



# *Addressing the challenges for future success*

## Executive Summary – Growing opportunities, growing threats

*We are pleased to present the 2018 Insurance Ireland – PwC CEO Pulse Survey highlighting the views of Irish insurance CEOs on the trends influencing the industry and the outlook and opportunities for growth.*

The survey, which was conducted in Summer 2018, captures the views of Irish insurance CEOs across all classes of insurance and benchmarked the trends against the 2016 and 2017 surveys to give an insight into changing industry views.

### *Key takeaways from the survey include:*

**Confidence:** Although down from 90% last year, a significant majority (83%) of Irish insurance CEOs are confident about business growth in the year ahead. This compares with 90% globally. Almost two thirds (61%) plan to expand their workforce in the year ahead and of these respondents, 15% expect to expand their workforce by in excess of 10%. Although it should be noted that there may be variations across the industry.

**Challenges:** There has been a noticeable sharpening of CEOs' views on the disruptive potential of issues such as changes in

industry regulation, Brexit and emerging technologies. Other concerns include changes in customer behaviours, changes in the international tax environment, poor investment performance, talent and cyber threats.

**Innovation and Tech:** Despite the potentially disruptive effects of emerging technologies and other trends, there are opportunities with 71% of Irish insurance CEOs believing that the majority of businesses will have cyber insurance in five years time. Two-thirds (66%) of respondents also said that the insurance industry has more to do to respond to changing purchasing habits and means of engagement such as across digital platforms. It is noticeable that digital technology is playing a greater role in decision making within companies and is no longer just an operational tool. However, the majority believe that it will be ten years or more before self-drive driving cars are widely adopted.

**Brexit:** Nearly one fifth (17%) of survey respondents with UK operations have reported that their company is considering relocating some or all of its operations to Ireland post-Brexit. Luxembourg is the most competitive international regulatory regime relative to Ireland.

**Government priorities:** The three Government priorities which the CEOs consider the most important are ensuring competitiveness on issues like wages and rates, addressing the cost of claims and maintaining the competitiveness of the Irish corporate tax regime.

The survey highlights that the Irish industry is confident about future growth, is investing in people and is getting greater returns from investment in digital technologies. However, some challenges are becoming more acute. For example, while 77% of the respondents said that there are more growth opportunities than there were three years ago, 66% confirmed that there are also more threats.

The opportunities for growth mainly relate to expanding into new markets and product diversification and innovation. However, this is tempered by business challenges relating to low interest rates, the availability of key talent and changing customer behaviours.



**Paraic Joyce,**  
Insurance Partner, PwC



**Kevin Thompson,**  
CEO, Insurance Ireland

The international environment remains uncertain with the risks of Brexit and other geopolitical risks impacting on sentiment and outlook.

Insurance CEOs are keenly aware of disruption and change facing their industry and the transformational impact of technology which is now evident across all areas of the industry. Insurers are responding through utilising technologies such as data analytics and artificial intelligence to inform risk analysis, improve operations and enhance client solutions.

More generally, the competitiveness challenges facing all businesses, and Ireland as a location, feature strongly in the survey reflecting the competitive international environment for insurance investments and the need for Government policy to maintain its focus on competitiveness.

# 1. Confidence

*Ireland continues to be one of the highest performing economies in the EU. And despite continued disruption in the industry, Irish insurers remain overwhelmingly positive in their outlook. Globally, 90% of insurance leaders are confident about their own organisation's revenue growth and 45% plan to hire more people.*

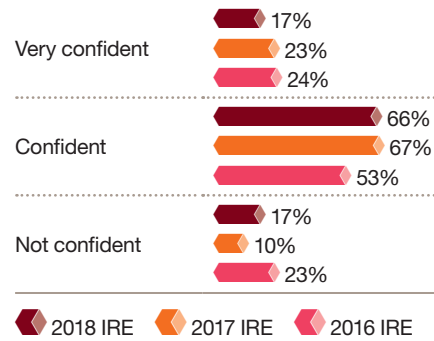
Over eight out of ten (83%) Irish insurance CEOs are confident about business growth in the year ahead, albeit slightly down from prior year levels (90%). This confidence is reflected in workforce expansion plans (61%), including four out of ten (41%) projecting headcount expansion of over 5%. It should be noted that this outlook may not be uniform across the industry and there are variations in company headcount in different sectors. The slight dampening in mood in Ireland compared to last year is likely to reflect external challenges and international uncertainties such as Brexit and other geopolitical trends, the changing international tax environment and looming trade tariffs, all of which may impact Ireland's future economic growth.

This optimism is grounded on opportunities from emerging technologies and the ability of digital technologies to make a real difference to operational efficiencies, innovation capacity, customer sales and the bottom line. Insurance leaders see real opportunities from data analytics, artificial intelligence and robotics. They recognise that seizing the growth opportunities from these new trends will transform business models.

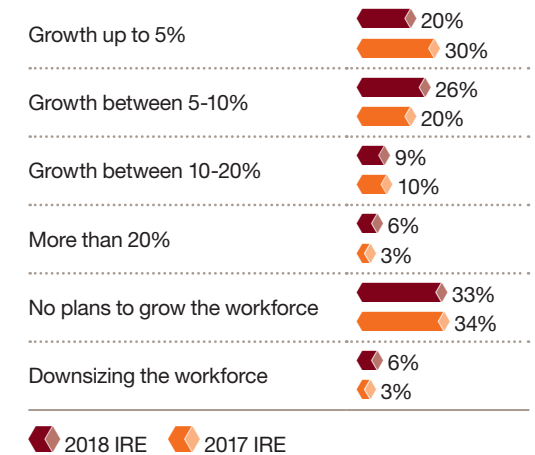
**83%** confident about future business growth

**61%** plan to hire more people

**Chart 1:** Confidence about business growth in the year ahead for your insurance business



**Chart 2:** Plans for workforce expansion in the year ahead



## More opportunities, but also more threats

Three-quarters (77%) of insurance CEO respondents are of the view that there are more growth opportunities now than there were three years ago, up from 42% last year. At the same time, two-thirds (66%) also believe that there are more threats, up from 25% last year.

Expansion into new markets is seen as the single greatest growth opportunity for Irish insurance leaders and has tipped the balance from expansion into existing markets. Two years ago, for example, nearly half of Irish based insurance CEOs were of the view that expansion into existing markets was the single greatest growth opportunity.

Emerging technologies/InsurTech will be the single key growth driver for over one in ten (14%) survey respondents.

Nearly one in five (17%) see product innovation and diversification as their single most important driver of growth. For example, as more businesses move to digital channels, demand for cyber insurance will rise. The survey confirms that nearly three-quarters (71%) expect the majority of businesses operating in Ireland will have cyber insurance in the next five years. We also see openings for insurers to become the 'orchestrator' of services, moving away from traditional products where benefits will

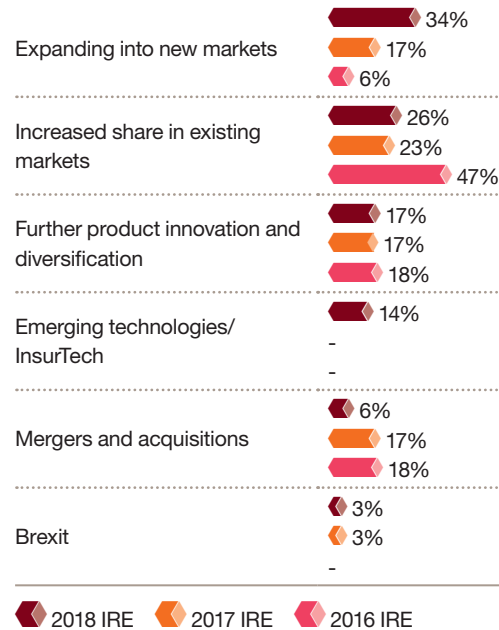
include more personalised products. For many, this will be a fundamental shift in business models, using data to head-off an emergency, not just providing compensation after the accident has occurred. Examples are providing sensors when a car exceeds certain speed limits or health insurers providing fitness devices or internet of things-enabled smart homes. If done right, customers will be more satisfied, the bottom line will be healthier and investors will be happier.

One in sixteen Irish insurance leaders confirmed that a merger or acquisition will be their single greatest opportunity for growth over the next three years. With their innovative technologies to respond to changing customer demands, InsurTech businesses, for example, are likely to be receptive to offers of partnership and even acquisition. We are seeing more tie-ups with larger players as a result.

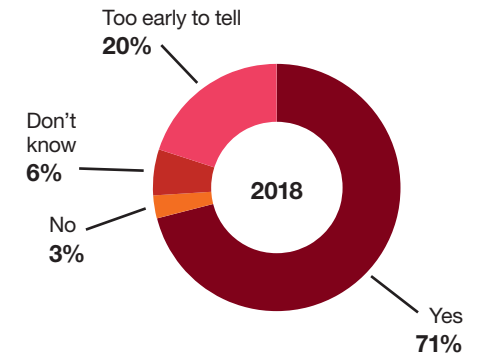
**77%** see more opportunities

**66%** see more threats

**Chart 3: Single greatest growth opportunity for your insurance business in the next three years**



**Chart 4: In your view, will the majority of businesses have cyber insurance in 5 years time?**



**71%** expect majority of businesses to have cyber insurance in 5 years time

## 2. Emerging technologies

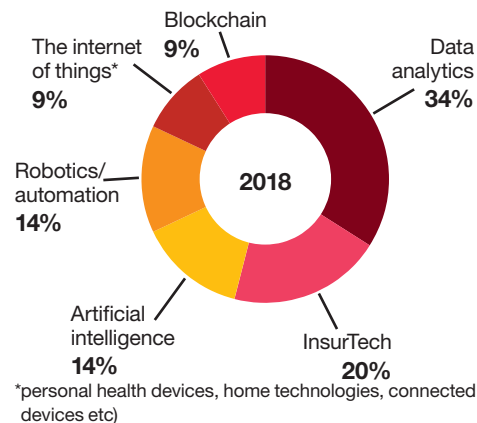
Similar to last year, the research reveals that data analytics is, by far, the emerging technology providing the single greatest opportunity (34%). A further one in five (20%) said that InsurTech provides the greatest opportunity. Other emerging technologies providing opportunities are artificial intelligence, robotics, the internet of things and blockchain.

**34%** see data analytics as the emerging technology providing the greatest opportunity

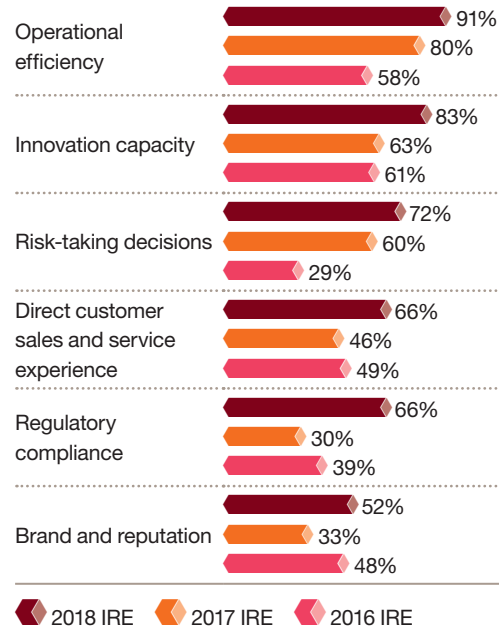
The research confirms that digital technologies are creating much more value for businesses compared to previous years. On average, a quarter more insurance leaders feel that digital technologies are creating high value for their business in areas such as operational efficiencies, innovation capacity, risk taking, customer sales and reputation compared to two years ago.

At the same time, over nine out of ten do not see self drive cars being widely accepted in Ireland within the next five years.

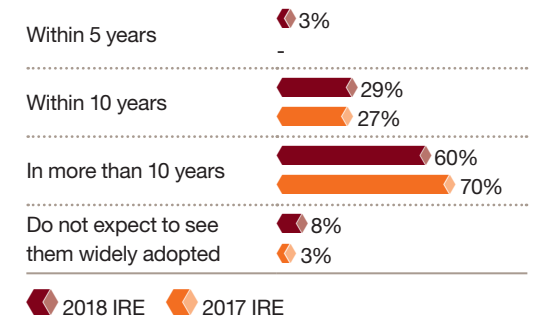
**Chart 5:** Which of the following emerging technologies do you see as having the single greatest opportunity?



**Chart 6:** Extent to which digital technologies are creating high value to your business in the following areas (% who said 'quite high value/very high value')



**Chart 7:** When do you expect self-driving cars being widely adopted in Ireland?



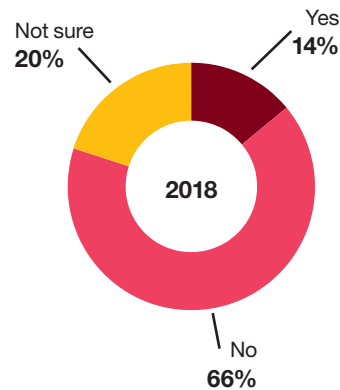
On average **82%** said digital technologies are creating high value in areas such as operational efficiency, innovation capacity and risk-taking, up from 49% two years ago

## More to do on customer engagement and automation

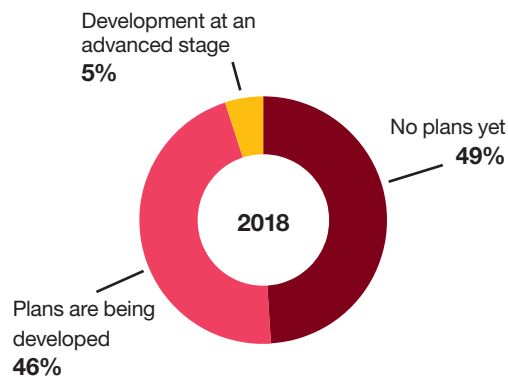
**66%** said the insurance industry is not sufficiently responding to changing customer habits

Two-thirds (66%) of survey respondents are of the view that the insurance industry has not sufficiently responded to changing consumer purchasing habits and means of engagement, such as across digital and mobile platforms. Half (49%) stated that they had no plans yet in terms of developing opportunities from humans and machines working together.

**Chart 8:** Has the insurance industry responded sufficiently to changing consumer purchasing habits and means of engagement, such as across digital and mobile platforms?



**Chart 9:** What is your organisation's state of development in terms of opportunities from humans and machines working together (ie chatbots, robotic process automation, etc.)



## Mainstreaming innovation

Over eight out of ten (83%) survey respondents are of the view that digital technologies are driving high value in innovation capacity. But technology alone won't enable insurers to capitalise on unfolding innovation opportunities. Investments will go to waste unless there is a genuine readiness to embrace change and bring innovation into the heart of business. The PwC experience is that innovation is all too often consigned to the fringes or operates in silos within different divisions. The key to overcoming such hurdles is as much cultural as operational. The cultural leap includes the swift and nimble decision making needed to respond quickly to changing market demands. The insurance industry is accustomed to big decisions, big system implementations, and big product launches. Yet by the time traditional decision making and implementation cycles have run their course, the market will have moved on. Innovation requires lots of little decisions and a willingness to learn from them. Keeping pace demands a readiness to bring innovation front and centre into the mainstream of the organisation. It also requires a willingness to experiment and even fail, but fail fast and move on.



### 3. Disruption/challenges

*The survey reveals the extent of the anticipated disruption in the Irish insurance industry over the next five years. Disruption has also accelerated. Regulatory changes and the impact of Brexit are seen as the greatest disruptors and significantly more so than last year.*

**74%** said emerging technologies will disrupt their businesses, up from 63% last year

While also bringing opportunities (page 5), three-quarters (74%) of insurance leaders are of the view that emerging technologies/ InsurTech will also disrupt their businesses over the next five years, up from 63% last year. Technological advances are changing business models and is challenging an industry that is not accustomed to rapid transformation. Embedding these technologies demands a clear strategy including a roadmap for decommissioning legacy systems (including shifting to the cloud), accelerating automation and laying the platform for the next wave of

transformation. Substantial opportunities are on the horizon as a new generation of predictive analytics and artificial intelligence transforms insurers' ability to detect, anticipate and avert risk. Notable possibilities include RegTech (regulatory technology created to address regulatory challenges through innovative technology), which cannot only strip out costs in labour-intensive areas such as 'know your customers' requirements', but also strengthen risk management and improve the reliability of compliance.

***Pace of disruption has accelerated***

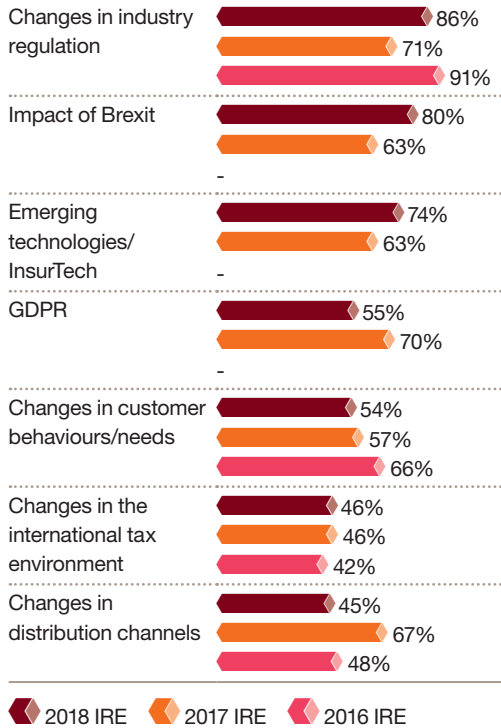
Over half (55%) see the GDPR, which came into effect in May 2018, as a major disruption, though not to the same extent as last year. While insurers have embedded GDPR into their businesses, security over data remains an area of key focus in order to build trust with customers.

In an era where the internet is redefining customer expectations, over half (54%) of Irish insurance CEOs reported that changing customer behaviours will continue to disrupt their businesses over the next five years. Insurers shouldn't underestimate the need for longer term transformational change into digitally-enabled, customer-focused organisations with flexible business and operating models. Successful insurers take both their technological capabilities and their readiness to innovate into the mainstream of their businesses. Rather than operating in isolation, humans and machines should actively collaborate. With these foundations in place, insurers can take the next big leap and enhance their positions as competitive customer centric organisations.

The changing international tax environment and distribution channels will also continue to be key disruptors in the years ahead.



**Chart 10:** Extent of disruption of the following trends for your insurance business over the next five years (% who said very disruptive/somewhat disruptive)



### Challenges

Nearly one in five (17%) respondents said that geopolitical uncertainty is the greatest economic and policy risk they expect to face.

**26%** said that *low interest rates/poor investment performance is the single key challenge for business growth*

Other top challenges for business growth include low interest rates/poor investment performance, change management and the continuing shift in consumer behaviours.

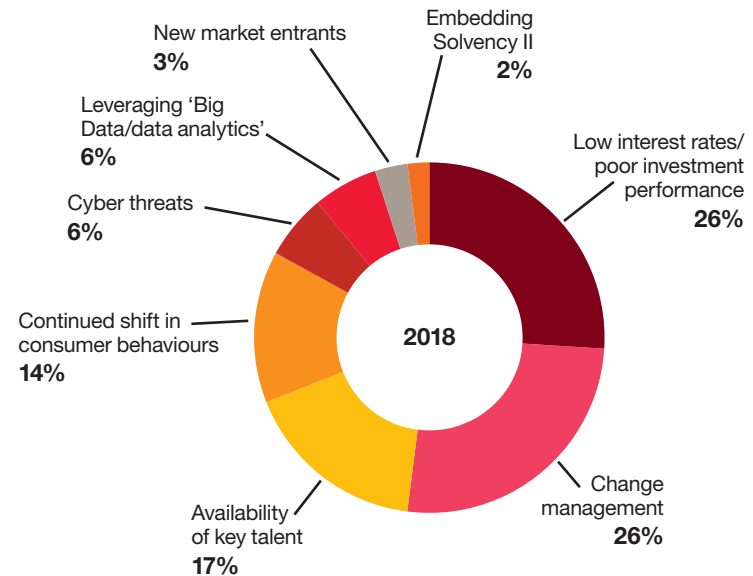
### Concerns over cyber threats also continue to loom.

Thinking about a people strategy for a digital age, talent also remains a threat to business growth with nearly one in five (17%) saying this is the single key challenge. Attracting and retaining people with the right skills, remains extremely competitive and, as other PwC research confirms, is a challenge for many industries. Key to business transformation will be the success of attracting digital talent, who can drive

innovation and who see the benefits of humans and machines working together, communicating with artificial intelligence and robotics. But it isn't just digital skills that are in demand, the need for creativity and emotional intelligence are just as important to innovate and re-connect with customers. These soft skills are needed alongside the technical digital skills in a modern insurance world. Taking full advantage of automation will be important, identifying opportunities to implement robotic process automation

(RPA), and once in place they can apply more advanced automation and artificial intelligence. Industry front runners recognise that this is a transformation in how people work and interact with digital capabilities, rather than simply a technological implementation challenge. Key considerations through the transformation include redefining job profiles and freeing up people's time to focus on more value-adding activities.

**Chart 11:** Single key business challenge/risk facing insurance businesses (% who said it is the single key challenge)





## 4. Brexit

*Nearly a fifth (17%) of participants surveyed with UK operations reported that their company is considering relocating some or all of its operations to Ireland or this is under consideration, down from 26% last year.*

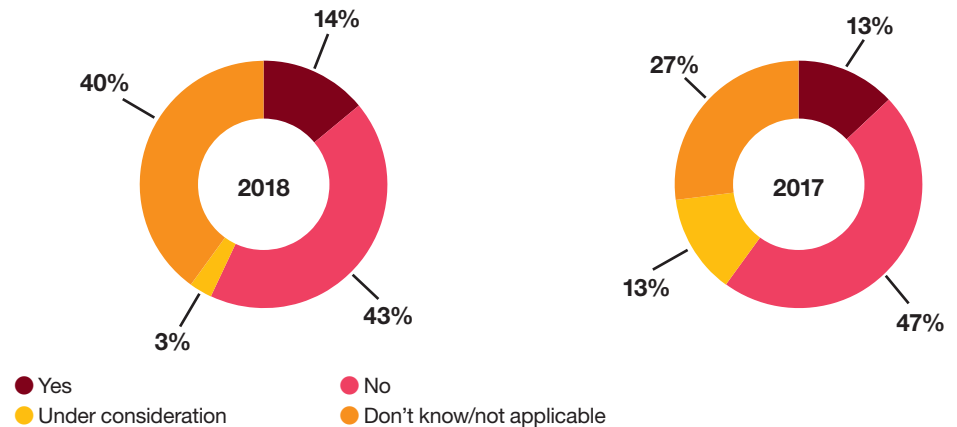
**80%** said Brexit is a key business disruptor, up from 63% last year

According to the research, over half (57%) said that the regulatory environment is the single biggest challenge in attracting UK companies here post-Brexit, but is down from 70% last year. A quarter (26%) said that infrastructure and accommodation deficits are constraints, up from 13% last year. Personal taxation and the availability of key talent were also identified as challenges.

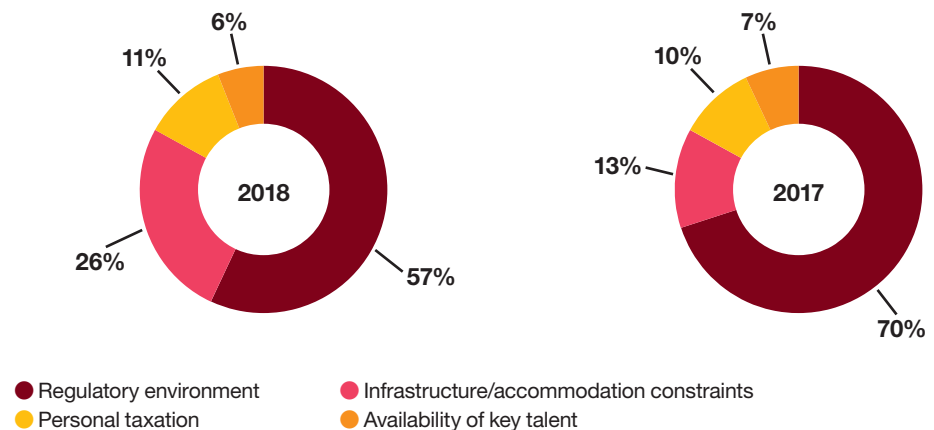
While it does present opportunities in certain areas, namely financial services, Brexit, in any of its possible shapes, will not be good for our economy. A no-deal scenario at the end of March 2019 would have potentially disastrous consequences for Ireland.

While we are hopeful that a Withdrawal Agreement can be agreed with a transition period kicking in, nevertheless, there is great uncertainty and we advise businesses to plan for all scenarios including the worst case scenario. Businesses need to review their business models, examine their supply chains, diversify their products and markets, consider the impact on their people, review contracts and all of this takes time. You can see PwC's no risk actions at [www.pwc.ie](http://www.pwc.ie)

**Chart 12:** If your organisation has UK operations, is your company considering relocating some or all of its operations to Ireland?



**Chart 13:** What is the single biggest challenge for Ireland in attracting UK companies here post-Brexit?



## 5. Regulation

*As identified on page 8, changes in regulation are expected to be one of the greatest business disruptors for the Irish insurance industry over the next five years.*

**77%** said that Ireland's regulatory regime is more demanding compared to other EU territories

Over three-quarters (77%) of survey respondents are of the view that the Irish regulatory regime is more demanding as an international insurance centre compared to other EU territories and is slightly up from 73% last year. According to the survey, Luxembourg (69%) is by far the most competitive international regulatory regime relative to Ireland.

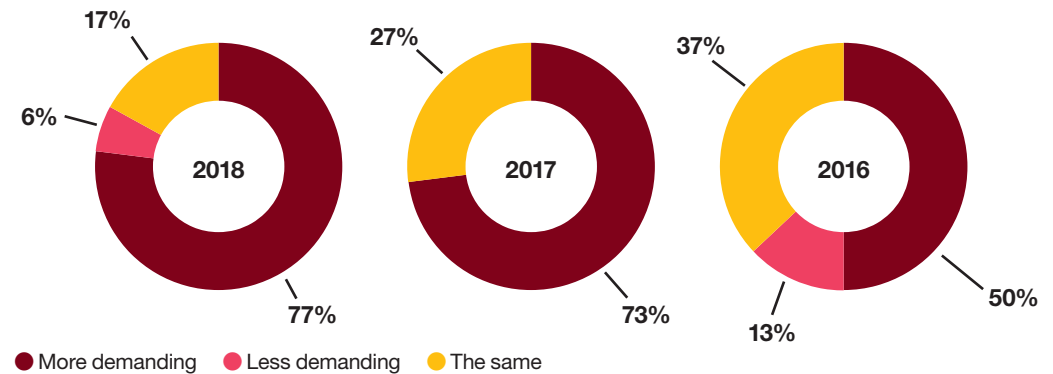
The regulations that will pose the greatest challenges, according to the survey, are: IFRS 17, GDPR and Solvency II.

The majority (74%) are of the view that the capital requirements of Solvency II are appropriate with the greatest benefits being a greater focus on risk and governance, better use of capital and improved data quality.

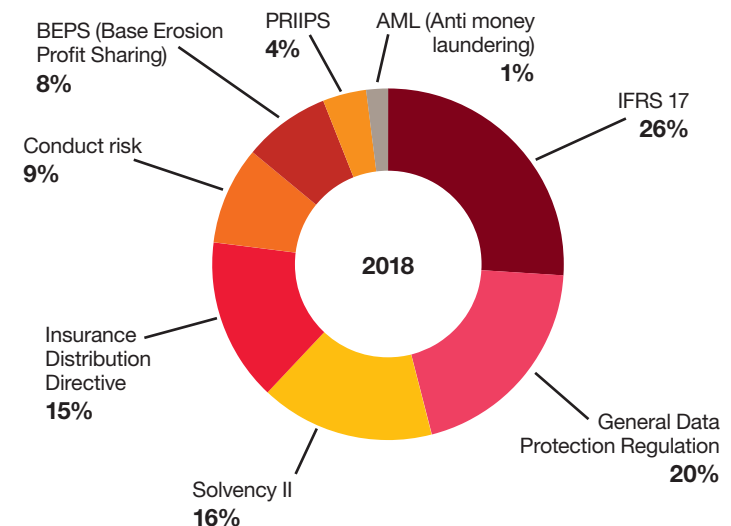
### RegTech a way forward

With IFRS 17 looming and the new set of accounting rules for insurance contracts, it is not surprising that the regulatory challenges are not going away. At the same time, pressure on returns and the need to free up funds for investment mean there can no longer be a blank cheque for compliance costs. RegTech can not only strip out costs in labour intensive areas such as 'know your customer', but also strengthen risk management and improve compliance. And even bigger opportunities are on the horizon as a new generation of predictive analytics and artificial intelligence transforms insurers' ability to detect, anticipate and avert regulatory risks. The possibilities include scanning for early warning signs of financial crime or mis-selling and identifying the scenarios that could give rise to regulatory missteps.

**Chart 14:** As an international insurance centre, how is the Irish regulatory regime viewed compared to other EU territories?



**Chart 15:** Specific regulations which will present the single biggest challenge



## 6. Government priorities

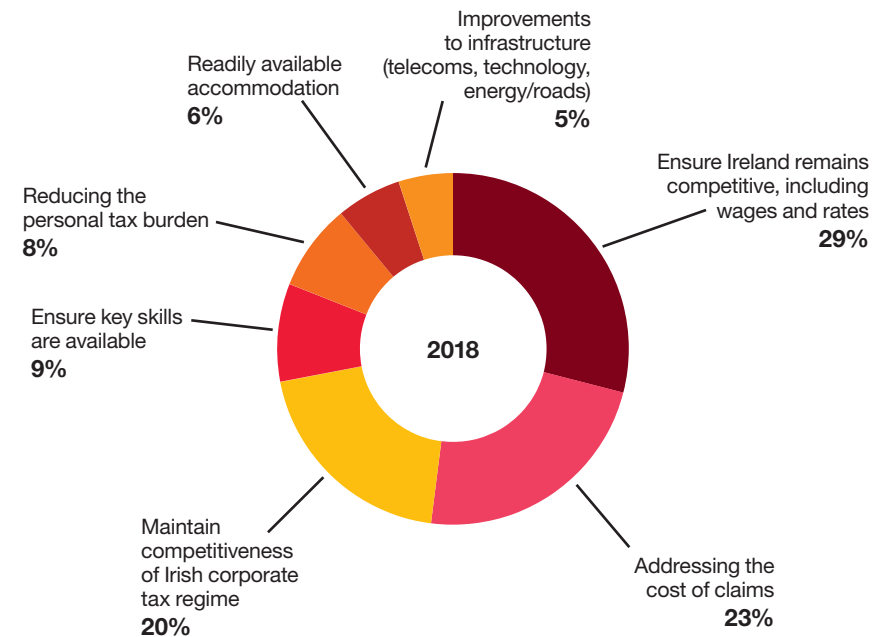
*Ensuring Ireland remains competitive, including tax, wages and business rates, is the single key priority for Government, according to Irish insurance leaders. Other key priorities are addressing the cost of claims, the availability of key skills, reducing the personal tax burden and improving accommodation and infrastructure capacity.*



But just chipping away at costs will not be enough to remain competitive. As we have seen, it will be critical that insurance companies take full advantage of emerging technologies and advanced automation while being at the forefront of what the customer wants, offering products and services that their competitors cannot.

**29%** said that ensuring Ireland remains competitive is the single key Government priority

**Chart 16:** What is the single key Government priority for the insurance sector?



## *Concluding insight*

### *Fortune favours the bold - and persistent*

Clearing away the barriers to growth and accelerating transformation is a daunting task. Yet the pressure for urgent and fundamental change is mounting. Two-thirds of Irish insurance CEOs surveyed see more threats to growth in their organisation than there were three years ago.

While strategies will vary according to individual companies' characteristics and circumstances, structural and cultural change will almost certainly be necessary. However, no company has the scale to address all the issues and develop the necessary competitive capabilities on its own. Partnerships are therefore crucial.

How far are insurers prepared to go in this transformation of talent, technology, culture and decision making? What level of experimentation are company stakeholders prepared to accept?

Fortune will favour the bold – and persistent – at this time of disruption. By contrast, reluctance to tackle deep-seated inefficiencies or put innovation at the heart of an organisation can only prolong the disconnect between aspiration and bottom line reality. Acting half-heartedly risks allowing other, more proactive companies to harness opportunities and lead the industry.

## *Survey methodology and contacts*

The survey was carried out amongst Irish based insurance CEOs across all classes of insurance (many who represent international insurance companies) during Summer 2018 having 35 respondents.

## Key Contacts

If you would like to discuss any aspects of this report in more detail, please contact:



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