

*Fit for
growth*

Executive Summary

We are delighted to present the 2017 Insurance Ireland-PwC 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 2017, includes the views of reinsurance and captive management CEOs for the first time, following the merger of Insurance Ireland and DIMA in January 2017.

Key takeaways from the survey include:

Optimism: 90% of Irish insurance CEOs are confident about the growth prospects for their businesses in the year ahead, up from 77% last year and 81% globally. At the same time, nearly two-thirds (63%) expect to hire more staff in the next 12 months compared to just four out of ten (41%) globally.

Brexit: Nearly two-thirds (63%) of survey respondents reported that Brexit will disrupt their businesses over the next five years with the single biggest challenge for Ireland to attract UK companies to Ireland post-Brexit being the regulatory environment.

Challenges: Aside from Brexit, key challenges include over-regulation, cyber threats, availability of key skills and the speed of technological change. Globally, however, these challenges are causing greater concerns.

Disruption: GDPR, changes in distribution challenges and core technologies, accelerated by InsurTech, automation and the rise of FinTech are key areas disrupting the insurance industry.

Opportunities: Irish insurers see innovation capacity and operational efficiency as the key areas where technology can create value for insurers. Data analytics, artificial intelligence, InsurTech and robotics are key emerging technologies that will spearhead innovation, help create deep customer insight, drive loyalty and win new business. However, there is more work to do in really exploiting advanced analytics.

Government priorities: The top ask from Government by the insurance sector is to maintain and enhance Ireland's competitiveness including our corporate tax regime and wage rates.

The survey highlights an insurance industry that is confident about its future growth while going through a period of intense disruption and transformation. Emerging technologies are providing great opportunities to remain competitive and get closer to customers from FinTech to InsurTech to Robotics and it will be very important that the right skills are in place to really drive these opportunities. Insurance CEOs are acutely aware of this disruption and change facing their industry, the transformational impact of which is now evident across all areas of the industry. At the same time, concerns about regulation, availability of key skills, shifting customer behaviour and competition from new market entrants continue to feature.

One of the key aims for insurers is to remain fit for growth while competing on price and still keeping pace with the disruptive developments in the marketplace. This includes having the digital transformational tools to sharpen the precision of risk selection



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and pricing, thereby delivering more tailored and targeted client solutions at a fraction of the cost.

The survey highlights that data analytics, artificial intelligence and automation are key levers for insurance firms to become more competitive in this ever changing market place. And, as a small open economy, remaining competitive while increasing market share will be critical for Ireland, particularly in the light of Brexit and as we continue to grow our international insurance centre of excellence.

1. Optimism

Against a backdrop of an economy that continues to perform well above the EU average growth rate, an overwhelming majority (90%) of Irish insurance CEOs are confident about the growth prospects for their businesses in the year ahead, up from 77% last year and also ahead of their global counterparts (81%).

Nearly two-thirds (63%) of Irish insurance firms expect to hire more staff in the next 12 months compared to just four out of ten (41%) globally. Just 3% say they will reduce their workforce compared to a quarter (26%) globally.

Increasing their market footprint internationally and domestically (40%) is the single most important growth opportunity for Irish insurance firms. Nearly one in five (17%) plan a merger or acquisition (Global: 35%).

As Ireland continues to develop its International Insurance Centre of Excellence and in the light of Brexit, continuing to develop new and existing markets is critical.

However, there are challenges. Insurance CEOs are acutely aware of the disruption and change facing their industry, the transformational impact of which is now evident in areas ranging from pay-as-you-go and sensor-based coverage. Concerns over regulation, the pace of technological change, availability of key skills, shifting customer behaviour and competition from new market entrants continue to feature.

The survey points to data analytics, artificial intelligence and InsurTech as key levers for insurance firms to become more competitive, getting closer to customers and further developing and adapting products for an ever changing market place.

90% confident about growth

63% plan to hire more people

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

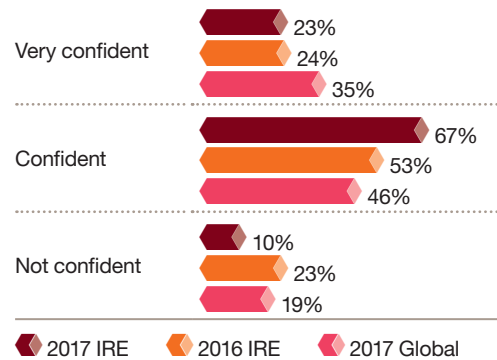


Chart 2: Plans for workforce expansion in the year ahead

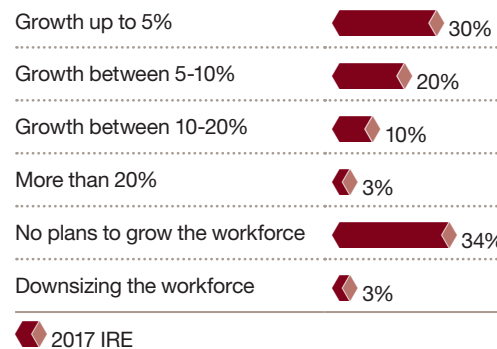
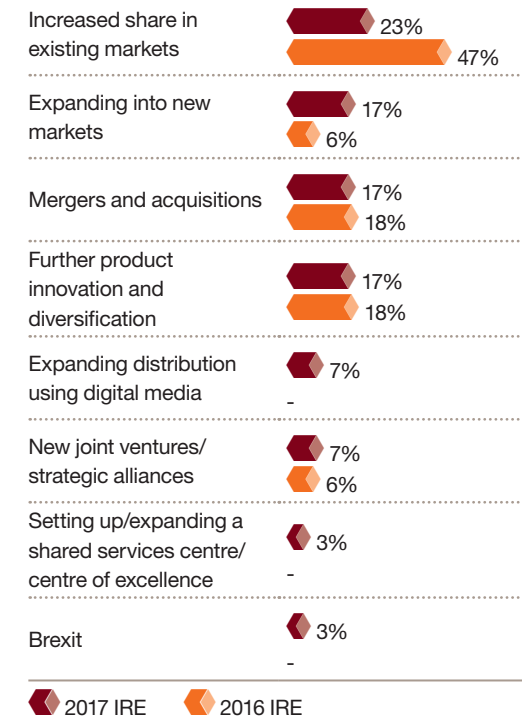


Chart 3: Single greatest growth opportunity for your insurance business in the next three years



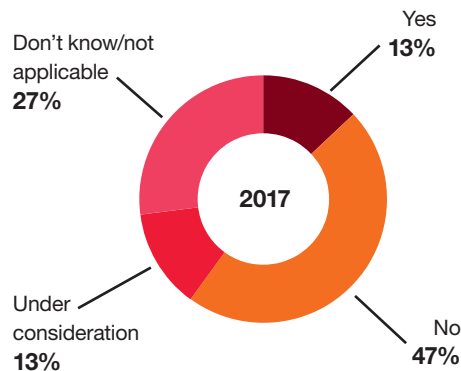
2. Brexit

Nearly two-thirds (63%) of survey respondents reported that Brexit will disrupt their businesses over the next five years. With the third round of Brexit negotiations now complete, and the outcome remaining uncertain, businesses need to plan for the worst-case scenario.

Despite this, a quarter (26%) of Irish insurance leaders who have operations in the UK reported that their organisation is considering relocating some or all of its operations to Ireland. Nearly half (47%) are not considering relocating operations to Ireland. According to the survey, the single biggest challenge for Ireland to attract UK companies here post-Brexit is the regulatory environment (70%). This is followed by infrastructure-accommodation, personal tax and skills.

PwC's 2017 Irish CEO Pulse survey revealed that 41% of Irish business leaders are of the view that Brexit will bring increased FDI opportunities to Ireland. Obvious advantages include having EU passporting benefits, being the only English speaking country in the EU post-Brexit with the same common law jurisdiction as the UK and a very highly skilled workforce.

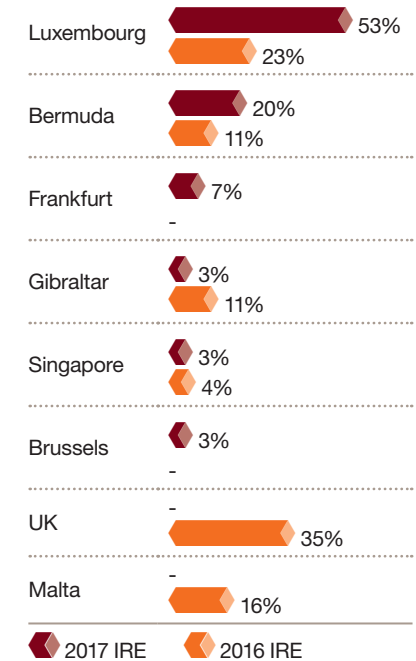
Chart 4: If your organisation has UK operations, is your company considering relocating some or all of its operations to Ireland?



Luxembourg (53%), Bermuda (20%) and Frankfurt (7%) were cited as the top three most competitive international regulatory regimes relative to Ireland. In 2016, 35% viewed the UK as the most competitive while 23% viewed Luxembourg as the most competitive international regulatory regime relative to Ireland.

26% of organisations with UK operations said they will consider relocating to Ireland

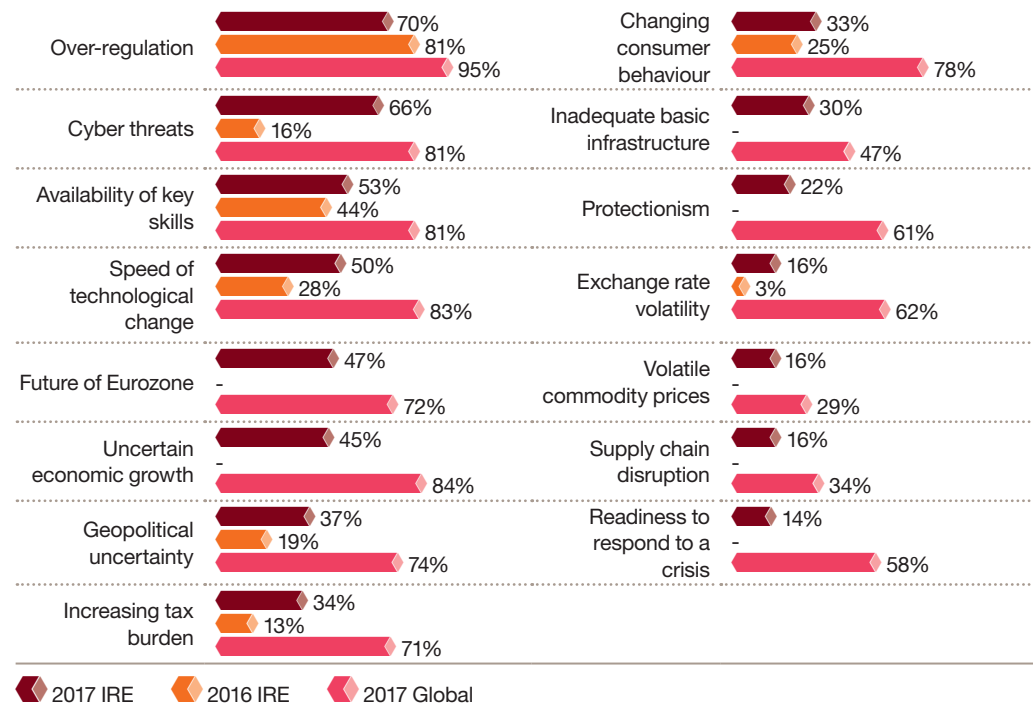
Chart 5: What is the most competitive international regulatory regime relative to Ireland?



3. Challenges

In Ireland the top three challenges for the insurance industry are over-regulation, cyber threats and the availability of key skills. Globally, regulation is also the top challenge but followed by uncertain economic growth and the speed of technological change.

Chart 6: Concerns about economic, policy and business threats to the organisation's growth prospects (% who are very concerned and quite concerned).

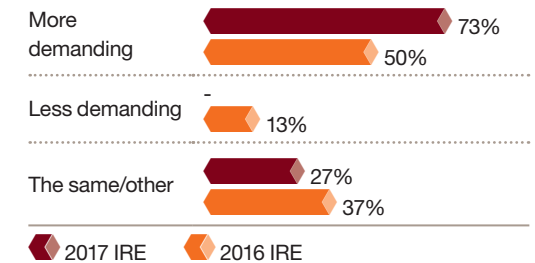


The cost and disruption of regulation continues to be the industry's greatest concern globally and in Ireland. The need to implement so many regulatory reforms across so many areas has inevitably tied up management time and has made reporting more difficult. Compliance demands and costs also continue to rise, straining operational infrastructure and holding back returns. However, these are the unavoidable realities of today's marketplace. Insurers that are able to build the changes into business as usual can gain a critical edge.

Almost three-quarters (73%) of Irish insurance leaders said that Ireland is more demanding as an international insurance centre compared to other EU territories and this is up from 50% last year.

According to the survey, the General Data Protection Regulation, Solvency II and IFRS 17 are the specific requirements that will present the greatest headaches.

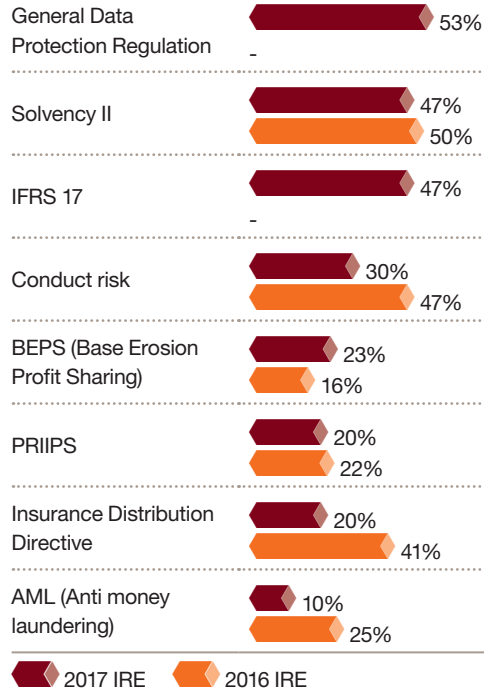
Chart 7: As an international insurance centre, how is the Irish regulatory regime viewed compared to other EU territories?



70% say over-regulation is a key challenge

66% are concerned about cyber threats

Chart 8: Specific regulations which will present the biggest challenges



The survey reveals that cyber threats (66%) are also a key concern, though again global CEOs are much more concerned (81%). PwC's Irish 2017 CEO survey revealed that just 60% of all Irish CEOs intend to seriously address their cybersecurity breaches immediately. Data security poses a huge threat to organisational reputation and the early movers will be the winners.

The availability of key skills (53%) is also a key threat to future growth prospects, although global CEOs, again, are more concerned. Ensuring organisations have the right skills for a highly regulated digital environment is critical. While nearly two out of three survey participants confirmed their intention to expand the workforce, they also recognise that securing the right people for the job is becoming more challenging. Retaining key people should also not be ignored. Organisations across all sectors are competing for the same key skills, recruiting and retaining the right people. Getting the people strategy right in a world where humans and machines work alongside each other may be the biggest challenge leaders will ever face.

The pace of technological change and related shifts in consumer behaviour remain prominent on insurance CEOs' list of business threats. They also represent huge opportunities at a time when customer intelligence is emerging as one of the main predictors of profitability and growth. Even if a business has a dominant market share, it will still need to get closer to customers and be able to customise products and services to their individual preferences.

Irish insurance firms are less concerned about being ready to respond to a crisis (14%) compared to global CEOs (58%).

53% concerned about key skills



4. Disruption

Dealing with the challenges and keeping pace with change isn't just a matter of new technology, but also how to be innovative and develop the real customer insights needed to make fast-shifting market expectations, while continuing to drive down costs.

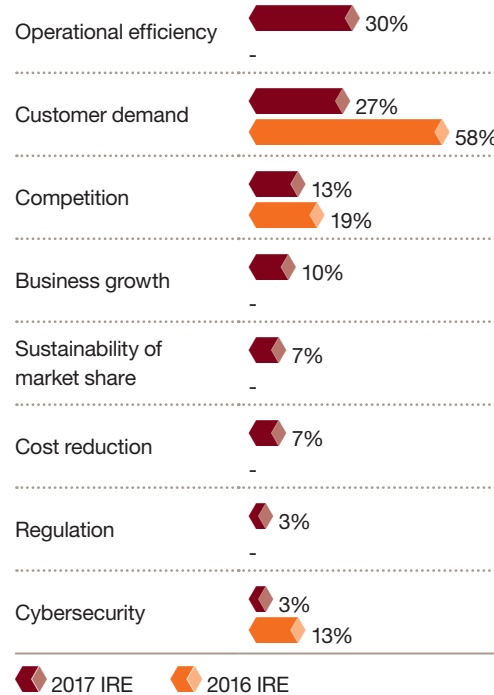
Operational efficiency and customer demand are the front runners in accelerating innovation in their businesses, according to Irish insurance CEOs, although customer demand is much less of a driver this year when compared with last year. Competition, growth and cost reduction also feature.

The pressure to innovate is also heightened from lean and agile InsurTech entrants, which can get close to customers while still being able to undercut some more established businesses on cost and price. The survey highlights that InsurTech is expected to result in significant disruption over the next five years. Incremental innovation and marginal cost savings may not be enough to sustain profitability and growth in this disrupted marketplace.

Globally, the majority (67%) of insurance leaders see creativity and innovation as very important to their organisations. Global CEOs also see the benefits of humans and machines (61%) working together and considering the impact of artificial intelligence (AI) on future skills needed (49%). These developments, and the capabilities that support them, are key elements of being 'fit for growth', enabling them to compete on cost, innovation and deep customer insight. These areas are also of focus for Irish insurance firms.

30% say operational efficiency is driving innovation

Chart 9: What is accelerating innovation in your business

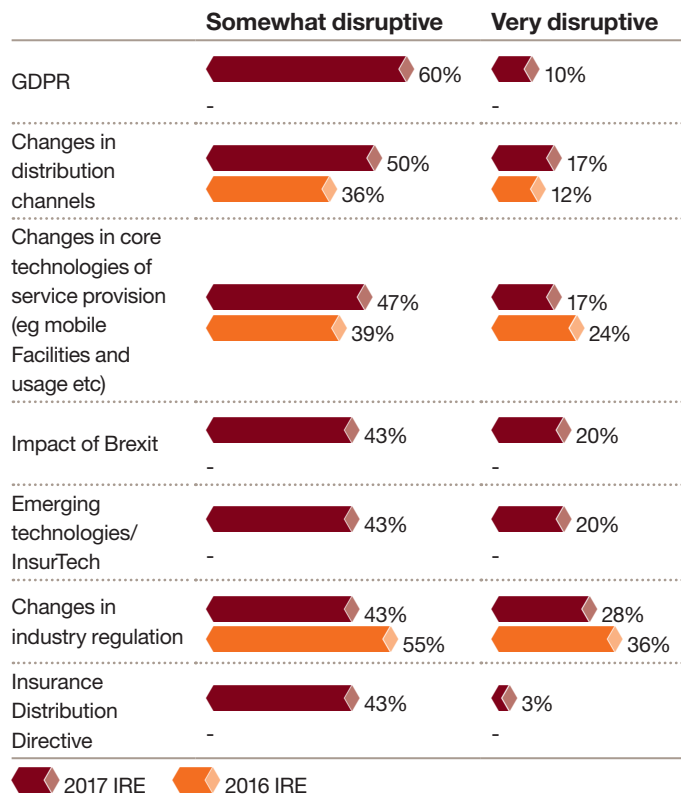


While disruption in the industry can lead to loss of market share, it presents huge opportunities to really push the boundaries of innovation.

Almost three quarters (70%) of Irish insurance CEOs said that the upcoming General Data Protection Regulation (GDPR) will disrupt their business over the next five years.

Companies that collect and use personal data need to pay close attention to privacy laws. The European Union's General Data Protection Regulation (GDPR)—the world's toughest privacy law—goes into effect in 2018, and the deadline for compliance is May of next year. It is notable that businesses that do not comply with GDPR face a potential fine of 4% of global revenues. Companies need to understand other laws and regulations around data privacy, too. Is the company complying with data privacy laws? Is the company on schedule to meet the legal requirements and stay within budget for its compliance efforts? How does the company account for all the data the company collects, including where it is housed. Firms need to ensure that the right processes and controls are in place to mitigate any risk to that data.

Chart 10: Extent of disruption of the following trends for your insurance business over the next five years



GDPR (70%) will be the greatest cause of disruption in the next five years

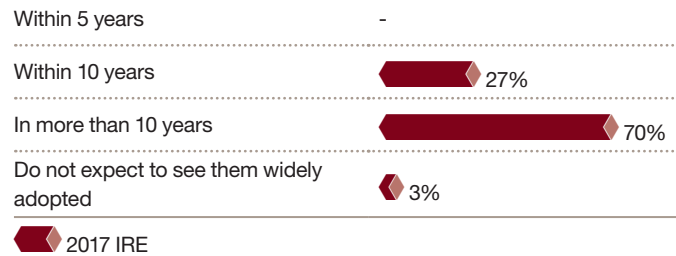
FinTech – also driving disruption

The rise of FinTech is also disrupting the insurance industry. PwC's 2017 Irish FinTech survey revealed that nearly a quarter (23%) of Irish Financial Services respondents said that the insurance industry is likely to be the most disrupted financial services industry by FinTech over the next five years. The same survey also revealed that Irish insurers see increased sophistication of data models and analytics as key enablers to better identify risk.

Autonomous Vehicles

This survey suggests that perception of the widespread adoption of self-driving cars is more than 10 years away.

Chart 11: When do you expect self-driving cars being widely adopted in Ireland?



The era of fully autonomous cars, according to the survey, is a decade away and may challenge many industries from technology to insurance and including the legal landscape. It will no doubt dramatically change how we drive!



5. Opportunities

While they may see the opportunities, the survey suggests that the extent of usage of advanced analytics is not high in the Irish insurance industry. For example, just around one in four users in business functions such as InsurTech, Actuarial and Underwriting said they used advanced analytics a lot. Other functions such as Marketing, Sales, Finance and HR hardly use advance analytics. There are real opportunities to further exploit data analytics to create deep customer insight, drive loyalty and win new business.

Data analytics (87%) is the single emerging technology having the greatest opportunity

As the sector emerges from a challenging period of losses, the focus, as ever, is on how to grow and sustain profitability. Assessing, accepting and pricing risk will always be core to the insurance sector. Surely a greater focus on leveraging data to improve this capability should be central to insurers' future plans. Greater investment in building capability to leverage internal and external data is crucial. Disruption forebodes on the horizon, with autonomous vehicles, IoT and the burgeoning rise of InsurTech and FinTech. Pricing today is formulaic and manageable. Pricing in the future is unknown. Our advice is to build capability to move quickly against potential rapid changes in the market dynamic. Be able to consume third party data into pricing models; be able to identify and utilise new variables; be able to attract talent to innovate and progress. The future is now, embrace prescience.

Chart 12: Which of the following emerging technologies do you see as having the greatest opportunities?

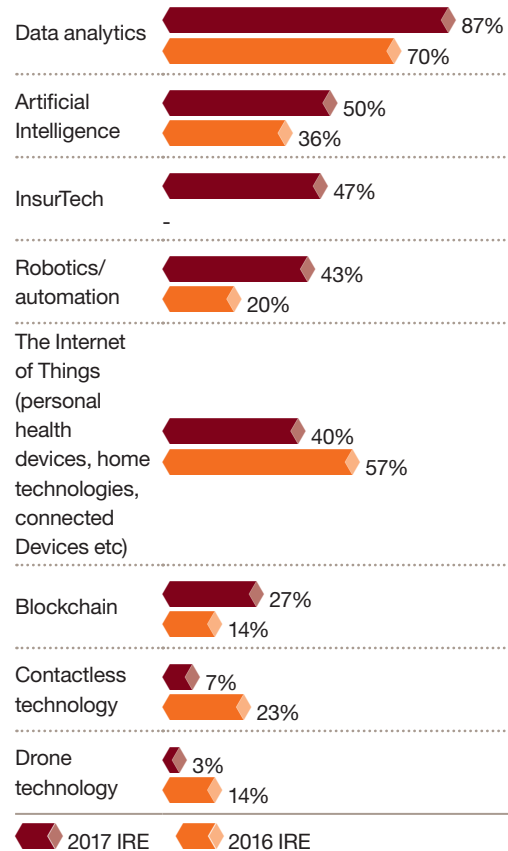


Chart 13: Extent to which digital technologies are creating high value to your business in the following areas (% who said 'Quite high value/very high value')

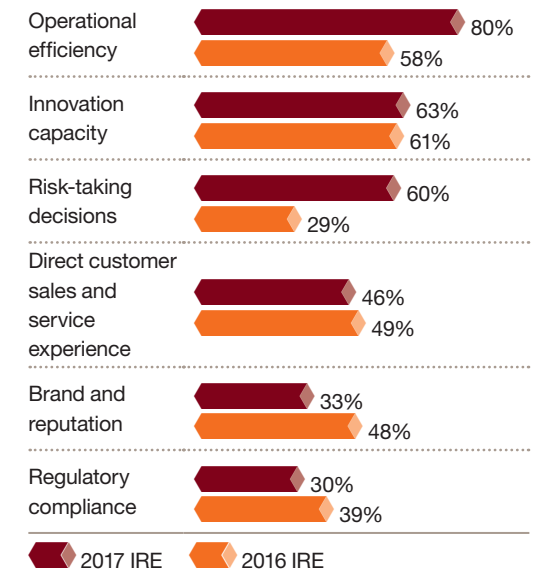
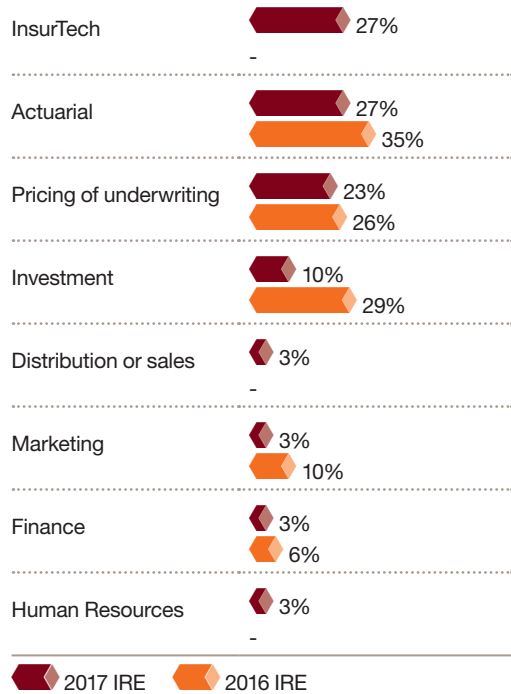


Chart 14: Extent of advanced analytics usage by business functions (% who said 'used a lot')



The key aim is to enable insurers to compete on price, while still keeping pace with the disruptive developments in the marketplace – in other words, being fit for growth. This includes having the digital transformational tools to sharpen the precision of risk selection and pricing thereby delivering more tailored and targeted client solutions at a fraction of the cost.

So how can insurers reduce costs, while strengthening productivity and boosting growth?

The underlying trend is towards greater automation of routine tasks, which can not only reduce costs and improve efficiency, but also free up staff to devote more time to customers and higher value growth areas such as cyber risk insurance. Promoting technologically enabled solutions include:

- Using machine learning, advanced analytics and sensor technologies to target clients, evaluate their needs, develop customised solutions and price risk in real-time. The benefits include more focused sales and marketing investments, and more favourable outcomes for policyholders.
- Automation and AI are already cutting costs by speeding up routine underwriting and providing a more informed basis for pricing and loss evaluation. The emerging opportunities range from equipment sensors to cognitive computing as insurance moves from compensating client losses to anticipating what will happen and when (predictive analytics) and proactively shaping the outcome (prescriptive analytics).

- Robotics is rapidly reshaping the back office and reducing costs. Prominent examples include finance, where previously disjointed systems are being connected through simple new software. Advantages include allowing data to flow more easily around the business without the need for endless re-keying.

Just one in four working in InsurTech, Actuarial and Underwriting use advanced analytics



Marking out the front-runners

So how can insurers square the circle of innovation, cost control and customer intelligence?

1. Aligning costs to strategy

The crucial priority is to focus resources to stimulate growth and differentiation. The starting point is differentiating the capabilities that fuel profitable growth ('good costs' targeted for investments) versus low-performing activities and inefficient operations ('bad costs' targeted for overhaul or elimination).

2. Rethinking human capital

Insurance is being transformed, and with it the talent insurers need to succeed, where they come from and what they want from their careers. Forward-looking insurers are developing new human capital strategies as they seek to develop more creative, adaptable and digitally-savvy workforces. The sources of talent will continue to broaden as industry boundaries blur, insurers enter new markets, and diversity is recognised as a competitive imperative. The way talent is deployed and managed will also continue to change as organisations strive to move closer to customers and working alongside artificial intelligence becomes routine.

3. Innovating to grow

The insurers that are turning disruption into opportunity are not looking at how to combat InsurTech, they are playing an active part in its development. They are developing enterprise innovation models capable of closely monitoring the latest trends in innovation and customer expectations. They are actively partnering with start-ups, not just by funding them, but also by sharing insights from their market experience and providing a testing ground and access to market for new ideas and ventures.



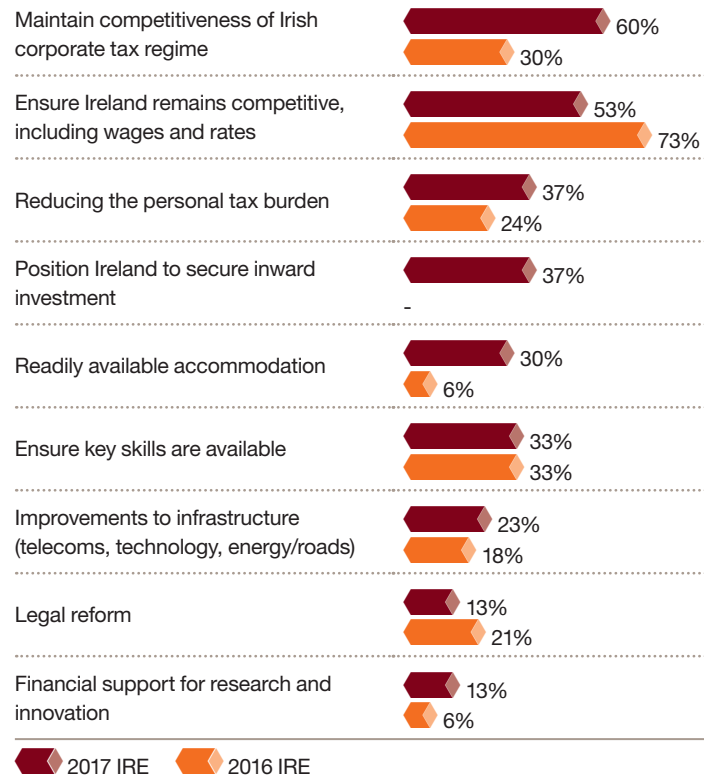
6. Government priorities

The key ask from Government by the insurance sector is to maintain our national competitiveness including that of the Irish corporate tax regime and wage rates.

Other Government priorities, according to the survey, include reducing the personal tax burden, positioning Ireland for continued inward investment and ensuring we have available accommodation and skills.

60% believe maintaining Ireland's corporate tax competitiveness should be the top Government priority

Chart 15: Key Government priorities for the insurance sector



Key Contacts

If you would like to discuss any aspects of this report in more detail or if you have other insurance related queries, please contact:



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