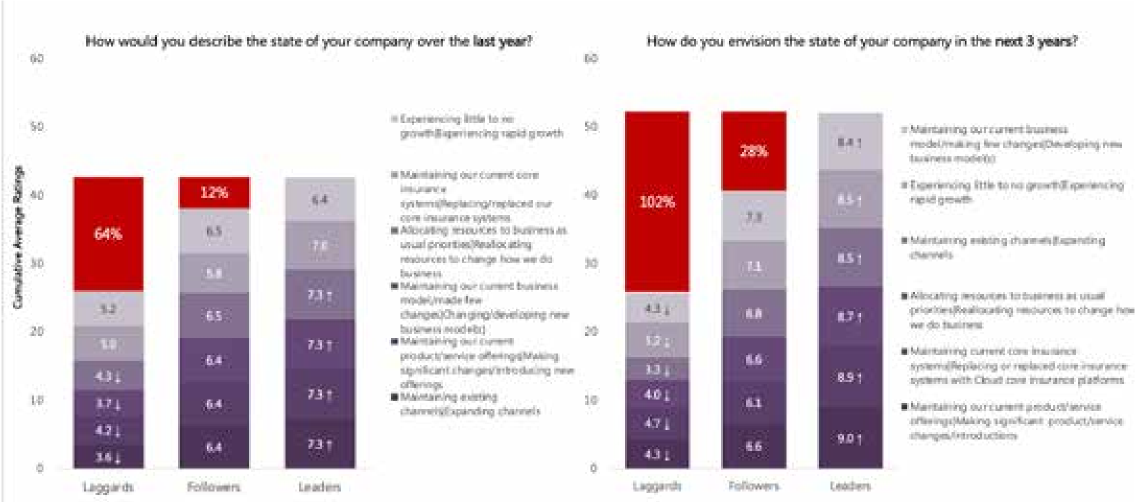
FIG. 2 *Widening gaps between Leaders and Laggards*



"The COVID crisis offers the insurance industry an opportunity to embrace this disruption and rethink, reprioritize and innovate insurance to accelerate digital transformation that can accelerate profitable growth and operational performance for long-term relevance and survival."

The COVID crisis offers the insurance industry an opportunity to embrace this disruption and rethink, reprioritize and innovate insurance to accelerate digital transformation that can accelerate profitable growth and operational performance for long-term relevance and survival. Interestingly, the initial AM Best innovation rating assessment results published in March 2020 further reflect how the industry is behind:

- **21% of Reinsurers** in the top 2 categories – **6%** rated as leaders and **15%** as prominent
- **10% of All insurers** in the top 2 categories – **1%** rated as leaders and **9%** as prominent
- **6% of P&C insurers** in the top 2 categories - **1%** rated as leaders and **5%** as prominent

Furthermore, the report found a correlation between innovation and operations. Companies with the best operating performance had better innovation scores and companies with the highest overall financial strength ratings line up with higher levels of innovation. In this year's results, we find that Laggards are 24% behind Leaders with Followers 6% behind in terms of establishing innovation practices to respond to AM Best Innovation Ratings.

History tells a great story of opportunity and innovation by embracing disruption. Looking back at other major crises and catastrophic events, there is a strong relationship between disruption and opportunity – driven by innovation in business and technology.

Think about the Spanish Flu. It increased interest in epidemiology and established the national disease reporting system; World War II brought radar and computers; the 1970 oil crisis brought the internet and autonomous vehicle technology; 9/11 introduced social networking, wireless tech and bio monitoring; and the 2008 financial crisis gave rise to the Sharing and Gig Economies and InsurTech. Out of every one of those catastrophic or major events arose fascinating and world-shifting new businesses and technologies that helped us adapt to a rapidly changing world.

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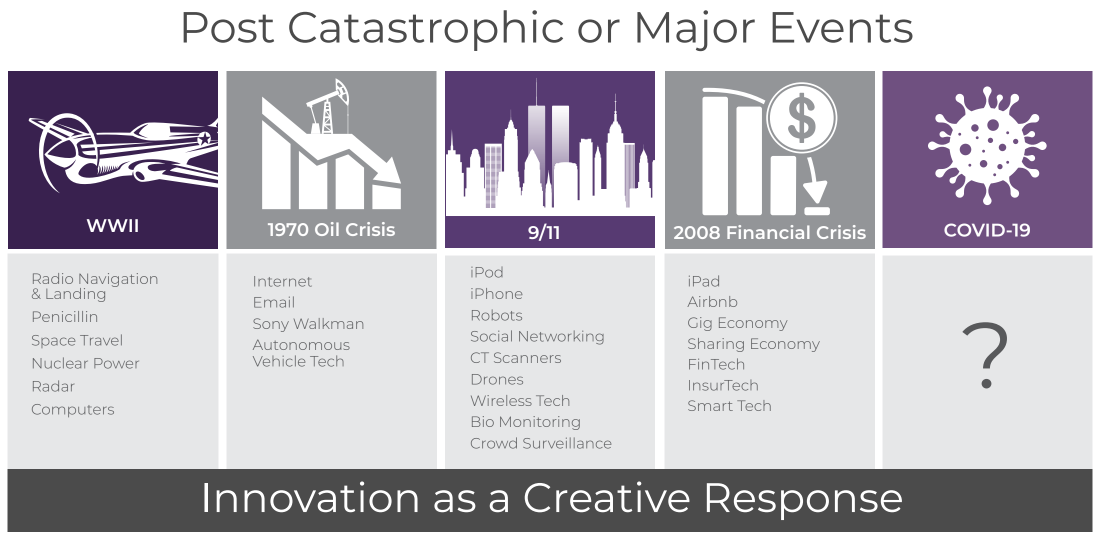
FIG. 3 *Crisis-driven innovations*



"Most importantly, we have the opportunity to make the change happen if we break down the silos and long-held business assumptions, embrace next generation technology and ecosystems, and more!"

Businesses and consumers whom insurance supports are part of this business and technological innovation. COVID, among other cultural, demographic and global pressures is changing customer behaviors and business models – creating the demand for new risk products, value-added services and customer experience that the insurance industry must respond and adapt to. Subsequently, these demands create opportunities to make insurance better and more relevant through the innovative application of technology. Most importantly, we have the opportunity to make the change happen if we break down the silos and long-held business assumptions, embrace next generation technology and ecosystems, and more!

Just look at the accomplishments of Operation Warp Speed in the face of an "impossible" challenge! They were able to break through decades old business models and processes to deliver the impossible – delivering the first approved vaccine in less than 9 months as compared to the "traditional" long, bureaucratic, complex process that lasted 10-15 years!

Think what insurance could deliver in the same time frames – new products, customer experiences, services and much more. The impossible is possible!

So how do companies position themselves as Leaders, climb the economic power curve and position themselves as strong innovators?

First, you need to know where you are in the Knowing-Planning-Doing Gaps relative to the Leaders who are accelerating digital transformation with resilient digital business models. Second, you must proactively prepare and prioritize plans that are crucial to moving you forward, making sure they are flexible as shifts occur in the market. And third, you must execute on these priorities with a sense of focus and urgency. This year's results show that leaders adapted their annual planning to be more proactive, while others' planning remained "business as usual" – even though we all know that business will never be usual again.

This year's Strategic Priorities report is more important than ever for insurers to assess where they stand and how they will respond, because "business as usual" is no longer a strategy in this time of dramatic change and pressure.

As the McKinsey article points out, strategy is about playing the odds, increasing the amount of "doing," even if some plans fail, to ensure overall success. This is why the two-speed strategy is so important, why AM Best is tracking both operational and innovation aspects.

Finding the right balance between optimizing today's business and boldly creating tomorrow's business is more important than ever.

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State of the Business

"Many insurers have significant legacy debt – even those who implemented costly modern core systems on premise – in terms of operating models and insurance technology that hinder their ability to improve operationally, let alone innovate."

As the insurance industry enters a new decade, many recognize the significant need to improve, both operationally and innovatively, to create immediate business results and long-term value. However, many insurers have significant legacy debt – even those who implemented costly modern core systems on premise – in terms of operating models and insurance technology that hinder their ability to improve operationally, let alone innovate.

Even if new business premium volumes grow in the short term, the operational cost challenges, let alone the inability to respond to rapid market shifts, will negatively impact insurers' mid- to long-term viability. Just consider the market shifts in customer demographics and expectations:

- This year (2021), Millennials and Gen Z overtake all other generational groups as the dominant customers in the 30-60 year-old insurance buyer "sweet spot." [7]
- In 2020, 50% of the labor force was Millennials and by 2025 they will represent 75% of the labor force. [8]
- In 2020, 60%+ SMBs owned by Millennials and Gen Xers, who expect digital experiences for both personal & business.[9]
- The COVID crisis decimated small businesses but accelerated entrepreneurship by 25% as compared to EOY 2019, based on employer identification number applications – a faster pace than the post-2008 Financial Crisis trend. [10]
- There remains significant capital in the market, leading to further investments in new businesses, products, channels and InsurTech.
- US-based, VC-backed companies raised nearly $130B in 2020, up 14% year-over-year from 2019, despite the impacts of COVID.[11]

"Shifting market and competitive landscapes, low growth, narrow margins, high operating costs, declining customer satisfaction, and slow time-to-market for new products all place insurers further behind leaders and make the business increasingly unsustainable for the long-term unless strategies and priorities are redefined and executed on."

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Market Segment Outlooks from AM Best

During 2020 and looking forward to 2021, AM Best downgraded its outlook for many of the market segments it tracks, and COVID is a common thread in their assessments. US Personal Lines is an exception, with a "Stable" outlook rating. COVID, so destructive to the economy and people's lives, has ironically helped personal lines auto profitability by reducing driving and, thus, accident frequency.

However, this could be short-lived as behaviors and expectations shift to usage based insurance, rise in basic term and whole life insurance, on-demand insurance, gig and sharing economy risk needs for commercial and voluntary benefits and more to meet a different business and economic reality.

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FIG. 4 *AM Best market segment outlooks as of December 2020*

Market Segment	Outlook
North America - Property/Casualty Markets	
US Personal Lines	Stable
Homeowners	Stable
Personal Auto	Stable
US Commercial Lines	Negative
Commercial Auto	Negative
Commercial Property	Negative
Excess & Surplus Lines	Negative
General Liability	Negative
Medical Professional Liability	Negative
Private Mortgage Insurers	Negative
Professional Liability	Negative
Surety	Negative
Title	Negative
Workers' Compensation	Negative
Canada Property/Casualty	Stable

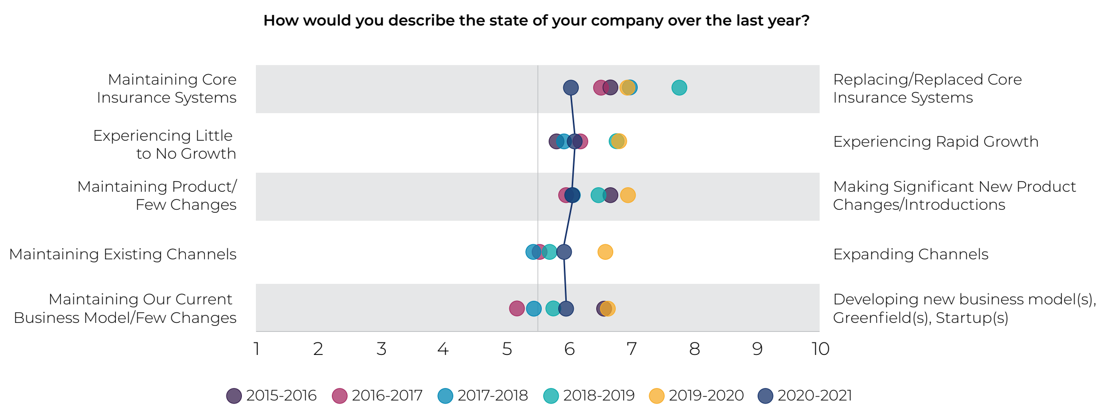
Market Segment	Outlook
North America - Life/Health Markets	
US Life/Annuity	Negative
Life	Negative
Annuity	Negative
US Health	Stable
Disability Insurance	Negative
Long Term Care	Negative
Supplemental Health	Stable
Canada Life/Annuity	Negative

Strategic Activities and Growth

The immediate short-term dampening impact of the pandemic is clear in the survey results. Ratings in all five categories of growth and strategic initiatives for the last year were considerably lower compared to 2019-20, as seen in Figure 5. Most striking are the six-year trends, which reflect a shift from building the future business, growth and innovation:

- Core system replacement saw its lowest rating ever, a 22% decline from the highest result in 2018-19.
- New product changes/introductions ranked 5th and New business models and Growth each ranked 4th in their ratings over the six years
- Expanding channels had its second highest ranking, despite a 10% lower rating compared to last year.

FIG. 5 *Changes views of the state of the company in the past year*



Historically, when looking at companies' outlooks for the next three years, there is a more positive view and bump for these initiatives as compared to the previous year's view. As seen in Figure 6, this year's results showed the same pattern, but like the previous year view, the overall outlook for the next three years declined as compared to past years, reflecting once again the significant impact of COVID on the business.

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"The decline in expected core system replacement is likely deceiving. While many companies have replaced core systems, they did so with non-platform modern core on-premise implementations rather than cloud-based platform next-gen core that is API enabled, as reflected in our research last year."

In particular, three of the five factors received their lowest ratings ever: *Expanding channels, Core system replacement and New product changes/introductions*, declining 10%, 7% and 7% lower respectively as compared to last year's survey.

The decline in expected core system replacement is likely deceiving. While many companies have replaced core systems, they did so with non-platform modern core on-premise implementations rather than cloud-based platform next-gen core that is API enabled, as reflected in our research last year, highlighting a major technology shift that requires insurers to once again rethink their core. At the same time, many insurers – particularly L&A and smaller tier P&C – have been operating in a "wait and see mode" with their legacy systems, offering them an opportunity to leapfrog those who now have to shift again.

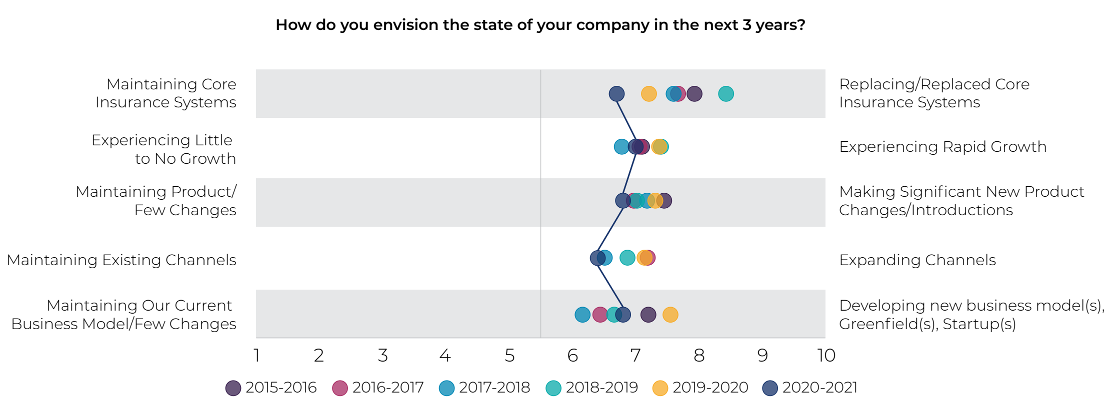
Although the outlook for growth had its second lowest rating ever, it was only 5% lower than the highest rating ever in 2018-19. And while the outlook for New business models was stronger than three of the previous years, it was 10% lower than last year, once again reflecting a business operational focus during the pandemic.

Six years of data on these strategic initiatives reveals two areas of "certainty" about the future. First, the tightness between *Growth, New product changes/introductions and Expanding channels* averages less than a point (on a 10-point scale), indicating a tight alignment between these three initiatives. Second and in contrast, *Core system replacement and New business models* averages trended at nearly two points of difference across the six years of results.

The first trend reflects an external perspective on the increased demand for new products and multi-channel relationships by customers that also drives growth opportunities. In contrast, the second trend reflects an internal perspective that typically reflects significant investment and potentially higher risk, but greater reward long-term. Unfortunately, core system replacement is once again at the forefront with the shift to next-gen platform solutions and adoption of platform technologies rather than modern or legacy non-platform solutions. Because of the pace of change in technologies, many analysts suggest that core systems may only last 7-10 years.

Next-gen platform solutions provide a foundation for companies to rapidly create new business models, as demonstrated by greenfield and startup insurers. Beyond technology, bold strategic decisions from company leaders and the willingness and ability of employees and channel partners to make the move to a new business model are also critical elements, and the certainty of this happening has stalled over the last year as companies focused on existing operations.

FIG. 6 *Changing 3-year outlooks for the state of the company*



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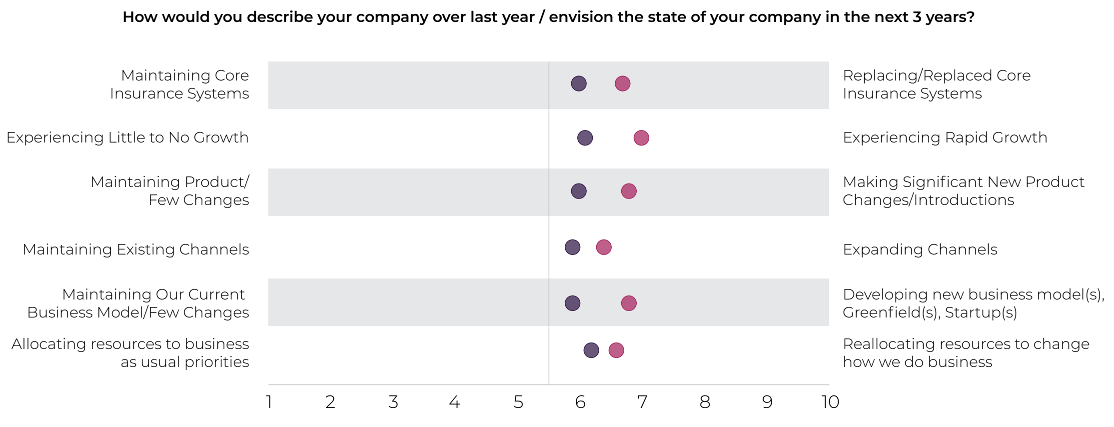
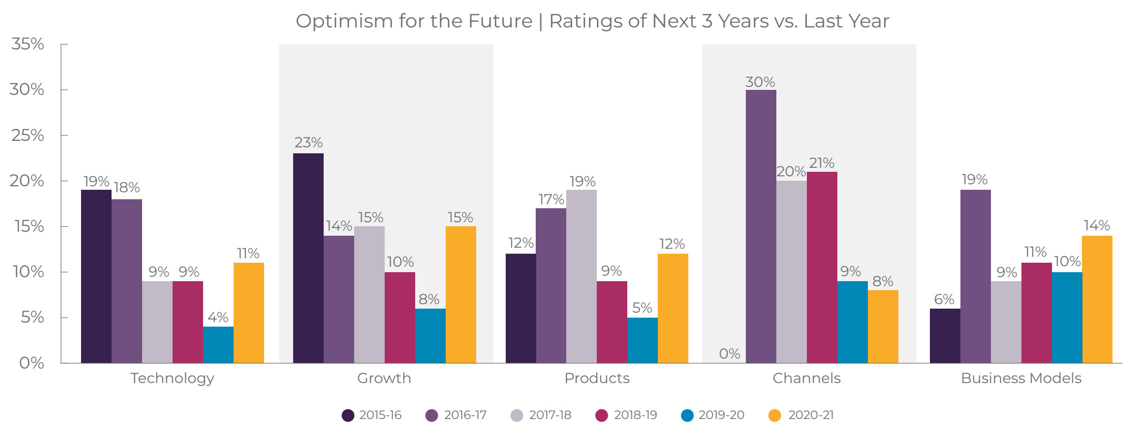
Despite the tempered outlook for the next three years, there is an “optimism rebound” when comparing the last year to the next three years, as seen in Figure 7. Double-digit increases between the two time periods for *Growth* (15%), *New business models* (14%), *New product changes/introductions* (12%) and *Core system replacement* (11%) stand out. This signals that insurers understand the significant impact of COVID on the business and are hopeful they will make adjustments to re-establish a positive acceleration to the future.

FIG. 7 *Optimism rebounds for the next 3 years*



The large increases, while starting from a lower base last year, reverse a declining trend from the last 3-4 years, suggesting a better alignment between knowing, planning and doing, as seen in Figure 8. The one outlier is the relatively flat change in *Channels* from last year, following dramatic drops in the previous three years. The entire channel environment continues to rapidly change through M&A such as CoverWallet by Aon and Bold Penguin by American Family; from further consolidation of agencies, which rose by 20% in 2020 over 2019[12] ; and from the continued growth in affinity and program business that sells or embeds insurance through unique partner ecosystems. Insurers will need to focus on developing multi-channel strategies that align with new customer expectations.

FIG. 8 *Reversing the declining trend in year-over-year optimism rebounds*



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Lines of Business Make a Difference

Companies responding to the survey provided products within four defined segments, as illustrated in Figure 9, including:

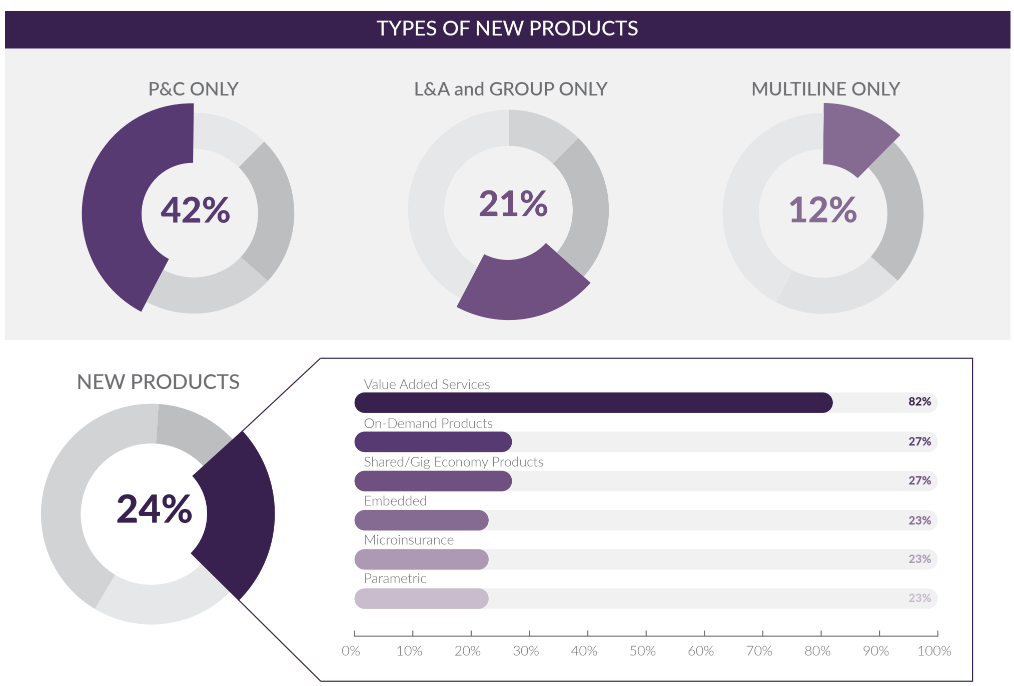
- P&C Products Only – Includes any/all of Personal, Commercial, Specialty lines
- L&A/Group Products Only - Any/all of Individual L&A or Health, Group, Voluntary Benefits
- Multi-Line Products – Any combination of lines from P&C and L&A
- New, Innovative Products – Includes 5 emerging products and value-added services

"Interestingly, nearly a quarter of the products provided across all the respondents were new, innovative products – reflecting an increasing focus on bringing new products and services to market to meet new risks, behaviors and customer demands."

Interestingly, nearly a quarter of the products provided across all the respondents were new, innovative products – reflecting an increasing focus on bringing new products and services to market to meet new risks, behaviors and customer demands. All five products had nearly the same focus, between 23% and 27%. Value-added services, which has been "low hanging fruit" opportunity for insurers, stood out at 82%, reflecting the broader view and definition of a "product" that we have highlighted the last few years, which includes three components: the risk product, value added services and the customer experience.

Those companies getting out ahead of the broader market are learning and adapting to a fast-growing market across all of these areas. As an example, **embedded insurance is estimated at over $700 billion GWP by 2030, representing 25% of total market – a major shift from tradition products / channels.**[13]

FIG. 9 *Survey respondents' lines of business*



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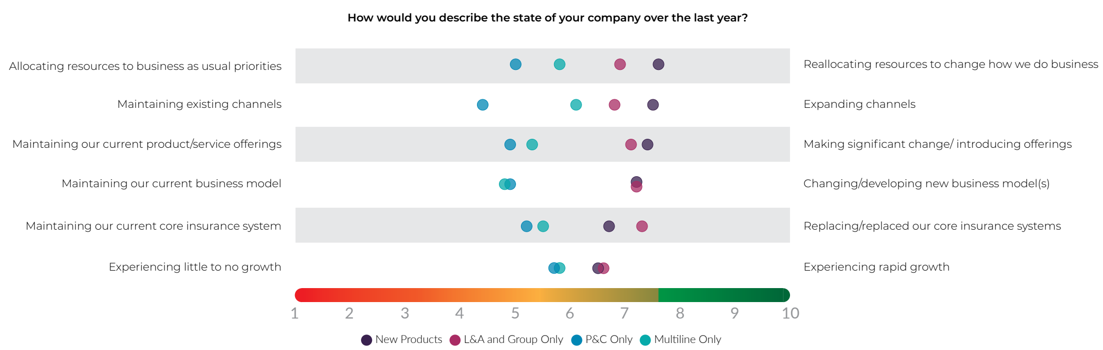
"The level of focus on these strategic initiatives through activities like innovative products highlights the various levers insurers can use to accelerate their path to the future."

Interestingly, P&C Only and Multiline Only segments were more pessimistic about their companies' growth and strategic activities over the last year, as seen in Figure 10. In fact, the differences between these two segments and the New Products and L&A/Group Only segments were dramatic, showing a much stronger focus on innovation and creating a business for the future. They clearly demonstrate the brighter potential in these markets, despite the challenges created by the pandemic.

For example, in Expanding channels, the New Products segment's activity rating (7.5) was 70% higher than the P&C Only segment's activity (4.4). Given the nature of the various new products, they are much more aligned to a broader partner ecosystem / channel view versus traditional P&C products which continue to be sold primarily through agents and brokers. The level of focus on these strategic initiatives through activities like innovative products highlights the various levers insurers can use to accelerate their path to the future.

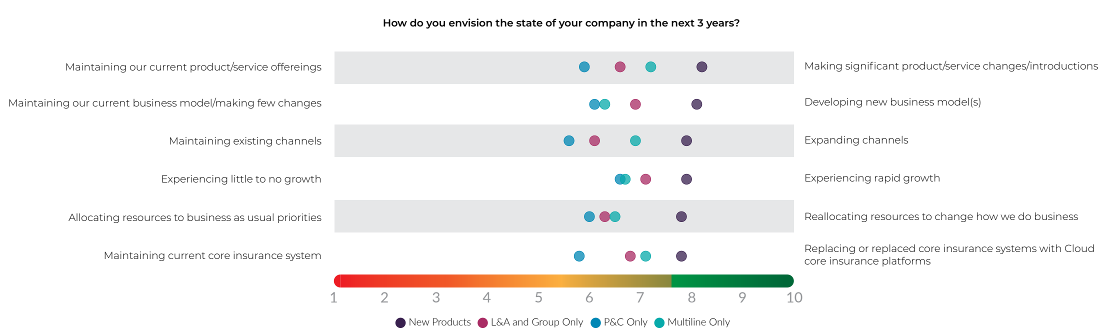
FIG. 10 *State of the company over the past year by line business segments*



The New Products segment extends their optimistic view over the next three years, while the P&C Only segment remains last across all factors – suggesting lack of adapting to a changing marketplace. In contrast, the Multiline segment soars ahead in its outlook and exceeds the L&A/Group Only segment.

One observation about multi-line insurers is that they are at the forefront of redefining the customer experience and engagement, breaking down the product segment silos, giving them the opportunity to truly become customer driven.

FIG. 11 *Three-year outlooks for the state of the company by line of business segments*



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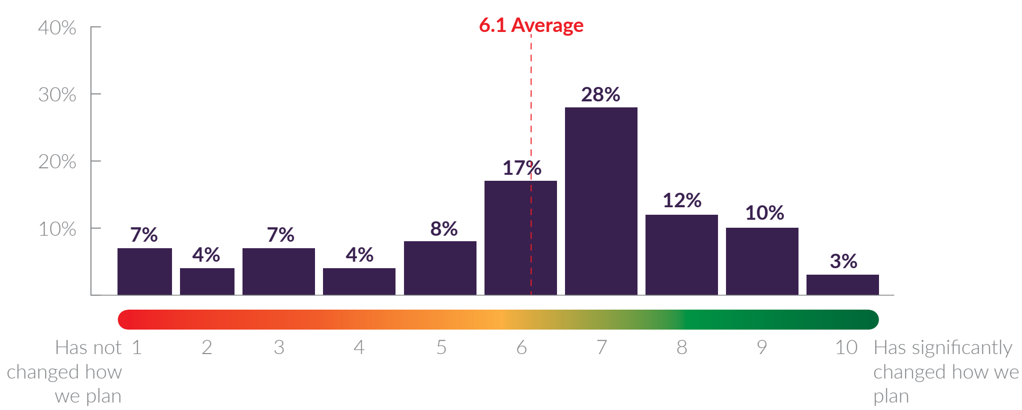
COVID Impacts on Planning

COVID impacted growth and slowed strategic activities last year while also tempering the three-year outlook. As such, it is not surprising that COVID changed how insurers conduct their annual planning. Nearly 50% indicated COVID had a significant impact on their planning as a 7 or higher, with 10 representing the most significant change, as seen in Figure 12. Although not shown here, the New Products and L&A/Group Only segments reported larger impacts on their planning process, with average ratings of 6.8 and 6.2, compared to P&C Only (5.7) and Multiline Only (5.2).

While this result aligns well to the concept of rethinking the business, priorities, and allocation of resources, the actual execution of the planning process and initiatives out of it do not necessarily align to reality, as reflected in the gaps between Leaders, Followers and Laggards that will be highlighted in our next report.

FIG. 12 *Impact of COVID on annual planning*



"The conflict between the tactical, inward looking views of IT (e.g. keeping the lights on) and the strategic, outward looking view of the business (e.g. concerns about remaining competitive) will need to be addressed going forward."

Insurers are more concerned about COVID's impact externally on target markets as compared to the impact internally on their workforce, as seen in Figure 13. Many insurers rapidly adapted their company to remote working and have become accustomed to the new way of working. The largest tier companies ($1B-$5B) indicated significantly higher concern about workforce impacts (6.0) as compared to those from the smallest tier ($250M or less, 4.6) and the middle tier ($250M-$1B, 4.8) – likely reflecting the complex operations of these companies.

The economic impact on insurance customers, from unemployed workers to shuttered businesses and office buildings, is a more painful concern as the long-term impact on revenue and profitability are still unknown. Survey respondents from business functions (6.0) were significantly more concerned about this than their IT counterparts (4.9), reflecting the business-IT gap we have called out in previous years' reports. The conflict between the tactical, inward looking views of IT (e.g. keeping the lights on) and the strategic, outward looking view of the business (e.g. concerns about remaining competitive) will need to be addressed going forward.

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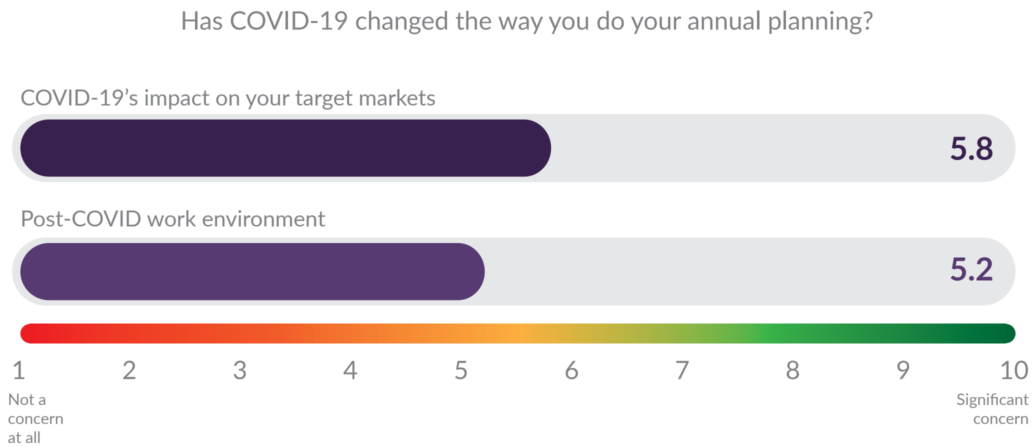
FIG. 13 *External and internal impacts of COVID on planning*



Knowing: Understanding Internal and External Challenges

"Of the 11 internal challenges in the survey, five show indications of becoming more the "norm" of doing business. However, the question remains … Do these perceptions match reality?"

The COVID pandemic is not the only challenge insurers face.

Internal Challenges

Of the 11 internal challenges in the survey, five show indications of becoming more the "norm" of doing business (Figure 14): *Digital capabilities, Aligning IT and business strategies, Data and Analytics capabilities, Data Security* and *Talent (availability, retention)*. These challenges showed steady increases in concern over time but peaked in 2018-19 and have trended lower over the past two years. This likely suggests that companies have adapted to these norms through improved capabilities, adjusting expectations, or increased confidence via the benefit of experience gained over time.

However, the question remains … Do these perceptions match reality? A few examples:

- Many insurers embraced portals, but most of these do not deliver a next-gen, holistic digital experience that customers, employees and distribution partners want and expect and part of a digital maturity that is needed.
- Insurers have made progress getting their internal data sources in order, but still struggle to realize the benefits of a fully integrated data environment consisting of internal and new external structured and unstructured sources, with AI/ML-generated insights.
- Given the continuing and increasingly severe data breaches, some initiated by foreign governments, data security may be more of an illusion than reality for many critical industries like insurance and why the need for cyber insurance is so critical.
- The reliance on an aging IT workforce to keep old legacy systems running should place high priority on legacy transformation, including no code / low code capabilities to enable the democratization of product development and configuration to a wider swath of "citizen developers."

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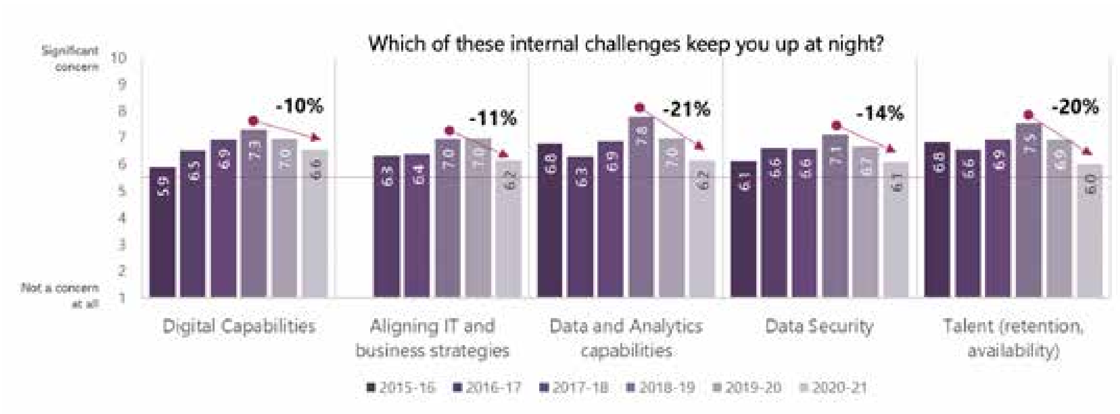
FIG. 14 *Declining levels of concern about internal challenges*

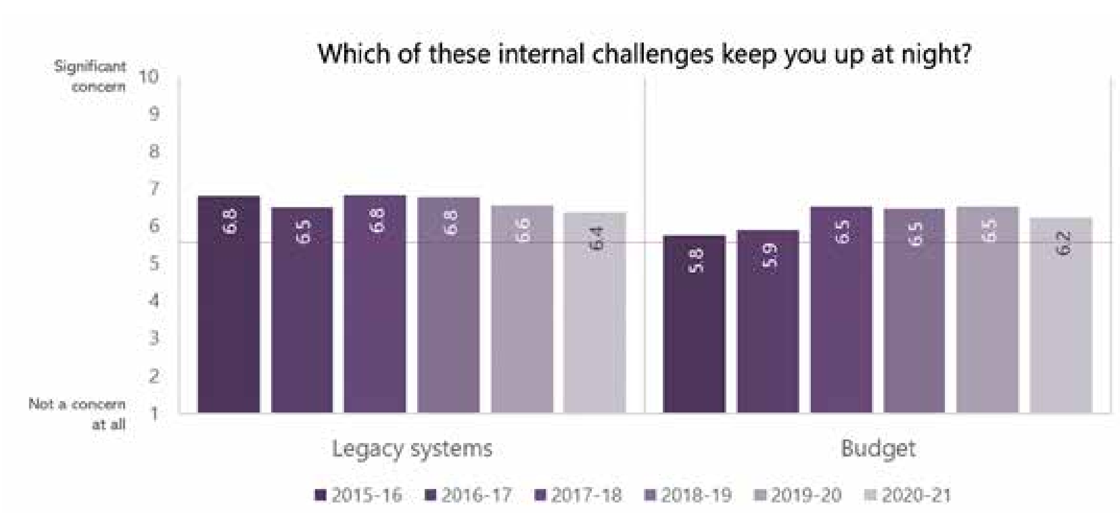


"As companies begin to establish new operating models that have new cost structures and shift IT expenses from Capex to Opex, this opens up the opportunity to reallocate resources to new initiatives."

The challenges regarding Budget and Legacy systems continue to remain steady with above average levels of concern in every survey (Figure 15). Budgets will likely always be a universal source of at least slight discomfort, but as companies begin to establish new operating models that have new cost structures and shift IT expenses from Capex to Opex, this opens up the opportunity to reallocate resources to new initiatives.

While many insurers have completed or begun legacy transformation projects, many of these are non-platform modern, on-premise implementations. At the time, these implementations were a major step forward over the decades-old systems they replaced, but are now being surpassed by next-gen cloud-based digital insurance platforms. This next-gen platform has superior capabilities that meet the needs of today's and tomorrow's insurance customers, including no code / low code capabilities mentioned above. We anticipate that over the next few years there will be a steady increased concern about legacy systems – until insurers move to next-gen platforms.

FIG. 15 *Consistent trends in levels of concern about budget and legacy systems*



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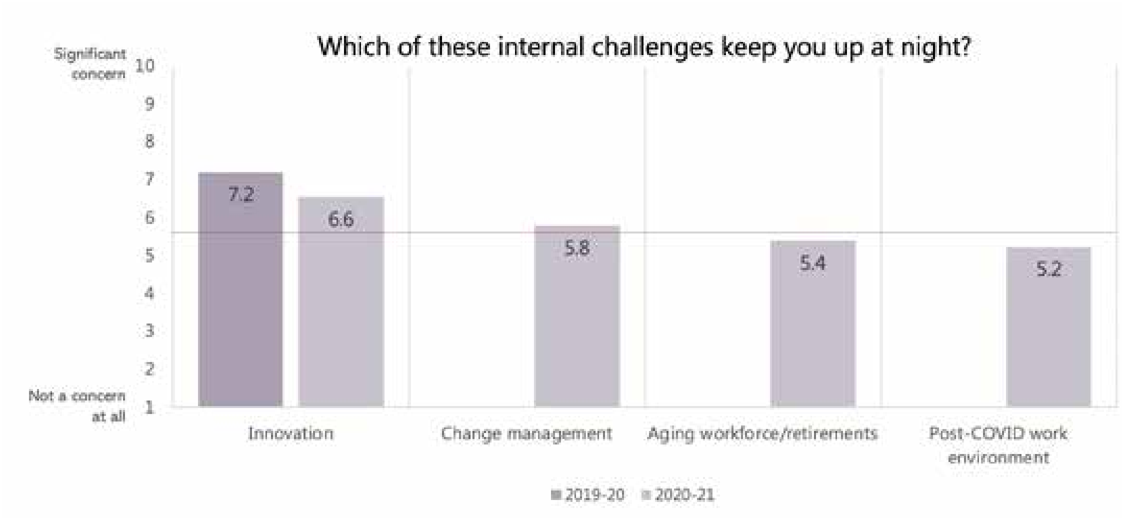
Interestingly, four new internal challenges in this year's results all garnered lower levels of concern (Figure 16). *Innovation* and *Change management* correlate with the decreasing concerns seen above in *Digital* and *Data/Analytics Capabilities* and *IT-Business alignment*. Low levels of concern over *Aging workforce/retirements* and *Post-COVID work environment* align with the downward trend in concern over *Talent (availability, retention)*. Along with these correlations in ratings, however, should also come the same question raised previously about perception versus reality – we think these could be blind spots for many companies.

FIG. 16 *New internal challenges added to the survey*



"IT's 25% higher concern about the availability and retention of talent is driven by the fact that they face stiff competition with InsurTech and Big Tech for employees with the skills needed to transform to digital-first insurers."

It is not surprising that IT is much more concerned about internal talent issues, as seen in figure 17. Their 25% higher concern about the availability and retention of talent is driven by the fact that they face stiff competition with InsurTech and Big Tech for employees with the skills needed to transform to digital-first insurers. Until they can achieve the transformation, however, IT needs to retain as much of its aging workforce as possible to maintain legacy systems and keep the current business running. Also of note, but not shown here, is IT's significantly higher focus on Data security compared to their business counterparts (7.7 vs. 5.7), suggesting that the declining overall levels of concern on this issue are being driven by the business. This is yet another illustration of the Business-IT gap that can pose great risk to insurers who continue to operate in functional silos and do not create alignment between business and IT.

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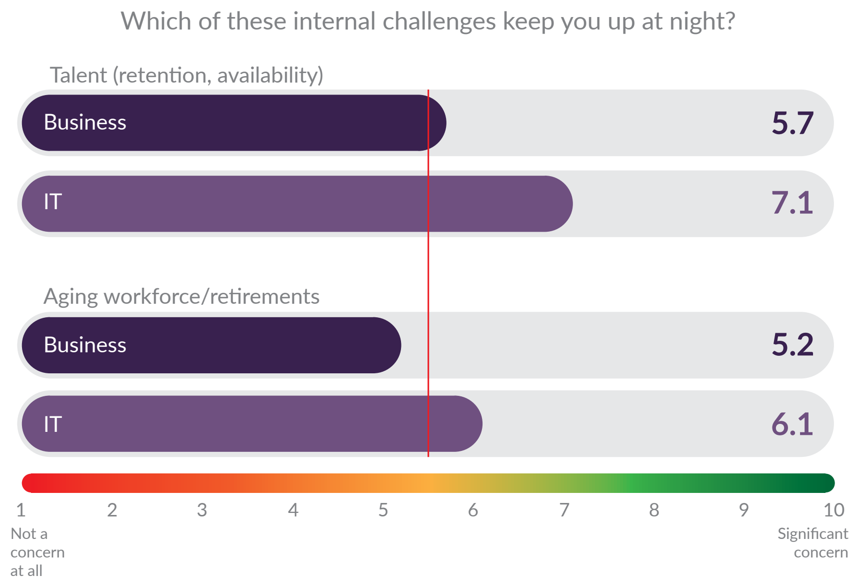
FIG. 17 *Levels of concern over talent issues, IT vs. Business*

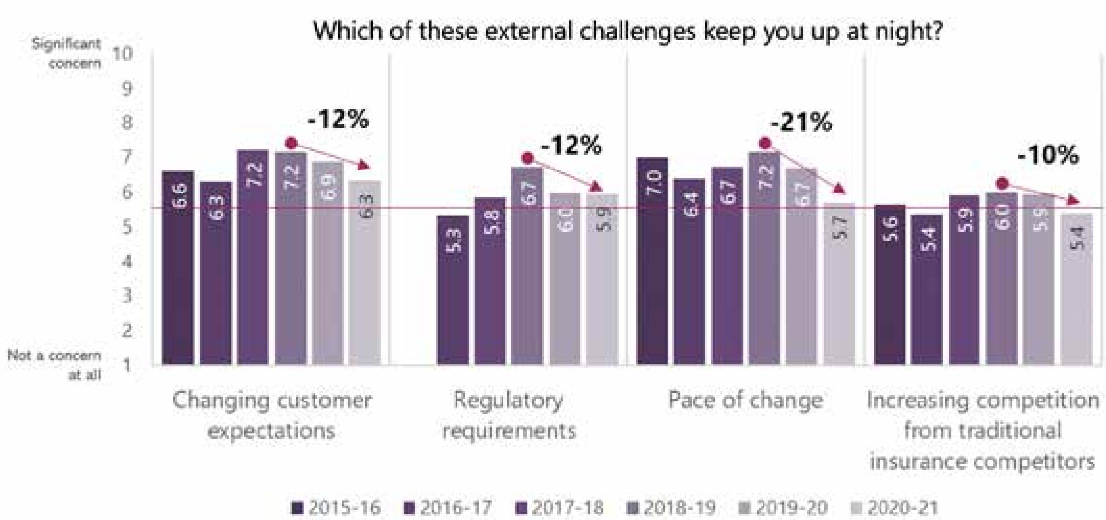


External Challenges

This year we see declining trends in concern for several external challenges, including *Changing customer expectations*, *Regulatory requirements*, *Pace of change, and New competition from inside the insurance industry.* Like some of the internal challenges, it appears that insurers are feeling more confident in these areas, either through improved capabilities, adjusted expectations, or experience (or a combination of these).

However, as with the internal challenges, is there a risk of being too comfortable, confident and complacent, particularly coming out of COVID? As previously noted from Andreessen Horowitz, ecommerce **increased more in the last 6 months than in the entire decade beforehand!** Add to this the emerging customer experiences from Fintech and Retailers such as Sofi and Amazon who are creating experiences, rather than transactions. In our customer research we have found they are willing to share their data if it leads to more personalized products and pricing that fit their changing lifestyles and risks, like on demand and embedded insurance.

FIG. 18 *Declining levels of concern about external challenges*



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"This last issue is a concerning blind spot, as experimentation and market entries by players from outside the ndustry accelerates."

In addition, there have been nearly flat to slight declines about *Emerging technologies*, *New competition from InsurTech, startups, MGAs* and *New competition from tech giants from outside the insurance industry*, as seen in Figure 19. This last issue is a concerning blind spot, as experimentation and market entries by players from outside the industry accelerates. Consider a few recent examples:

- **Intuit launches QuickBooks insurance** and 401K services **-** QuickBooks customers can now protect their businesses with comprehensive insurance coverage and offer their employees a 401(k) benefit, traditionally offered only by large companies. Small business owners can evaluate, purchase, manage and track their QuickBooks Insurance and 401(k) plans starting from within QuickBooks, using the information already available on the platform. teamed up to simplify the insurance purchasing process for millions of small businesses. This integration will enable QuickBooks users to seamlessly obtain a customized quote and easily purchase General Liability, Professional Liability and Workers' Compensation coverage from Next Insurance with a few clicks of a button, directly from their QuickBooks account. Next Insurance's simple, online application process allows QuickBooks subscribers to obtain tailored insurance coverage alongside their financial data, creating one cohesive experience.[14]

- **Petco launches insurance -** In October they announced the launch of Vital Care, a paid annual plan providing pet parents with a convenient, affordable way to meet their pets' routine wellness needs.[15]This follows their acquisition of a leading pet insurance marketplace PetInsuranceQuotes.com, providing pet parents with an efficient way to obtain instant pet insurance quotes and compare coverage options, all while reading reviews and testimonials from major pet insurance companies.[16]

- **Walmart offers pet insurance and health insurance -** In November 2020 Walmart announced they added pet insurance as animal adoptions soar during pandemic. The company is offering insurance through Petplan and connecting people to pet sitters or dog walkers through Rover.[17] In July 2020, it was announced they were launching a health insurance arm — dubbed Walmart Insurance Services LLC — to sell plans to consumers. Walmart's low prices and wide footprint could pose a threat to insurance startups — especially those firms breaking into the Medicare advantage market.[18]

- **Tesla Insurance approved in Texas** – In December 2020, the Texas Department of Insurance approved filings for insurance to be underwritten by a third-party Austin-based insurer and distributed by Tesla Insurance Services, Inc., which follows the company's 2019 launch in California. Tesla's Texas program uses driver behavior-based data collected by the vehicle as an input to determining at-fault collision rates, including the number of times the vehicle's lane-departure warning signal was initiated and the distance between the vehicle and the vehicle in front of it. The program also offers an "autonomous vehicle protection package" that covers cyber identity fraud expenses, electronic key replacement, loss or damage to the original wall charger, and for when the vehicle is being driven by autopilot.[19]

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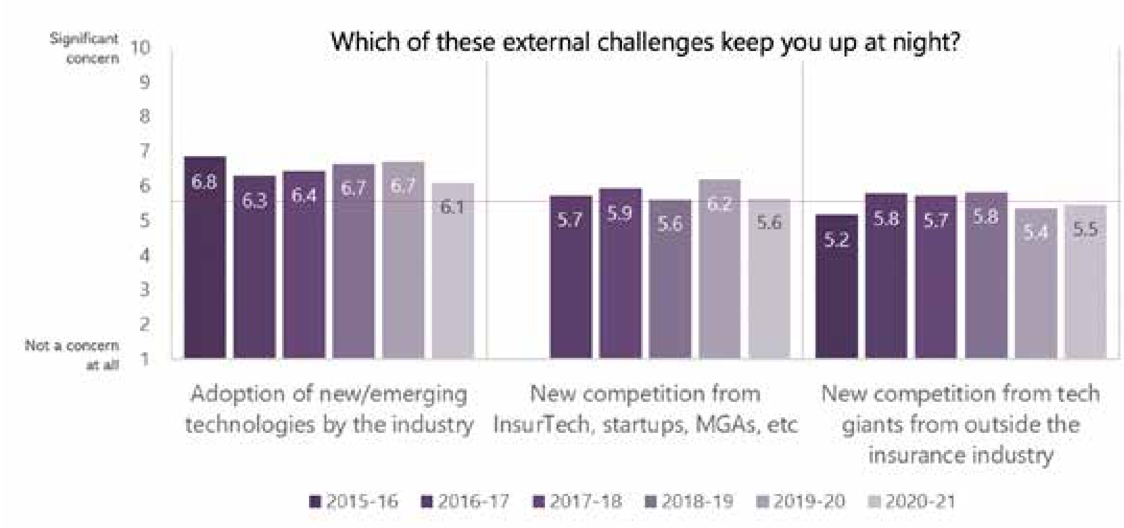
FIG. 19 *Flat to slightly declining levels of concern over external challenges*



"The remaining three new issues, The rise of direct sales, The rising cost of the agent channel and AM Best innovation score, had considerably lower ratings than all other external challenges. Again, are these blind spots, or do insurers have a good handle on these challenges?"

As industry and market trends evolve, so do the topics covered by our annual survey. We added five new external challenges this year in Figure 20. Although these don't have historical results for trending, *COVID's Impact on Your Target Markets* had the fourth highest overall ranking among all 12 external challenges reflecting the real uncertainty on the pandemic's effect on the economic health of consumers and businesses, and the impact for insurance.

Growing market availability of new/innovative insurance products ranked sixth, tied with InsurTech, raking higher than the new competition from inside and outside the industry challenges, suggesting that incumbent insurers more strongly associate InsurTech with these new offerings – again, another potential blind spot on new competition.

The remaining three new issues, *The rise of direct sales*, *The rising cost of the agent channel and AM Best innovation score*, had considerably lower ratings than all other external challenges. Again, are these blind spots, or do insurers have a good handle on these challenges?
With e-commerce rising across all industries, the rapidly changing distribution landscape, demographic shifts in channel preferences as noted in our auto and life insurance reports, and the increased expectation by customers for multichannel options, we expected higher ratings on these two channel challenges. And with the lackluster results of AM Best's first Innovation Assessment mentioned earlier, it is somewhat surprising that this issue came in dead last. Another disconnect with what is happening.

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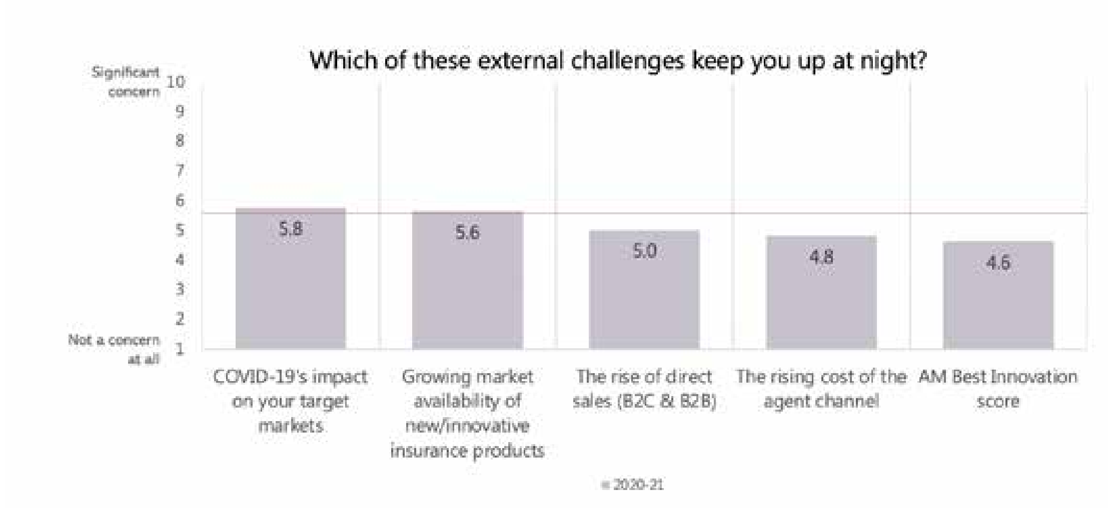
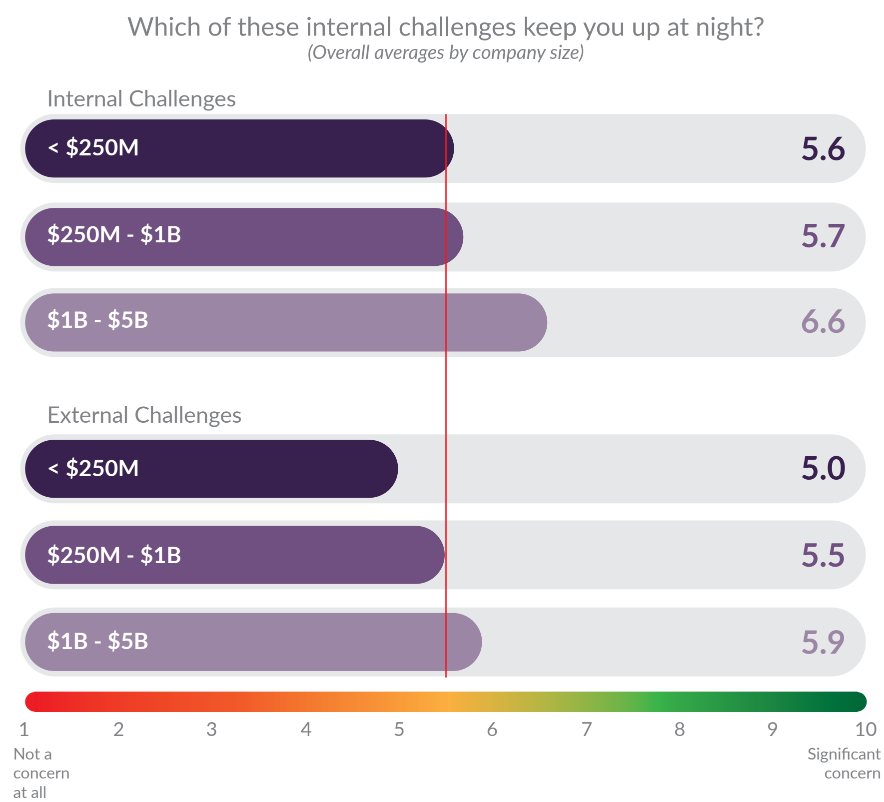
FIG. 20 *New external challenges added to the survey*



Key Differences Between Segments

Aggregating the ratings across all internal and external challenges highlights some key differences between DWP tiers and line of business segments. As seen in Figure 21, the largest tier is much more concerned about internal challenges overall, a full point higher than the two smaller tiers. This suggests that the complexity of the large organizations leads to a higher number of challenges that can be a hindrance to agility. Smaller companies should have an advantage here with less bureaucracy and complexity – but old systems could also be a hindrance negating this advantage. Replacing these systems now should be of the utmost urgency.

FIG. 21 *Differences in aggregate levels of concerns over internal and external challenges by company size*



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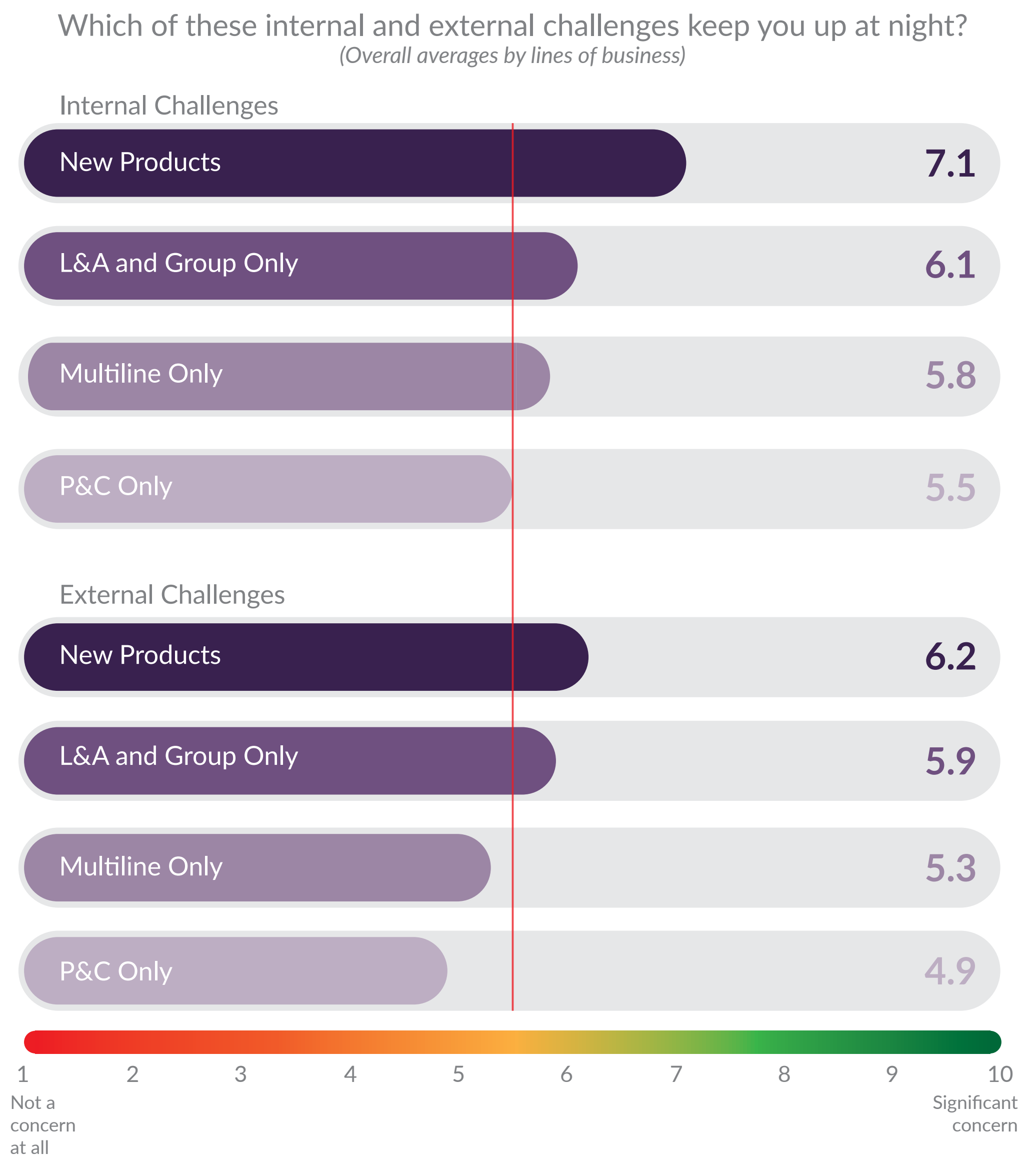
Companies with New Products are much more concerned about 9 of the 11 internal challenges and 10 of the 12 external challenges, as highlighted by the aggregated rating comparisons in Figure 22. The L&A/Group Only segment is a close second on 5 of these. This makes sense when you consider that these companies are challenging the status quo with non-traditional products, and blazing new trails can exacerbate existing challenges (e.g. IT, talent, etc.) as well as bringing up brand new challenges.

FIG. 22 *Differences in aggregate levels of concern over internal and external challenges by lines of business*



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Planning: Preparing and Prioritizing Strategic Initiatives

"If 2020 taught us anything, it is that digital priorities like these must be accelerated rather than stalled or pulled back on."

The old maxim, "the only constant is change" is still relevant. We expect change. However, today the difference is that "change" is different now coming out of the COVID crisis. As a result, strategic planning needs to be too.

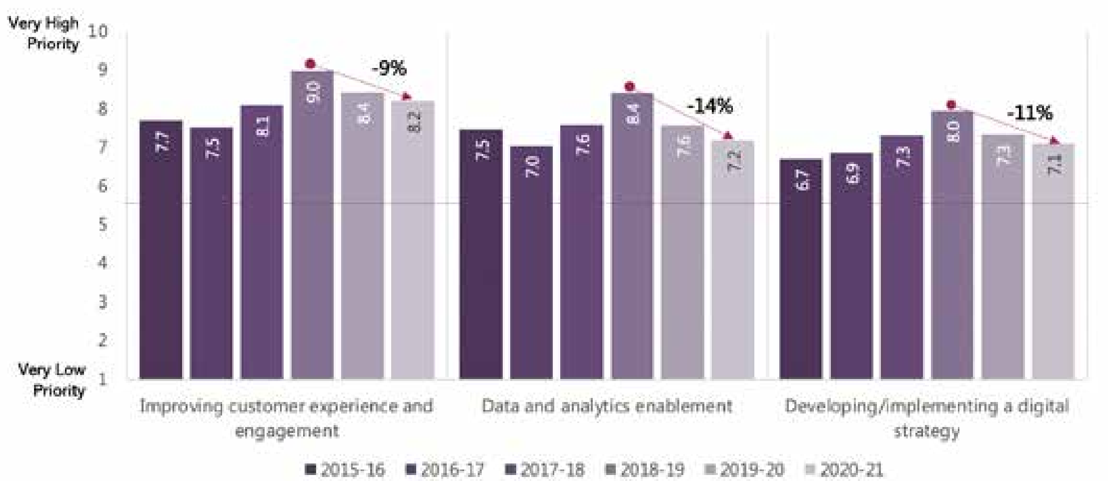
The planning process needs to exhibit much bolder thinking, and action, in preparing and prioritizing strategic initiatives. The unprecedented conditions created by COVID have accelerated to light speed many changes that were already moving rapidly pre-COVID. Most notable is the imperative to transform to a digital insurance business model.

Similar to the shifts reflected in internal and external challenges, likely due to COVID, insurers pulled back from previous years with regard to key strategic initiatives crucial for digital transformation. Among 11 initiatives tracked over time, seven show declines (six with double-digit percentage drops) from their peak ratings in 2018-19.

While Improving customer experience retains its top-rated priority, it dropped by 9% (Figure 23). *Data and analytics* and *Digital strategy* ranked 3rd and 4th in priority this year but showed even larger declines in priority. This is concerning given that most insurers are only beginning a digital transformation and still retain old "portals" to engage customers rather than next-gen customer experience solutions. If 2020 taught us anything, it is that digital priorities like these must be accelerated rather than stalled or pulled back on.

FIG. 23 *Declining trends in priority of important strategic initiatives (chart 1)*

How would you rate the **priority** of these **strategic initiatives** of your company in 2021?



The largest decline in priority was *Scaling the business on a cloud platform,* which is consistent with the historically low legacy replacement activity in the past year and expectations for this in the next three years. As previously noted, our research on core systems last year showed that transformations over the last 5-10 years have been on non-platform modern core systems implemented on-premise, replacing legacy systems. Unfortunately, these non-platform solutions do not have the capabilities needed to digitally transform the business and to rapidly take advantage of new market opportunities driven by customer, technology and market boundary shifts and changes. Insurers are faced with replacing these again or standing up a new platform cloud-enabled core as a greenfield to launch new products, enter new markets and create a new business model.

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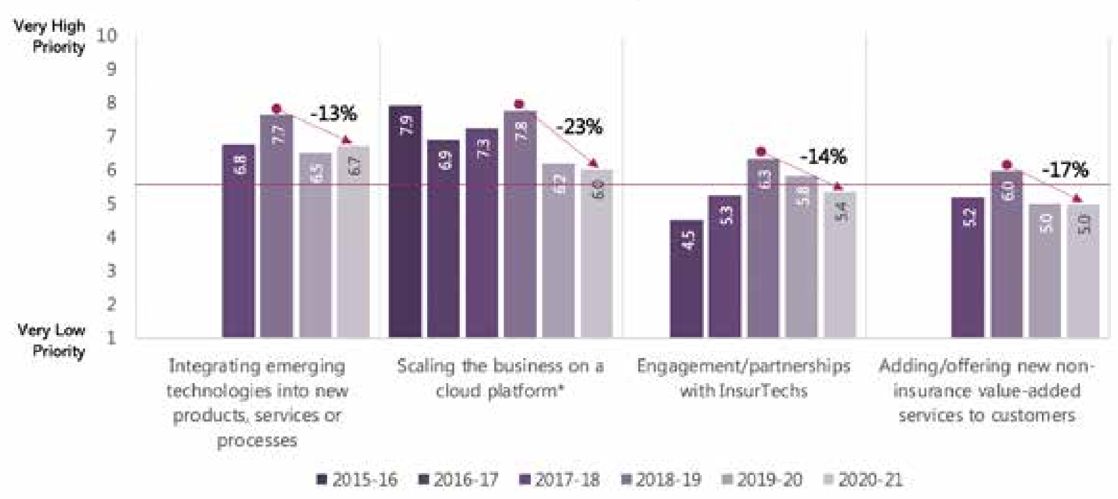
These initiatives are four of five (*Cost containment*, covered below, is the fifth) that define Modernize and Optimize in the two-speed strategy for business transformation. While the overall decline is a discouraging development, particularly in light of the rapid market shifts that COVID has accelerated, when you separate out Leaders to Followers and Laggards, it becomes apparent that Leaders are adapting and accelerating modernization and optimization while the others continue to fall behind. Followers and Laggards must place a higher priority to these than ever before to remain relevant.

FIG. 24 *Declining trends in priority of strategic initiatives (chart 2)*



"Companies in the New Products line of business segment rated nearly all the strategic initiatives as higher priority compared to the other segments, highlighting their head start in capturing new markets and customers with new products needed in the future of insurance."

Cost containment has been a top 5 priority in all six years of our research, growing 17% since the first survey in 2015-16, and holding relatively steady over the past three years (Figure 25). On the other end of the spectrum, *Merger and/or acquisition* has consistently maintained the lowest priority spot among the list of initiatives which is interesting given the continued M&A activity in the industry.

Entering/developing new market segments (+8%) and *Accessing new capital markets* (+9%) saw slight increases or remained flat as compared to the last two years. Two new innovation-themed initiatives added this year showed strong rankings (not shown in the chart):

- *Innovation:* 7.14, 4th highest rated initiative this year
- *Product innovation for new/changing risks:* 6.74, 6th highest rated

The strong showing by innovation highlights the continued use as a lever of change within organizations.

Together, these four initiatives define the Create a New Business component of the two-speed strategy for business transformation and reflect a positive, growing focus by insurers. Though not shown here, companies in the New Products line of business segment rated nearly all the strategic initiatives as higher priority compared to the other segments, highlighting their head start in capturing new markets and customers with new products needed in the future of insurance. The increased priority on developing new products and business models align to customer and market shifts and offset declines in the three other initiatives in Figure 24.

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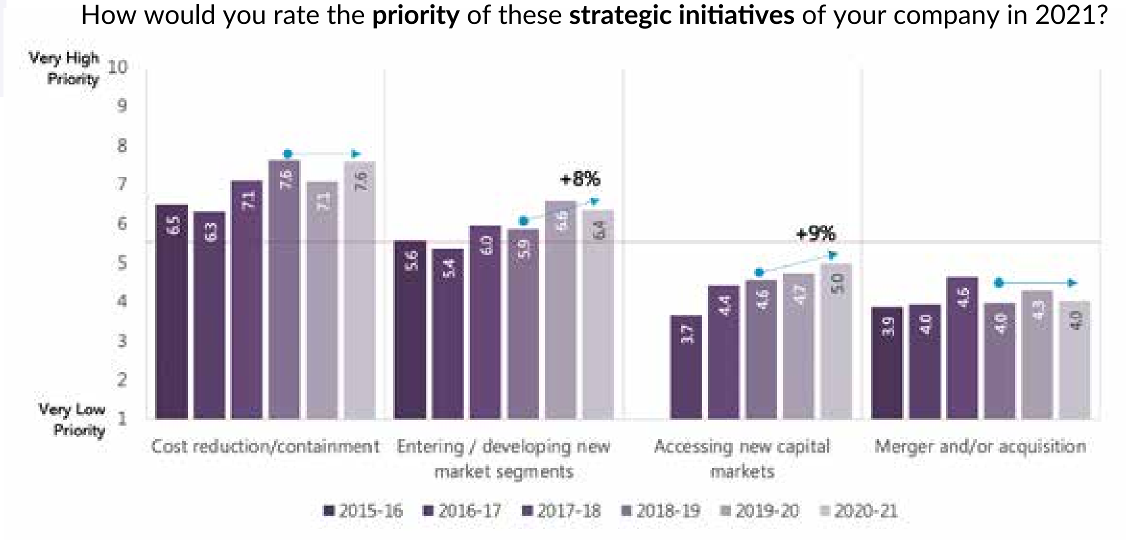
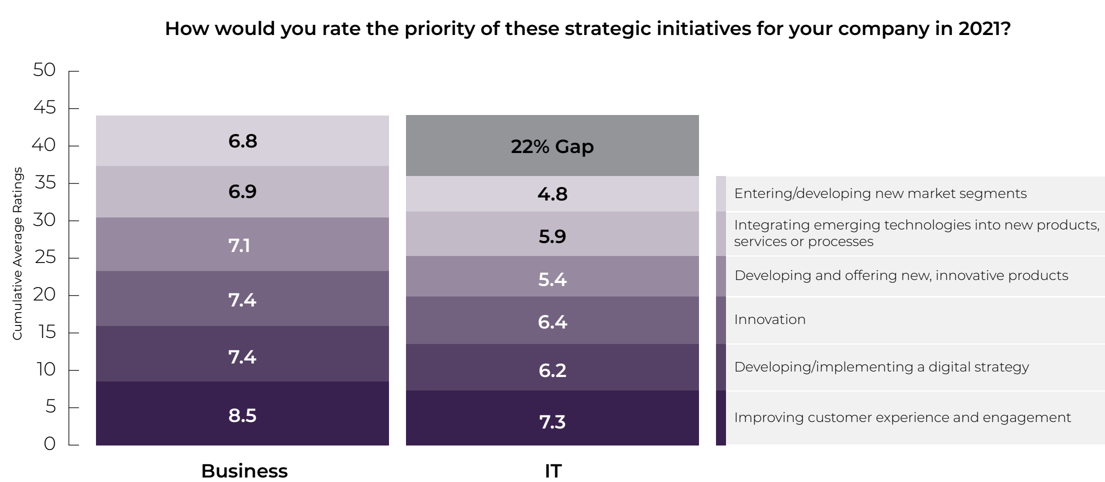
FIG. 25 *Flat to slightly increasing trends in priority of strategic initiatives*

How would you rate the **priority** of these **strategic initiatives** of your company in 2021?



Accelerating business transformation requires alignment between business and IT on all of these strategic initiatives. Unfortunately, ITs' priority lags behind the business by 22% (Figure 26). This gap places insurers at a disadvantage and negatively impacts the ability for companies to be ready for the future. The gap will drive the business to seek alternative options outside the traditional IT organization, which can create momentum but may also create new challenges.

FIG. 26 *Business-IT gaps in priority of key business transformation initiatives*



While these overall planning results are mixed for the industry, the differences between Leaders, Followers and Laggards stand out – highlighting the significant gap with Leaders. While many Followers may be keeping relative pace to Leaders with their modernizing and optimizing the existing business, often reflected in strong financials, this is deceiving when considering the future business needed – where Followers and Laggards are not planning and falling further behind.

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Strategic planning needs to be bold enough to match the velocity and magnitude of the changes the industry faces. It will no longer be sufficient to allocate most of the resources to maintaining the status quo of the current business, rather companies must look to reallocate resources to accelerate in areas they are behind for both speed of operation and speed of innovation. It is not one or the other – it must be both.

Doing: Accelerating Digital Transformation

“In the realm of insurance, insurers are finding themselves in the middle of a dramatic remodeling project. Choices must be made. What remodeling projects are they doing to modernize and optimize the business, and what are they doing to create a new business next door?“

In the realm of insurance, insurers are finding themselves in the middle of a dramatic remodeling project. Choices must be made. What remodeling projects are they doing to modernize and optimize the business, and what are they doing to create a new business next door? The challenges facing insurers are the revised time-horizons. COVID and its digital pressures have reduced previous time assumptions. Many initiatives and investments that were slated for a 3 to 5-year path are now moved to 18 months or less, accelerating the digital transformation of insurers.

Market Trends

For decades, the creation and evolution of insurance markets and products unfolded at a steady pace, and insurers’ technology, data and processes were adapted to take advantage of these opportunities – sometimes through technology updates or customization or through new technology. The result of this approach was highly customized and costly systems that increasing became difficult to respond to market shifts or opportunities. But companies managed that because everyone was in a similar position where new products took 7-18 months to build and launch.

But the market is much different now. The constantly changing risks, customer behaviors and expectations, technology-driven capabilities, new sources of data, and blurring market boundaries have created completely new insurance market demands for new products and services that the old technology cannot support. Today, insurers must be able to launch new products in weeks, new capabilities in days, and new rates or rules in hours.

“The constantly changing risks, customer behaviors and expectations, technology-driven capabilities, new sources of data, and blurring market boundaries have created completely new insurance market demands for new products and services that the old technology cannot support.“

While some market opportunities have been around for some time, they remain “new” because the market dynamics are changing so rapidly from their initial arrival. As seen in Figure 27, insurers continue to show the highest levels of action in the “traditional” market trends, where *Cyber risk/data security* and *Creating value-added services* moved past the Planning/Piloting stage and into implementation. Most continue to plan and pilot the use of *New data sources for pricing and underwriting*, something insurance customers, especially Gen Z and Millennials, want based on our consumer and SMB research.

Encouragingly, strong advances in *Creating new insurance business models* were made in the Planning/Piloting stage with the strongest year-over-year jump of all the trends.

The second half of the initiatives represent newer or emerging trends, reflected in insurers’ responses to them. Insurers continue to consider offerings for the *Sharing/gig economy*, *Embedded insurance*, and *On-demand insurance*, maintaining similar levels of activity as last year. *Microinsurance* and *Parametric insurance* show the lowest levels of interest.

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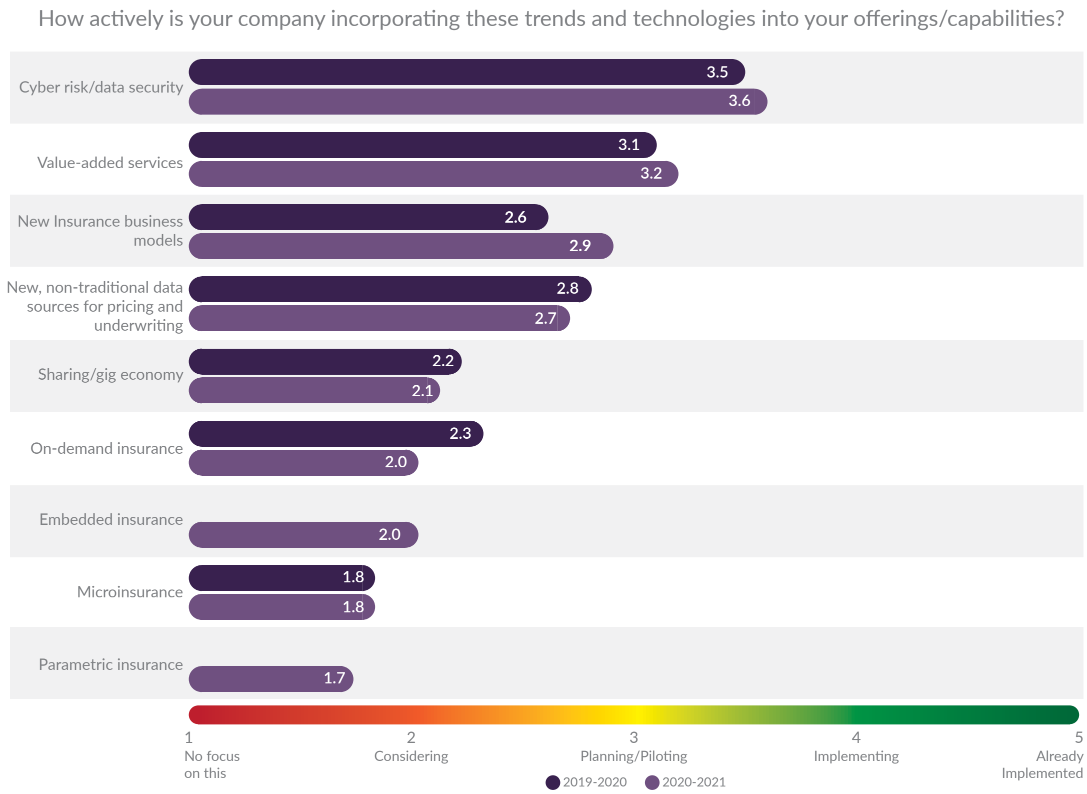
FIG. 27 *Insurers' responses to opportunity created by technology and market trends*



"Embedded insurance which, as described earlier, is estimated to account for 25% of the worldwide market by 2030 with $700B in GWP, shows significant gaps between customers and insurers."

The concern with these low levels of activity is that they represent blind spots for insurers as compared to the market potential and customer demand. Embedded insurance which, as described earlier, is estimated to account for 25% of the worldwide market by 2030 with $700B in GWP, shows significant gaps between customers and insurers (Figure 28). Only 13% of insurers offer or are implementing embedded insurance and only 38% are considering or planning/piloting it. The 60% gap between demand and offering for Gen Z and Millennials reflects a major blind spot and market opportunity for those who can respond quickly. The same gap exists for on-demand insurance as well.

These two blind spots reflect the challenge for insurers to respond to a new generation of buyers who want different products via different channels to meet a new generation of needs and expectations.

Offering what their parents bought and have is not necessarily what they want or need!

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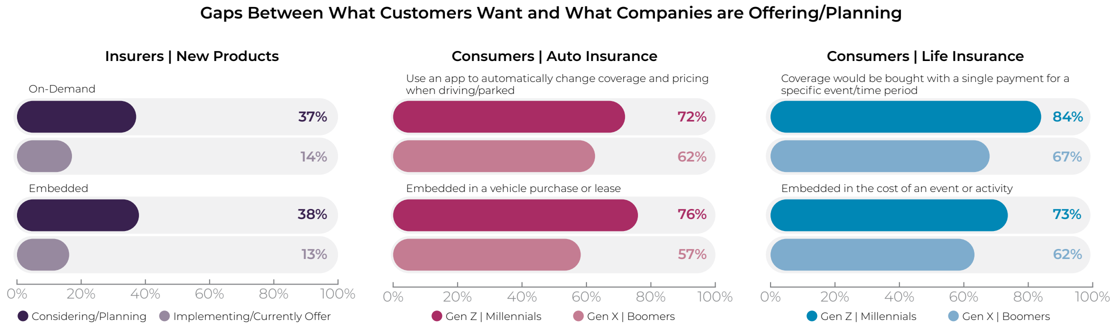
FIG. 28 *Customer-Insurer gaps in embedded and on-demand insurance*



Fortunately, some insurers are actively taking advantage of these opportunities. While likely offering traditional products as well, insurers offering new products lead significantly over others who are not, as seen in Figures 29 and 30. The only trend that is aligned between traditional and new is *Cyber risk/data security* and is the only trend where the P&C Products Only segment does not come in last or second to last.

This highlights the risk for the P&C only segment. If they remain focused on only traditional products they will lose out on new and rapidly growing market opportunities.

FIG. 29 *Insurers' responses to opportunities created by technology and market trends by lines of business (chart 1)*

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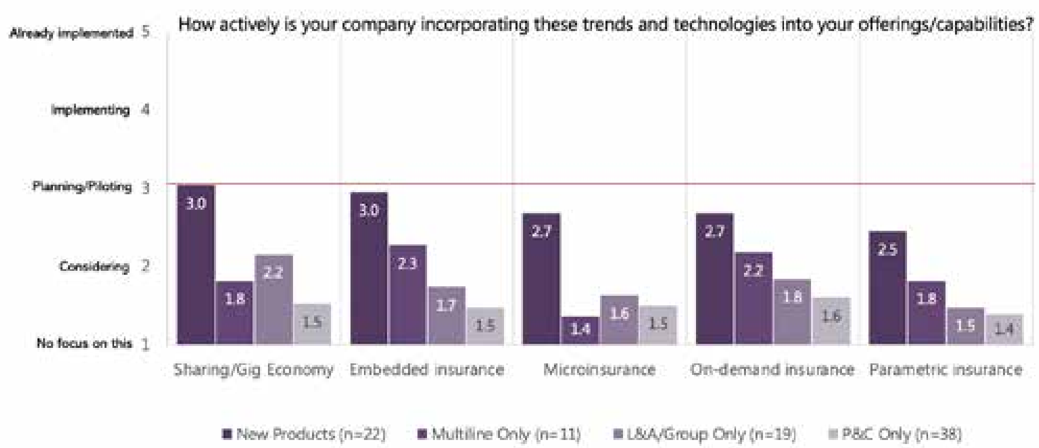
FIG. 30 *Insurers' responses to opportunities created by technology and market trends by lines of business (chart 2)*



Platform Technologies

The platform is rapidly emerging as a powerful business model with network effects that disrupt traditional models, create tremendous customer loyalty, and offer significant opportunities for growth. Platforms are fundamentally changing businesses and insurance is no exception.

Research by the World Economic Forum's Digital Transformation Initiative (DTI) estimates that digital platforms could unlock $100 trillion in value over the next decade.[20] Platforms have the opportunity to create massive value creation in the digital age – by creating and extending value between companies and customers. ***Platforms are beginning to radically change the business of insurance.***

"The platform is rapidly emerging as a powerful business model with network effects that disrupt traditional models, create tremendous customer loyalty, and offer significant opportunities for growth. Platforms are fundamentally changing businesses and insurance is no exception."

From the front-office to the back-office, platforms are reshaping the business focus from policy to customer, from process to experience, from static to dynamic pricing, from point in time underwriting to continuous underwriting, from historical view of data to predictive and machine learning of data, from traditional products to on-demand and parametric products, and so much more. And their ability to create and extend ecosystem of partners to deliver increased value to the customer relationship gives insurers the power to drive customer loyalty.

When it comes to the specific technologies that power the insurance platform, we're seeing the strongest and most consistent adoption of mobile and Cloud/SaaS, while Digital Experience Platforms made a sizable jump year-over-year (see Figure 31). The results we've seen for Cloud/SaaS in our research are consistent with the trend SMA has also found: in their 2019 P&C Core Systems Purchasing Trends report, they noted that 84% of core system deals were deployed in the Cloud, and 32% of these cloud deployments were multi-tenant SaaS.[21]

APIs and AI/Machine Learning are entering the Planning/Piloting phase, the tipping point for more widespread implementation and adoption. Microservices and Low Code/No Code Platforms are still in the early stage of adoption. These two critical components give the insurance platform its unique ability to adapt quickly to new market opportunities, by making changes to components of insurance processes, rather than having to change an entire siloed process (microservices) and by opening up configurations to a wider audience of citizen developers (low code/no code). But there is a difference between horizontal low code / no code platforms versus insurance low code / no code platforms as we outlined in our Insurance Platforms – The Digital and No Code/Low Code Platform research. The huge advantages these and the other platform technologies offer over modern on-premise systems will accelerate their adoption.

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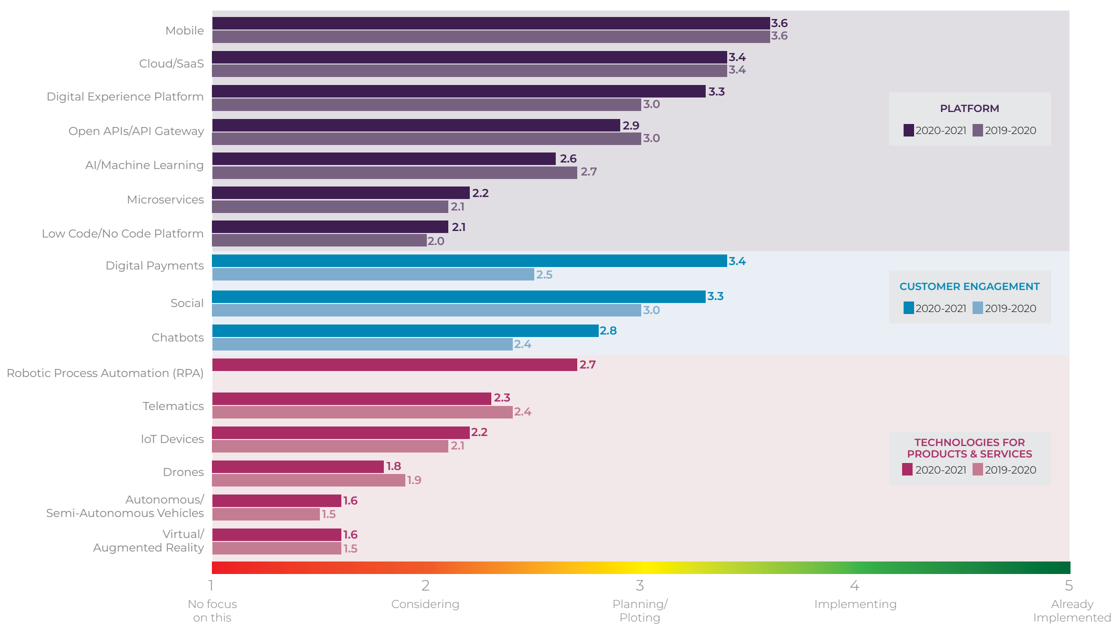
Google is developing a cloud-based SaaS data and analytics platform that could hasten the adoption of AI/Machine Learning. Led by recent hire Dr. Henna Karna, Google's latest insurance initiative is seeking to provide insurers and reinsurers with an enterprise suite of data and analytics solutions, all running on the same infrastructure as its familiar Google search and Gmail products. According to Carrier Management, the solutions include, among others, "advanced data analytics, content delivery, AI and machine learning, video classification and recognition, 3D visualization, custom models that detect emotion, workspace productivity and collaboration, natural language processing (NLP), and a fully managed environment to run containerized applications." [22]

FIG. 31 *Insurers' levels of activity in adding platform technologies*

How actively is your company incorporating these technologies into your offerings/capabilities?



"All three Customer Engagement technologies – Digital Payments, Social and Chatbots – saw significant year-over-year increases in activity, driven by the sudden need to implement effective self-service capabilities in response to COVID."

All three Customer Engagement technologies – Digital Payments, Social and Chatbots – saw significant year-over-year increases in activity, driven by the sudden need to implement effective self-service capabilities in response to COVID. In particular, the increase in digital payments highlights the acceleration to open banking and innovative payment technology companies. In a recent article, it was noted that open banking has encouraged competition and innovation by requiring banks to share data with third parties such as payment technology companies and creating customized payment methods through new apps and data streams that will be difficult for companies (sellers like insurance) to ignore.[23] The interest in advanced data-supported digital payments comes from customers' increased comfort with online banking and shopping during COVID.

Highlighting the impact, Figure 32 reflects the shift from traditional financial companies that are involved in finance and payments to a new model, underpinned by platform technologies. As the title suggests, the concept opens the door to any company becoming a FinTech … which raises the possibility that any company could become an InsurTech by leveraging platform technologies and massive customer bases. Just consider the moves by Walmart, Tesla, PetCo and Ikea.

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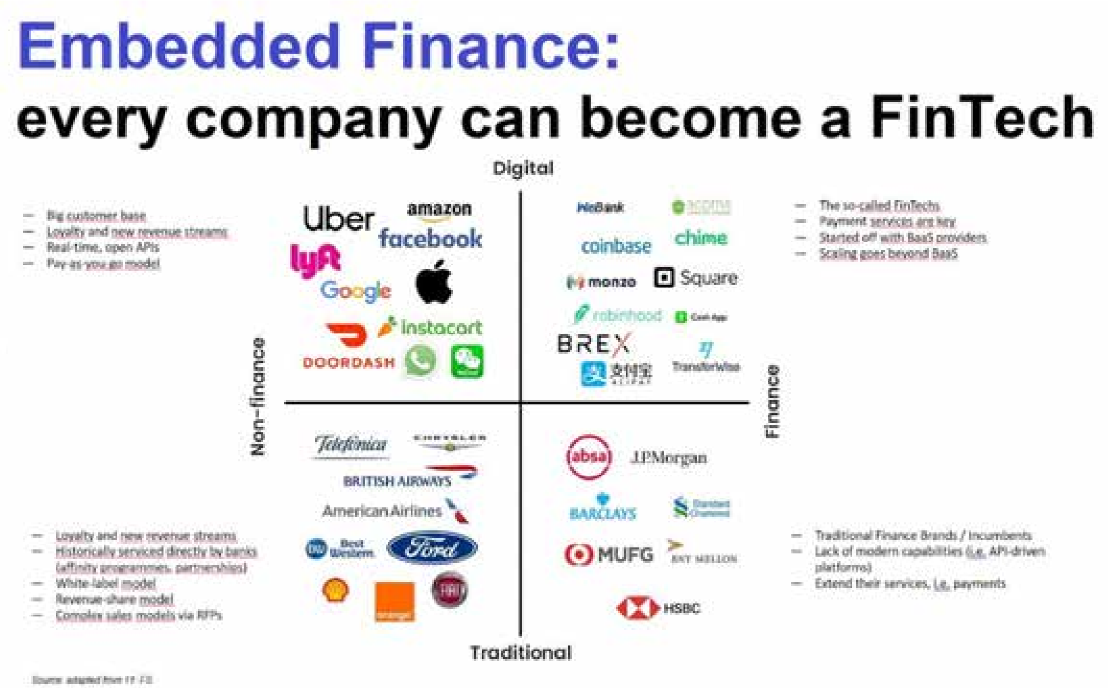
Given the nature of platforms and the power of their partner ecosystems, insurers can assume multiple roles, from owner of the unifying platform, to orchestrator of the products and services, or provider of products and services. What they achieve will depend on their ability to enter the market while it is still an uncrowded "white space."

FIG. 32 *The embedded finance landscape*



"Most importantly, those companies making the strategic decision to adopt these key platform technologies that outpace others are innovating with new products and services and adopting the viewpoint that they are "technology companies providing insurance" as opposed to "insurance companies using technology."

Not surprisingly, companies in the New Products line of business segment lead all others in 11 of the 16 technologies covered by the survey, including the key platform technologies of Cloud/SaaS, APIs, AI/Machine Learning and Microservices. These same companies are in lock step with the Multiline Products segment for two other platform technologies, Digital Experience Platform and Low Code/No Code Platform.

Most importantly, those companies making the strategic decision to adopt these key platform technologies that outpace others are innovating with new products and services and adopting the viewpoint that they are **"technology companies providing insurance" as opposed to "insurance companies using technology."**

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"Digital insurance platforms transform these older approaches from siloed, separate transactions into more satisfying, holistic experiences for customers, channel partners and employees."

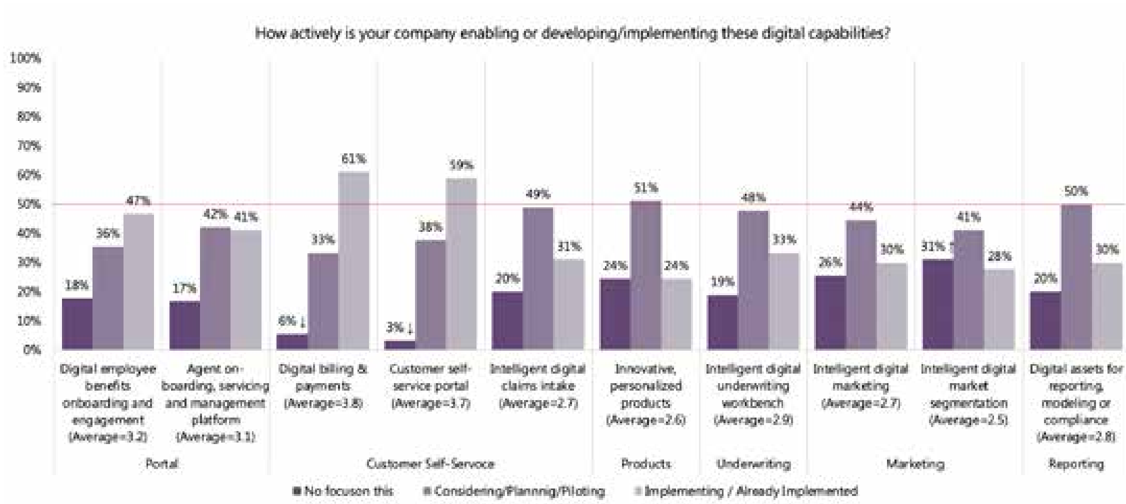
Digital Capabilities

Insurers' digital transformation is underpinned by increasing customer expectations for new experiences. In their response, insurers are heavily focused on customer self-service applications and portals, with 41% to 61% of companies saying they are implementing or have already implemented these (see Figure 33).

Self-service tools and portals have been around for some time, but they do not meet the shift in the desire for personalized, holistic experiences that "out of the box" portals do not provide and are instead functionally focused … i.e. a claims app or quote app. In contrast, digital insurance platforms transform these older approaches from siloed, separate transactions into more satisfying, holistic experiences for customers, channel partners and employees as we noted in our life and auto customer research.

Encouragingly, about a third of insurers are implementing or have implemented digital capabilities for intelligent claims intake, intelligent underwriting, intelligent digital marketing and market segmentation, and for reporting, modeling or compliance, with over 40% planning or piloting these, highlighting the acceleration of their digital capabilities.

FIG. 33 *Insurers' levels of activity in adding digital capabilities*



"While the overall high interest in these digital capabilities is encouraging, some very significant differences between business and IT must be resolved to maintain and accelerate momentum."

While the overall high interest in these digital capabilities is encouraging, some very significant differences between business and IT must be resolved to maintain and accelerate momentum.

Business' ratings were higher than IT for:

- +95%: Innovative, personalized products (3.7 vs 1.9) – This disconnect reflects the increased decision making by business leaders to use new SaaS core and digital platforms to launch new products rapidly, rather than on the existing systems or traditional process. In some cases, IT is not even needed.
- +42%: Digital employee benefits onboarding and engagement (3.4 vs 2.4) – The expansion of voluntary benefits and the complexity of signing up employees as well as keeping them informed is increasingly critical in winning the customer.

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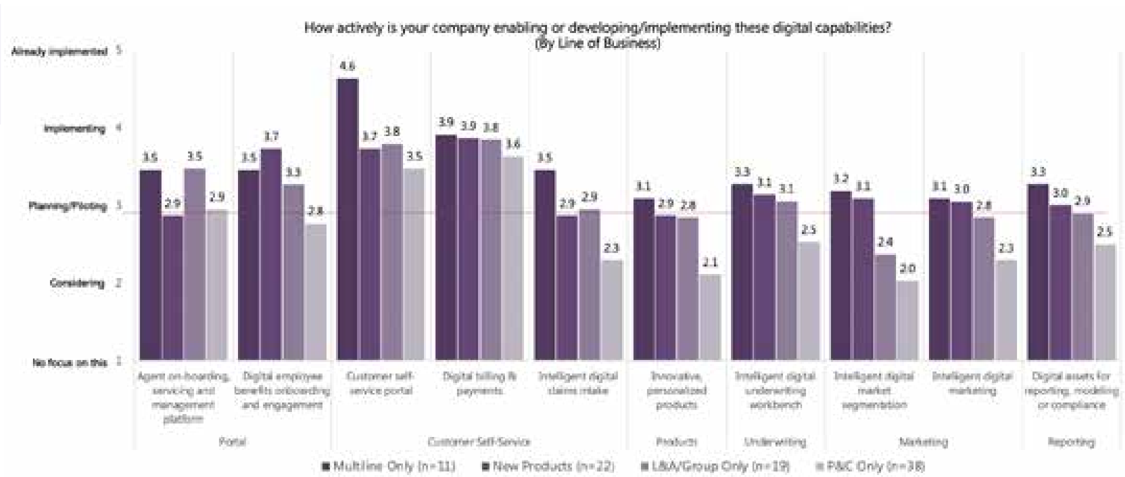
- +32%: Agent onboarding, servicing, management platform (3.3 vs 2.5) – Agents felt the impact the most during COVID with the lack of digital capabilities beyond the traditional quote portal or upload/download for AMS systems. Increased M&A with agencies puts pressure on the business to respond to keep, let alone attract agents.

- +18%: Customer self-service portal (3.9 vs 3.3) – This has been a constant area of focus, but is shifting to expand beyond the traditional portal on websites to a much more personalized and sophisticated experience.

Finally, multiline carriers are very active in establishing digital capabilities. Driven by the complexity of multiple products, they want to digitalize, simplify processes, and provide self-service capabilities for customers, employees and agents (see Figure 34).

FIG. 34 *Insurers' levels of activity in adding digital capabilities by lines of business*



Partnerships & Ecosystems

"Failure to recognize the criticality of partnerships and ecosystems is a major blind spot. Our research, as well as numerous other studies, have shown strong customer interest in buying insurance through other partnerships and channels."

Last year's survey revealed a relatively slow start in establishing partnerships and ecosystems, with more thinking about it rather than planning or piloting. Unfortunately, we saw some backsliding on several of these, perhaps driven by shifting priorities due to COVID, as seen in Figure 35.

Insurers must rapidly shift from this position to avoid lost opportunities to reach new or underserved markets as well as to be at the front in establishing partnerships before others. Failure to recognize the criticality of partnerships and ecosystems is a major blind spot. Our research, as well as numerous other studies, have shown strong customer interest in buying insurance through other partnerships and channels. Furthermore, the development and access to APIs to connect to new partnerships and ecosystems is increasingly important to be considered.

Two recent examples include:

- Chubb – Launched **Chubb Studio** "digital insurance in a box." Partners can access their products, services and claims digitally and integrate what they do into what the partner does – embedded insurance. Initial products offered include: Health & Well-Being, Home Contents, Gadgets, Travel and Small Businesses.[24]

- Nationwide – Launched their **Partnership Program** for partners and developers to digitally provide Nationwide's products (including auto, home, commercial, pet) on the same digital platform, making the partner experience "quick, easy and seamless." It provides an integrated "front door" where companies can quickly enable a partnership with Nationwide.[25]

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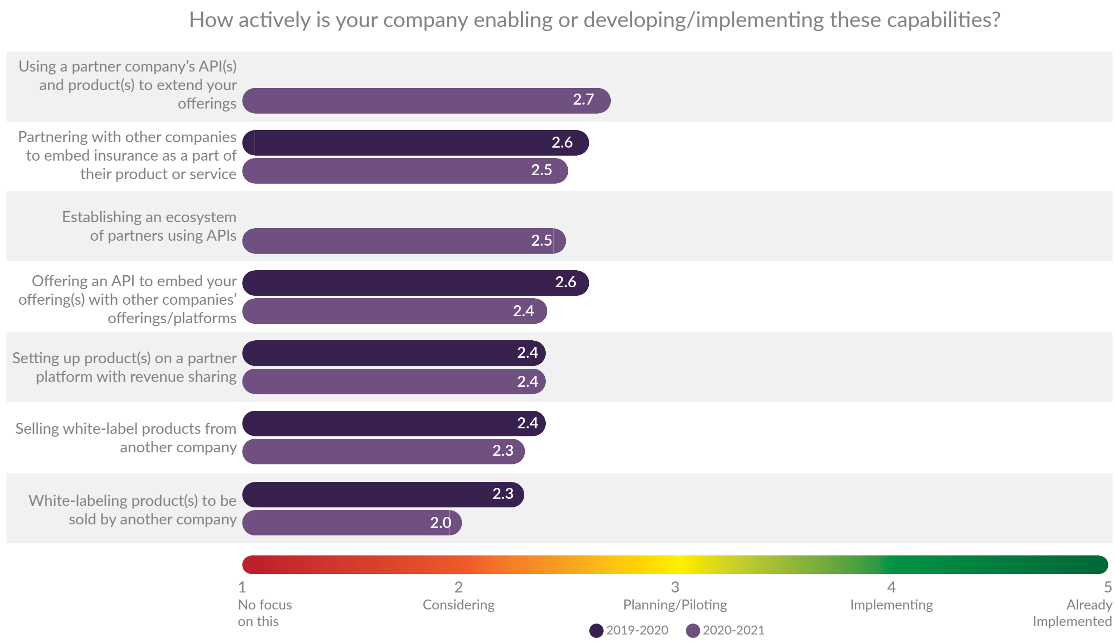
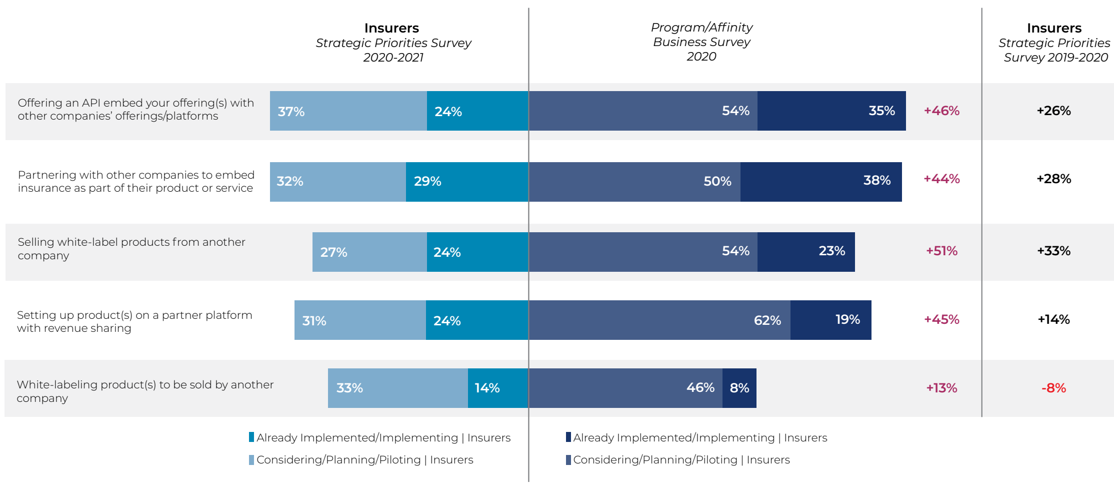
FIG. 35 *Insurers' levels of activity partnership and ecosystem capabilities*



Our joint research report with PIMA, Navigating A New Era of Digital Technology and Customer Expectations, highlighted that companies involved in program and affinity business are well ahead of others in setting up and leveraging ecosystems and partnerships. Based on this year's Strategic Priorities responses (Figure 36), the gaps between insurers with and without program/affinity business were significant and growing as compared to last year's Strategic Priorities results.

Given the rapid development of ecosystems, shift to a platform economy, and increased focus on a broader customer experience dependent on partnerships, these gaps offer those actively working with ecosystems and partnerships the opportunity to accelerate and tie down relationships while others get left behind.

FIG. 36 *Levels of activity in adding partnership and ecosystem capabilities, gaps between insurers with vs. without*



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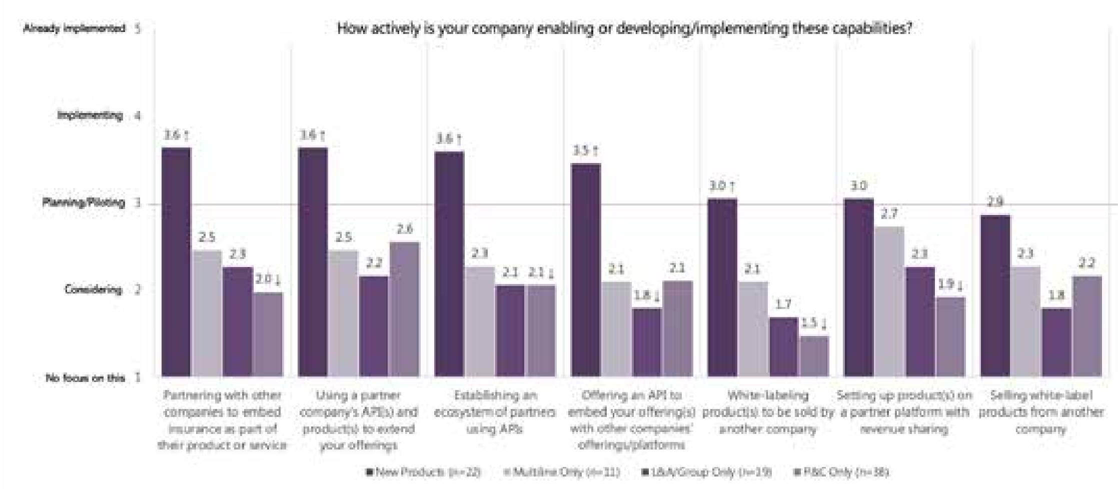
Not all insurer segments are facing this troubling state, however. Those with New Products are ***blowing away*** their traditional product counterparts in leveraging partnerships and ecosystems, as seen in Figure 37. Multiline insurers are a distant second in most of these activities. Traditional P&C and L&A/Group segments appear to be resigned to traditional channels rather than expanding channel choice and reach. The challenge is that they will find limited opportunities for partnerships the longer they wait, limiting, if not contracting, their market reach and growth opportunities as a new generation of buyers increasingly turns to alternative channels.

FIG. 37 *Levels of activity in adding partnership and ecosystem capabilities by lines of business*



Regulatory

Insurance innovation requires bold strategic decisions to allocate resources to experiment with new technologies, processes, and ideas. Complex state regulations have traditionally been viewed as a barrier to the industry's attempts to try new things. But this is changing.

"With the implementation of insurance innovation sandbox environments in many states, we now know that regulators realize the importance of innovation to meet the changing needs and expectation of their citizens whose interests they are pledged to protect."

With the implementation of insurance innovation sandbox environments in many states, we now know that regulators realize the importance of innovation to meet the changing needs and expectation of their citizens whose interests they are pledged to protect. AM Best also added fuel to the innovation imperative with the introduction of its Innovation Rating criteria. And many insurers who are developing new, innovative products are proactively working with regulators to guide and speed the process.

Unfortunately, the survey responses were slightly lower. Surprisingly, participation in a sandbox was particularly low among the P&C-only (average rating of 1.6) and L&A/Group-only (1.7) segments suggesting they are following traditional products and paths for approvals. The innovation practices to support the AM Best innovation criteria remained the same (Figure 38). This is actually surprising given the poor initial results published in March 2020. We can hope that 2021 will bring more focus and alignment.

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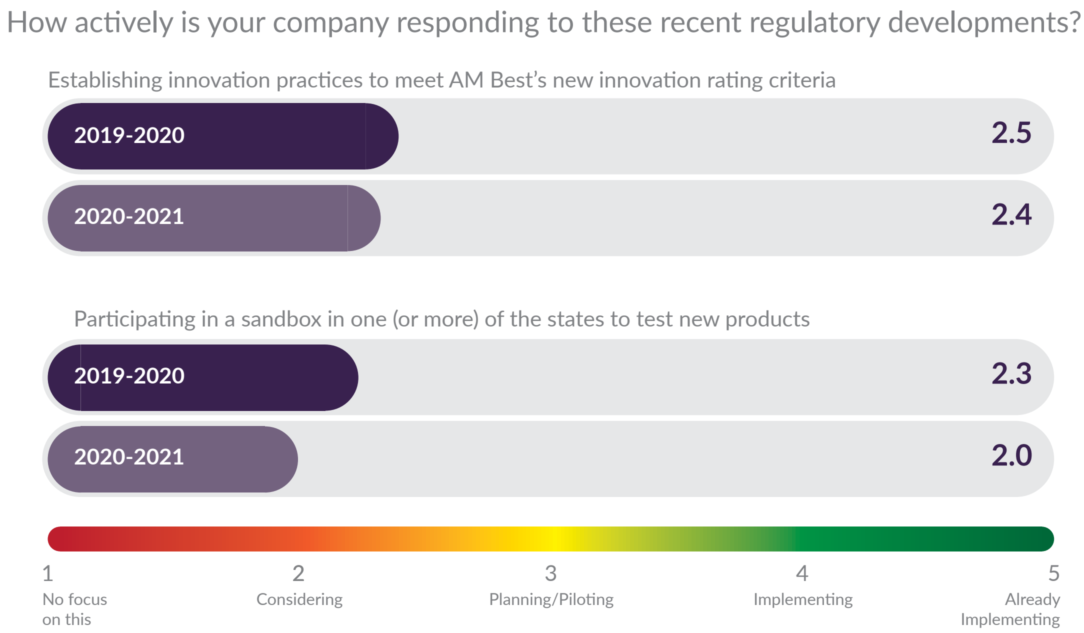
FIG. 38 *Insurers' levels of response to innovation support from regulatory and rating agencies*



Conclusion

"The three-year outlook by Leaders in comparison to Followers and Laggards is not just growing … it is accelerating at a speed that will eliminate the possibility of being a "fast follower."

As 2021 unfolds and we look beyond it, we know that change and disruption will remain as constants and continue at an accelerated pace. Because of this, the era of succeeding as a "fast-follower" is long gone. The gaps between Leaders and others are expanding and creating barriers that Followers and Laggards will find more difficult and costly to overcome and put their businesses at risk.

Even before the disruption that COVID has created, we emphasized the opportunities for creating new value and innovating that a crisis can create. A December 2018 Boston Consulting Group (BCG) article on creating value from disruption describes how some companies successfully navigate disruption— earning the title, "thrivers."[26] It stated that successful reinvention requires making a large bet—one that can overcome the drag of the old way of doing things.

Making that big bet requires leadership, confidence and expertise to eliminate the "knowing – doing" gap that we have been tracking the last 6 years (and which has been growing). The three-year outlook by Leaders in comparison to Followers and Laggards is not just growing … it is accelerating at a speed that will eliminate the possibility of being a "fast follower." As noted in the BCG article, those who wait will need to make bigger and potentially riskier bets to gain parity with the "early responders." As "early responders" gain growth momentum, the "knowing –doing" gap grows, leaving followers and laggards with dwindling options and relevancy in fast-changing market.

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"Change, as we have known it, has changed. It is faster, deeper, wider and more powerful than we've ever been used to before. Forward-thinking Leaders are making bold, warp speed moves with a two-speed strategy to optimize today's business while simultaneously creating their future business."

- **Automotive Players:** GM, Tesla, Volvo
- **Outside Players:** Petco, Intuit, Walmart, Credit Karma
- **Industry Greenfields:** Say Insurance, Spire, Haven Life
- **Reinsurers:** Munich Re, Swiss Re, RGAX
- **Startups:** Pie Insurance, Next, Lemonade, Root, Ategrity
- **Embedded Insurance:** Volvo, Wrisk, Mylo
- **B2B2C Ecosystems:** PingAn, Allianz, Nationwide, Chubb, Axa
- **Membership/Subscription:** BOXX Insurance, Zipcar
- **On Demand Insurance:** Starr Insurance, First Insurance Company of Hawaii
- **Partnership and Ecosystem:** Acko + Amazon, Nationwide + Toyota, Chubb + Hodinkee, Root/Lemonade/Ladder Life + Sofi

Change, as we have known it, has changed. It is faster, deeper, wider and more powerful than we've ever been used to before. Forward-thinking Leaders are making bold, warp speed moves with a two-speed strategy to optimize today's business while simultaneously creating their future business. They are focused on next-gen platforms, ecosystems, new channels, new products and business models – all key strategies that influence and accelerate growth.

Look at your strategic initiatives and see where you stand compared to Leaders, Followers and Laggards.

Resolve to boldly reprioritize, reallocate resources and accelerate plans with a two-speed strategy to close the gap.

Become a technology company with insurance products and services.

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