PROPERTY AND CASUALTY INSURANCE

TOP TRENDS 2023

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FOREWORD

Against macroeconomic volatility, inflation, interest rates, and supply-chain disruptions, it is difficult to predict where the property and casualty insurance industry is heading in 2023. However, the challenging macroeconomic environment will not slow down activity aimed at sustainability, customer centricity, digital transformation, and innovation – all with a renewed focus on healthy returns on investment.

As we look forward, we foresee industry frontrunners digitizing quickly to create win-win customer-centric partnerships that help policyholders manage and mitigate risks ranging from cyber threats to climate change. Insurers will also prioritize digital transformation to estimate risk precisely, offer superior claims experiences, build innovative products, and add meaningful customer touchpoints.

To foster transformation, we believe insurers will invest in intelligent automation, sensors, cloud, and initiatives most likely to create a positive impact and scale effectively. Further, insurers will increasingly seek new-age players for technological collaboration and to access new talent – as they reciprocate with investments, scale, and stability.

These trends will converge with those from other industries and incrementally impact all P&C business lines. For example, we expect auto insurance to evolve rapidly and provide new business opportunities aligned with the future of mobility.

I hope Property and casualty insurance top trends 2023 offers valuable insights into the complexity ahead and helps you prepare your firm for success within the industry's dynamic future.

Anirban Bose
Financial Services Strategic Business Unit CEO
& Group Executive Board Member, Capgemini

INTRODUCTION

A complex macroeconomic environment brings challenges and opportunities for property and casualty (P&C) insurers. While the sector has been growing globally, profitability pressure continues, and the industry is refocusing on sustainability, cost controls, and digital transformation.

ECONOMIC CHALLENGES AND P&C GROWTH

A volatile global economy and rising inflation will affect P&C claims costs and premiums. Business lines likely to be most affected are motor and liability.

- The International Monetary Fund (IMF) lowered its global growth forecast for 2022 and 2023 to 3.2% and 2.9%, respectively, down from more than 6.0% in 2021. Therefore, insurance growth – which correlates to gross domestic product (GDP) – is apt to slip.[1]
- Global inflation rose dramatically (to around 8.0% in 2022 versus 4.7% in 2021), which puts considerable pressure on insurance claims and rates in the coming quarters.[2]
- Central banks are hiking interest rates to control inflation, which will positively impact P&C investment performance to counterbalance equity investment pressure, at least partially.

The P&C sector grew steadily in 2022 but experienced profitability pressure, although we expect that pressure to ease going forward.

- 2022 return on equity (ROE) is predicted to align with 2021 at 5-6%, with a 2023 rebound to 6.6% as underwriting results and investment yields improve, according to Swiss Re.[3]
- The combined ratio is estimated to reach nearly 100.7% in 2022, compared to 99.5% in 2021. According to a Triple-I and Milliman actuarial report, loss pressures, inflation, supply chain disruptions, and geopolitical risks drove the deterioration.[4]
- After final numbers are tallied, the P&C industry is likely to grow more than 11% in 2022 compared with 1–2% in 2021, to surpass USD2 trillion, supported by rate hardening and heightened post-pandemic demand.[5]

MARKET DYNAMICS

The largest P&C insurers outperformed the major global stock markets in 2022, demonstrating resilience due to their defensive nature and relatively stable income prospects, combined with the potential benefit of surging interest rates. In H1 2022, the top indices of the global stock market declined on average by more than 14%, while the 15 largest P&C insurers' market capitalization dipped by around 8.0%.[6]

- InsurTech funding and valuation declined considerably in 2022 as the optimism of previous years gave way to a stricter funding environment and challenging macroeconomic circumstances. As a result, P&C InsurTechs raised USD1.5 billion in investments in Q2 2022, down 57% from Q2 2021. Total deals also slumped by 22.6%, suggesting a reduction in the average funding round, according to Gallagher Re.[7]
- Despite worldwide inflation, geopolitical disruption, and talent shortages, digital transformation will likely not slow down. Gartner reports that the sector's IT investments are on track to an 8.1% CAGR (2021-2026) – reaching USD264 billion in 2026 versus USD193.5 billion in 2022.[8]

LOOKING BACK AT 2022

Last year the industry navigated a complex environment with high-impact headwinds. Nonetheless, several of our Property and casualty insurance top trends 2022 projections were spot on:

- We highlighted insurers' focus on embedding sustainability in their strategy. Later in the year, our World Property and Casualty Insurance Report 2022 deep dived into this topic, and we presented a roadmap to achieve climate resiliency.
- We also called attention to insurers' need to collaborate with ecosystem providers to offer embedded insurance coverage. And now, insurers are creating seamless customer experience (CX) through convenient, customized protection embedded in other products at the point of sale.
- We anticipated a stronger focus on early cyberattack detection, and now cybersecurity is becoming a critical enterprise-wide priority.
- We showcased usage-based insurance, and today's insurers and InsurTechs are targeting gig economy and micro-mobility workers to drive growth and close protection gaps.

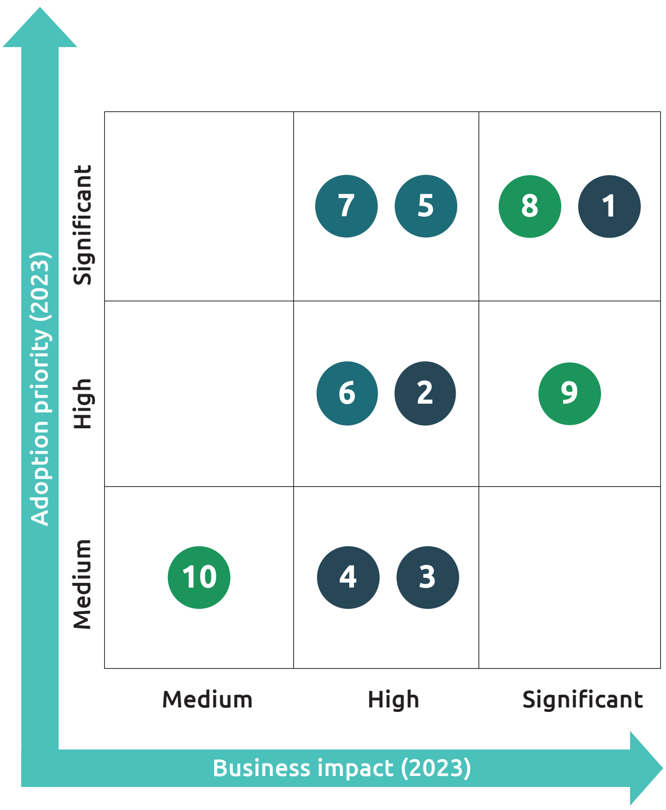
TOP TRENDS FOR 2023

Against this complex backdrop, we explore 10 P&C insurance trends across three broad themes:

- **Customer-first:** Insurers will bolster customer centricity by addressing consumer/commercial interests or pain points, welcoming new policyholder segments, and prioritizing risk prevention.
- **Intelligent industry:** Digital technologies will impact revenue streams across the value chain.
- **Enterprise management:** Strategic organizational priorities will focus on new and evolving insurance risks such as sustainability, cyber threats, and metaverse frontiers.

Exhibit: Top trends in property and casualty insurance 2023 - Priority matrix

Customer First	
1	Embedded insurance is enabling protection at the right time and through the right channels
2	Bespoke coverage solutions are closing the protection gap for micro-mobility users and gig workers
3	Tailored, value-added services are boosting customer engagement and differentiation
4	Technology and behavioral nudges are transforming insurers from payers to preventers
Intelligent Industry	
5	Commercial insurers are creating new revenue streams with risk engineering services
6	Drones and robotic, imaging, and video technologies are modernizing the loss inspection process
7	Data mastery and advanced technology is boosting underwriters' pricing accuracy
Enterprise Management	
8	Insurers are prioritizing sustainability within corporate strategy
9	Carriers are preventing cyberattacks by fortifying customer data security
10	Trailblazing insurers are entering the metaverse frontier



Source: Capgemini Research Institute for Financial Services Analysis, 2022

The matrix presents Capgemini's view of 2023 trend prioritization in an operating environment that includes:

- Rising inflation and interest rates, coupled with stagflation trends
- Operational disruption due to geopolitical instability
- Intense competition and increased focus on customer centricity due to the entry of new-age players
- Operational cost overruns and high capital lock-in
- Dynamic regulatory activity.

Adoption priority refers to the urgency of adopting a 2023 trend to maximize value creation because of its sector importance.

Business impact represents the influence of a trend on the P&C sector's 2023 business as it relates to customer experience, operational excellence, regulatory compliance, or profitability.

Circumstances will vary for each firm depending on business priorities, geographic location, and other factors. For more information, don't hesitate to contact us at insurance@capgemini.com.

TREND 1

EMBEDDED INSURANCE IS ENABLING PROTECTION AT THE RIGHT TIME AND THROUGH THE RIGHT CHANNELS

With customer experience a top priority and digital purchases popular among policyholders, insurers offer convenient, customized coverage embedded in other products.

CONTEXT

Embedded insurance is bundled and sold through third-party partner platforms at the point of sale when a consumer buys a product or service. It offers immediate protection via technology, enabling real-time and personalized coverage and secure data exchange.

- As insurers explore new business models, they realize implementation requires investments in product innovation, API capabilities, and InsurTech relationships.
- Insurers and ecosystem players collaborate to expand business opportunities conducive to distributing embedded insurance and investing in API-connected marketplaces for scaled adoption.
- Embedded insurance enables carriers to create a seamless customer experience (CX), explore new channels, and enhance growth prospects in new policyholder segments.

CATALYSTS

Technological advancements, fast-changing customer behaviors, and the complexity of buying insurance encourage providers to explore embedded insurance within their business models for personal and small commercial lines.

- According to the World InsurTech Report 2021, incumbent insurers are implementing new business models as at least 50% of customers express willingness to buy insurance – including embedded products – from BigTechs, product manufacturers, and InsurTechs.[9]
- New models have created market opportunities with low customer acquisition costs and new distribution channels that enable insurers to target new or underserved customer segments.

IN A NUTSHELL

Increasingly, product manufacturers and BigTechs are selling embedded insurance products.

- E-commerce giant Amazon partnered with US-based online insurance provider Next Insurance to offer small-business insurance to Amazon Business Prime members. The partnership enables Prime members to seek Next Insurance quotes and quickly purchase general liability, professional liability, workers' compensation, commercial auto and tools, and equipment insurance coverage.[10]
- Insurify, a US-based, AI-powered insurance comparison site, partnered with Toyota Insurance Management Solutions in early 2022 to reinvent vehicle insurance shopping: The partnership offers drivers a seamless way to compare and buy insurance when they purchase or lease a Toyota vehicle. By integrating directly at the point of sale, Insurify eliminates friction around buying auto insurance while creating additional customer touchpoints for Toyota that extend beyond vehicle purchase.[11]
- Singapore-based insurer Sompo Holdings (Asia) invested in Cover Genius, a New York InsurTech, and embedded insurance specialist, in 2021. The strategic move expands Sompo's distribution channel by leveraging Cover Genius's global network.[12]
- Hong Kong Broadband Network Limited (HKBN) partnered with AXA Hong Kong in 2021 to offer an *All-in-One Home Kit* with fiber broadband service and embedded AXA home insurance products. The complimentary kit offers annual protection of home contents and annual third-party liability coverage.[13]

Figure 1. Embedded insurance as a strategic game changer that boosts CX

What's so attractive about embedded insurance?

FOR INSURERS	FOR CUSTOMERS
Reaches customers at the point of sale or service	Enables personalized offerings
Accesses existing customers and prospects at the right time and place	Allows quick and hassle-free insurance purchases
Facilitates possible cross-selling through bundling	Provides convenient customer experience

Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

During 2023, customer preferences for increased convenience and digitization will encourage embedded insurance acceptance.

Embedded solutions will generate material benefits for insurers and ecosystem providers. They will reduce distribution costs and allows carriers to collect new customer data while accelerating product innovation and mitigating underwriting risks. They will also enhance value propositions and create new revenue streams, either as a product feature or as an independent purchase.

In turn, this will help to reduce the customer protection gap and to reach customers at appropriate and impactful times with hyper-personalized products and services. While embedded solutions are yet to create significant revenue streams, they are poised to become an increasingly relevant paradigm for forward-looking P&C insurers.

TREND 2

BESPOKE COVERAGE SOLUTIONS ARE CLOSING THE PROTECTION GAP FOR MICRO-MOBILITY USERS AND GIG WORKERS

The protection needs of underinsured markets such as micro-mobility and the gig economy are continuously evolving, with considerable growth expected for the foreseeable future.

CONTEXT

Insurance carriers with an eye on the future are redesigning coverage and policies to enable insurance protection coverage among uninsured segments such as users of micro-mobility solutions and gig workers.

- The growing ease with which people can monetize their skills today enables them to opt for flexibility and independence in their workplace, leading to a gradual shift of the global workforce towards a gig-based economy.
- The growth of the gig economy, coupled with increased sustainability focus among businesses and customers, has resulted in micro-mobility becoming an increasingly widespread solution in 2022, after a slowdown caused by the onset of the COVID-19 pandemic.
- While many insurers are working towards providing on-demand, flexible, and personalized products for these needs, new-age InsurTech providers are the frontrunners in this space so far.

CATALYSTS

- Bespoke coverage solutions are gaining ground as insurers and InsurTech firms increasingly digitize their platforms and leverage third-party data. These technologies are critical to enabling coverage – particularly for the micro-mobility space (which depends on small, lightweight vehicles operating at speeds typically below 16 miles an hour) and for gig workers in general. Providers can gain a competitive advantage by offering on-demand coverage and flexible and structured coverage solutions to the participants in these underinsured markets.
- The gig economy covers a range of workers moving from traditional jobs to freelancing. In the United States alone, projected gig-economy revenue is poised to surpass USD455 billion in 2023. Meanwhile, gig workers globally are expected to reach 78 million in 2023, up from 43 million in 2018.[14]
  - » Traditional employer insurance does not cover gig workers, and they may not be aware of potential threats because of the ambiguity between commercial and personal risks.
- The global micro-mobility market is on track to grow from nearly USD56 billion in 2022 to more than USD202 billion in 2030 – a 17.4% CAGR, which would lead to an exponential rise in the protection gap.[15]
  - » Micro-mobility businesses and users face various threats, including injury claims, rider injuries, product malfunction, and cybersecurity.

IN A NUTSHELL

Insurers are beginning to offer bespoke coverage solutions for underserved markets such as micro-mobility and the gig economy. Some provide usage-based insurance (UBI), such as pay-as-you-drive and pay-how-you-drive. These solutions enable on-the-go coverage for platforms, employers, and policyholders and create a holistic product by analyzing the movements of individuals or vehicles, user personas, and types of gig work.

- Brussels-based InsurTech Qover rolled out a tailor-made Pan-European insurance package to support British online food delivery company Deliveroo.[16] Policies cover about 35,000 Deliveroo gig workers in regions including Belgium, France, Hong Kong, the Netherlands, Singapore, Spain, the UK, and the United Arab Emirates.
- US-based State Farm offers a personal mobility policy bundled with homeowners' or renters' policies that covers policyholders as pedestrians, passengers, or drivers of a vehicle owned by another entity or when riding a bike.[17]

- UK-based InsurTech Bikmo launched Bikmo for Business to provide new insurance advice, product brokering, and management service for companies across the cycling, mobility, and gig-economy sectors. The company also aims to offer bespoke solutions for businesses with needs that do not align with traditional insurance coverage.[18]
- US-based Travelers Insurance has acquired InsurTech Trōv, including numerous on-demand digital solutions. The Trōv mobile insurance platform and software enable bespoke insurance products to solve complex risk management challenges emerging in mobility and gig work.[19]

Figure 2. Bespoke coverage solutions for underinsured markets can open new revenue streams and grow existing ones

Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

Gig economy growth and increasing use of micro-mobility solutions offer insurers opportunities to generate new revenue streams and expand into untapped market segments. However, to tap into these opportunities, carriers need new propositions.

Tailored insure-as-you-work, usage-based insurance, and personal mobility policies will help attract new policyholders while delivering positive CX that sparks long-term loyalty. The convergence of technology and data will make these propositions possible, enabling insurers to offer relevant and bespoke coverage at pace and scale. As a result, trendsetters will benefit from a leading position in a growing segment while making insurance more accessible, convenient, and cost-effective.

TREND 3

TAILORED, VALUE-ADDED SERVICES ARE BOOSTING CUSTOMER ENGAGEMENT AND DIFFERENTIATION

Personalized value-added services can meet new and evolving customer preferences. Yet to monetize the latest offerings, insurers must innovate and develop products beyond their current portfolio.

CONTEXT

Insurance is typically a low-touch product with minimal contact between carriers and customers. However, value-added services enable insurers to build customer intimacy, increasing relevancy and customer loyalty.

- Insurers that offer value-added services – e.g., home monitoring and assistance, roadside assistance, property selection and management, and concierge services – can capture and retain policyholders of all generations and demographics.
- P&C insurers can use advanced data analytics to personalize value-added services, increase customer touchpoints, and bolster engagement.
- Value-added services are gaining traction but require more innovation as they sometimes fall outside traditional regulatory boundaries. In response, carriers are leveraging technologies that lower geographic barriers.

CATALYSTS

Changes in the demand and supply side of insurance and growing customer expectations create a compelling opportunity for insurers to offer ancillary and value-added services above and beyond their core products and services.

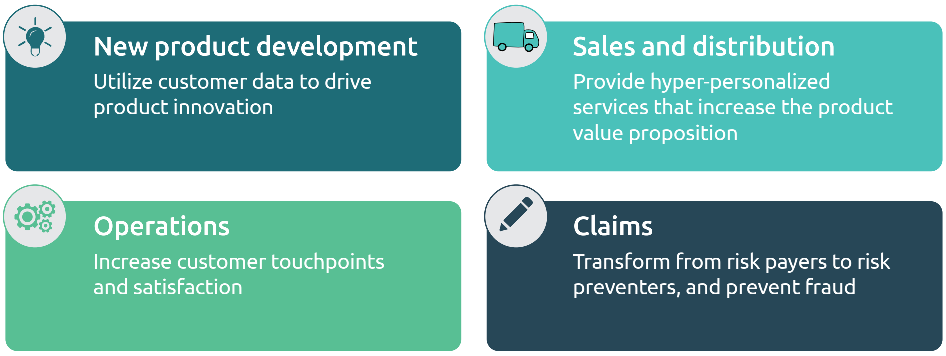
- As an example of policyholders' willingness to pay for such services, Capgemini's 2022 World Property and Casualty Insurance Report found that 53% of customers are willing to pay for risk prevention services that extend the value of their insurance risk product.[20]
- Insurers will offer additional personalized value-added services as more policyholders share data and firms leverage digitalization to augment collection and analysis capabilities.

IN A NUTSHELL

Insurers provide mutually beneficial value-added services to engage and retain customers, differentiate their value beyond price competitiveness, and gain competitive advantages while increasing profitability.

- US insurer AIG offers safety concierge services: dedicated risk consultants provide fast and convenient access to risk experts who help policyholders connect with helpful tools and resources.[21]
- In the United States, Nationwide partnered with property-monitoring specialist Notion to offer smart-app surveillance that alerts homeowners about water leaks, open doors, and temperature changes. Policyholders can protect themselves against high-priced risks and receive up to 50% in discounts for installing the systems.[22]
- US-based insurer USAA provides vehicle purchase services via general advice, tools, and resources to guide policyholders through their car purchase journey.[23]

Figure 3. Value-added services unlock opportunities in the insurance value chain



Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

As customer expectations continue to increase, insurers that offer add-on services in addition to primary risk products will be more successful in capturing and retaining multi-generational customers.

We expect the value-added services trend to mature and gain traction in 2023 and beyond, with insurers bundling new services with standard coverage to differentiate from competitors and help capture new customers.

P&C Insurance can no longer be just a risk product. It must evolve into a combination of the risk product, customer service and value-added services."

Denise Garth
Chief Strategy Officer, Majesco
Omaha, Nebraska, USA

TREND 4

TECHNOLOGY AND BEHAVIORAL NUDGES ARE TRANSFORMING INSURERS FROM PAYERS TO PREVENTERS

A significant opportunity exists for insurers to create new risk-prevention offerings and generate revenue streams while genuinely satisfying policyholders at the same time.

CONTEXT

Risk prevention based on data and behavioral science is at the top of the agenda for future-focused insurers. Redesigning technology strategy and deploying IoT, cloud, AI, and ML enables insurers to become risk preventers by improving risk management, innovating products and value-added services, and elevating customer experience.

- Insurers leveraging easy-to-use digital tools will deliver risk-mitigation advice in personal and commercial lines to transform from payers to preventers.
- By utilizing new technologies – such as real-time 3D imaging of buildings or driving data – P&C insurers are forewarning customers of possible risks around their assets.[24]

CATALYSTS

Insurers that use nudges effectively incentivize policyholders to adopt resilient behaviors. And they offer risk transfer solutions that reduce protection gaps and create growth opportunities.

- According to The Data-Powered Insurer report from the Capgemini Research Institute, 43% of P&C insurers have leveraged data and analytics to shift from risk partners to risk preventors [25]
- More granular data and insights can enrich risk assessment capabilities; insurers can then improve customer outcomes with behavioral nudges that encourage policyholders' peace of mind and risk-prevention action.

IN A NUTSHELL

P&C insurance frontrunners worldwide are beginning to offer a broad range of value-added services.

- French multinational insurer AXA launched Brightmile, a software-based risk management solution that helps corporate clients reduce fleet claims and operational costs. AXA designed a smartphone application that becomes active as soon as driving begins and collects data to assess driver behavior. Five driving behavior pillars support Brightmile – risk, speed, distraction, fatigue, and eco-friendliness. Managers track the parameters to identify unsafe drivers, which helps to reduce accidents.[26]
- US insurer State Farm collaborated with internet service provider Ting for home fire prevention and assistance. Policyholders with a wi-fi connection can sign up for a free Ting device (if they have a smartphone and an active State Farm non-tenant homeowner policy) that monitors the customer's home electrical network for fire hazards. The device also monitors the utility grid to help detect faults that could cause home damage.[27]
- Zurich Insurance Group utilizes IoT sensors to monitor commercial client machinery for defects and the structural health of insured buildings. Zurich also uses sensors to gauge fire-related risks and deploys its app to alert policyholders about high readings to help mitigate threats.[28]

Figure 4. Risk prevention strategies transform customer relationships and boost profitability

Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

In 2023 and beyond, risk-prevention propositions will accelerate to keep pace as loss severity increases and premiums are forced up, thanks to inflation, extreme climate events, and other factors. In this challenging environment, insurers can arm themselves with data analytics, behavioral science, and intuitive digital tools to deliver prevention solutions, offer mitigation advice, and provide safety reminders. Behavioral nudges can encourage safer and more sustainable customer behaviors.

We need risk prevention and mutualization literacy to tackle insurability issues and create win-win propositions for insurers, clients, and governments."

Dipak Sahoo,
CIO, ASIA
Generali, Hong Kong SAR

TREND 5

COMMERCIAL INSURERS ARE CREATING NEW REVENUE STREAMS WITH RISK ENGINEERING SERVICES

Today's P&C insurers are developing resilience services to mitigate risk, improve safety, and reduce claims, particularly in commercial lines.

CONTEXT

Risk-engineering services are strategies and practices to help businesses build resilience within an interconnected risk landscape by managing threats before, during, and after a loss event to minimize damages to the enterprise, its people, and assets.

- Geopolitics, climate change, and increased adoption of advanced technologies (AI, self-driving, drones, and connected business) are transforming the risk environment. As a result, P&C risk engineering services are gaining traction in commercial lines.
- Risk-engineering services leverage existing and alternate data to recommend mitigating actions before losses happen, thus strengthening a company's risk culture – which in turn helps underwriters to craft bespoke policies and create effective risk mitigation plans.
- P&C insurers are bundling services – including risk analysis, benchmarking, and mitigation consultation – within risk-engineering services to keep pace with globalization, new business models, changing technology, and evolving risk management approaches.

CATALYSTS

P&C insurers are transitioning from a payer role to a preventers role that offers specialized risk-mitigating coverage.

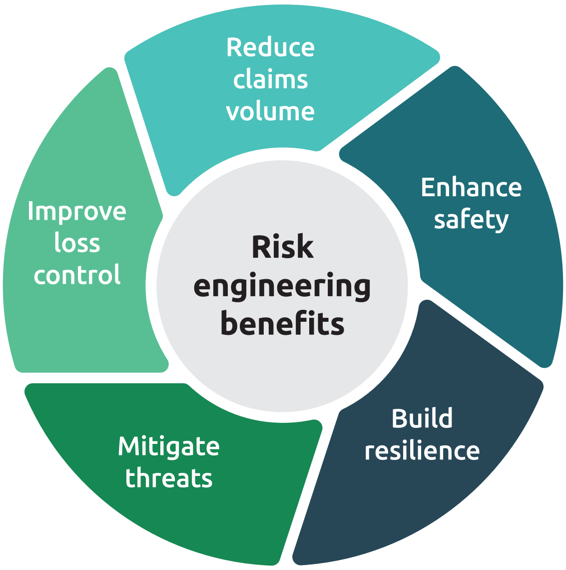
- The Allianz Global Risk Barometer reported in 2022 that 45% of companies suffered financial impact triggered by supply chain issues.[29] As a result, P&C carriers turned to rich alternative data sources and advanced technology to monitor supply chain obstacles.
- In the construction sector, insurers' risk-engineering services personnel partner with policyholders to enhance safety, operational performance, and profitability.
- Increasingly, insurers are leveraging technology – drones and 3D modeling – to generate more accurate data and provide businesses with a better understanding of their risk exposure.

IN A NUTSHELL

Risk engineering solutions help insurers manage loss control, mitigate risk, improve safety, and reduce claims.

- Switzerland's largest insurer, Zurich, launched risk-engineering services to help clients identify risk exposures, reduce potential losses, build resilience, and effectively manage loss-control programs.[30] Zurich offers specialized insights, tools, and solutions to address traditional and evolving risks.
- AXA XL, a P&C specialty risk division of French multinational insurer AXA, provides construction risk engineering services to corporate clients to enhance safety, operational performance, and profitability. It also offers project management, site safety, and operational management expertise.[31]
- Global insurance provider Chubb offers risk-engineering programs and services to help corporations minimize loss by identifying and quantifying potential hazards. Chubb assesses each client's risk management system relative to the threats that they must control. The insurer also provides tailored programs enabling businesses to avoid losses and implement best practices.[32]

Figure 5. Risk engineering services build resilience within today's evolving and interconnected risk landscape



Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

Expect more P&C commercial policyholders to ramp up their use of risk-engineering services to help reduce the impact of climate events and other business disruptions. As these services are widely employed, loss impact will shrink, thereby reducing claims.

Risk engineering adds an essential layer of protection for commercial policyholders by providing comprehensive solutions before, during, and after an event. Additional benefits include superior fraud management, underwriting, and decision-making.

As the focus on loss prevention and claims reduction gains momentum as global inflationary concerns accelerate, we anticipate more P&C carriers to offer support in 2023.

TREND 6

DRONES AND ROBOTIC, IMAGING, AND VIDEO TECHNOLOGIES ARE MODERNIZING THE LOSS INSPECTION PROCESS

As more P&C insurers rely on technology, quantifiable benefits include loss-adjustment accuracy and proactive risk monitoring.

CONTEXT

Insurers are replacing traditional, manual methods of first notice of loss (FNOL) with imaging and video-enabled drones and robotics to boost P&C underwriting and inspection processes and identify risk changes at renewal.

- Insurers can identify critical exposure changes and property damage claims by leveraging video imagery to create onsite evidentiary experiences without staff risk or preparation.
- Artificial intelligence (AI)-powered drones can capture precise images and videos of damages and transmit them to mobile devices for real-time assessment. As a result, they help claims adjusters process property reviews significantly faster than often dangerous manual inspections.
- Allstate, Erie Insurance, Farmers, Liberty Mutual, and Travelers were early adopters of robotic technologies in the United States, which are now in broader use by incumbents and InsurTechs.

CATALYSTS

US property insurance loss adjusters are injured four times more often than construction workers.[33] As a result, P&C insurers are switching to drones equipped with computer vision technology to reduce human support while collecting accurate data.

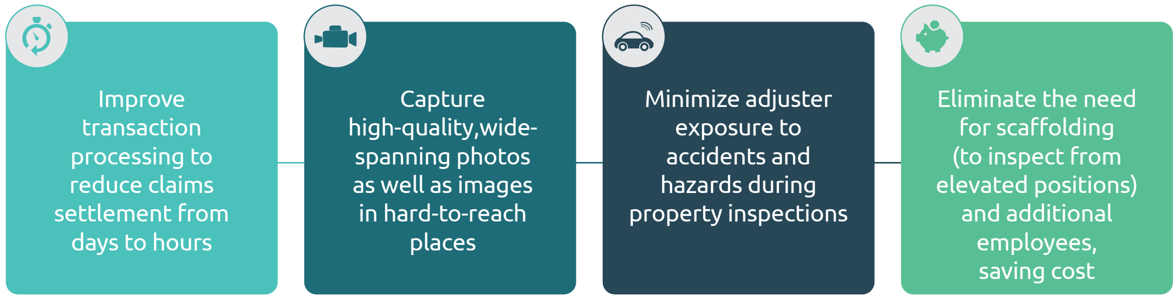
- AI and video technologies play an essential data-gathering role on inaccessible construction and agricultural sites that otherwise would require in-person inspection, scaffolding, and significant time.
- Increasing property line costs – driven by global inflation and the persistent threat of catastrophic events – encourage P&C carriers to use drones, robotic imaging, and video technology.
- As robotic-imagery self-inspection and appraisal become increasingly accurate, P&C insurers can cost-effectively assess losses across vast land expanses.
- P&C insurers are partnering with technology providers and embedding drones with AI imaging tools to generate accurate loss estimates.

IN A NUTSHELL

Drones will help insurers innovate new ways to quickly collect accurate data and cut inspection risks associated with hard-to-access premises.

- Farmers Insurance collaborated with MIT sandbox spinoff Boston Dynamics to create Spot, a robotic dog, for catastrophe inspections. Spot gathers information from spaces where humans cannot fit using 360-degree cameras and site documentation software.[34]
- Switzerland's largest insurer, Zurich, partnered with UK InsurTech Previsico to plug a significant forecasting gap around surface water flooding and significantly reduce costly false alarms. Previsico's flood visualization tool helps claims teams more accurately understand where incidents occurred and reach affected properties and people, thereby improving service. Results include enhanced customer satisfaction, an earlier indication of total losses, reduced fraud, and better claims efficiency.[35]
- Hover, a San Francisco home restoration specialist and insurer, partnered with Verisk, a New Jersey analytics and risk assessment firm, to develop new 3D technology for site inspections. Property professionals and policyholders can now take photos of loss sites and convert them into interactive 3D inspection models.[36]

Figure 6. More P&C insurers are deploying drones to make inspections simpler and safer



Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

Drones, robotic imaging, and video technologies are helping carriers augment risk management, efficiently collect data, shorten the claims process, automate damage assessments, cut operational costs, and boost adjustor efficiency.

As inspection technology adoption grows, the most innovative P&C insurers will gain market share thanks to shortened claims processes and superior customer experience. Claims offer P&C insurers an essential opportunity to differentiate customer experience. And as critical enabling technologies mature, we believe this trend will catalyze industry evolution in 2023 and beyond.

TREND 7

DATA MASTERY AND ADVANCED TECHNOLOGY IS BOOSTING UNDERWRITERS' PRICING ACCURACY

Real-time and alternative data allow P&C insurers to build analytics tools that manage and price risk with precision.

CONTEXT

Property and casualty insurers increasingly rely on robotic process automation (RPA), artificial intelligence (AI), advanced analytics, geospatial technology, and geocoding software to improve policy underwriting processes.

- With automated underwriting, insurers can lower costs, maximize workforce productivity, and generate more revenue by offering a better customer experience.
- P&C insurers are sourcing real-time and alternate data through IoT, drones, and satellites to identify emerging risks, model existing risks more accurately, personalize underwriting, and bolster underwriting pricing ability.
- As veteran underwriters retire and data increasingly supports decision-making, P&C insurers build probability models, augment human expertise with technology, and introduce sustainability variables.

CATALYSTS

Automating underwriting is a powerful way for P&C insurers to lower their costs, maximize workforce productivity, generate revenue and improved profits, and meet customer expectations.

- With customer expectations for convenience at an all-time high, automated underwriting helps insurers meet demands by improving speed and accuracy.
- By leveraging IoT and remote sensors to capture data and RPA and AI to analyze information, carriers can develop actionable customer insights to enhance the underwriting process.
- Underwriting teams leverage automation to assess risk, reduce unexpected payouts, and help insurers set competitive prices.

IN A NUTSHELL

Insurers are transforming underwriting by applying automation, technology, and data-driven insights at each lifecycle stage to speed up processes, maximize growth, improve profitability, and gain a competitive advantage.

- German insurer Allianz collaborated with London-based configurable platform Cytora to enable commercial insurers to create digital workflows by digitizing, evaluating, and routing risks. Now, Allianz underwriters can access pertinent insights and offer customers better service and a quicker turnaround. The partnership enables a deeper understanding of risks and supports the insurer's value-maximizing portfolio strategy to build a scalable, data-driven commercial insurance business.[37]
- German multinational reinsurer Munich Re launched REALYTIX ZERO, a worldwide scalable technology platform that digitizes and automates single-risk underwriting, scales new and existing insurance products quickly, saves costs, and boosts process efficiency.[38]
- Canadian P&C insurer Desjardins leverages geospatial technology extensively. Using AI, external data, and advanced analytics, the firm models Canadian waterways and geolocates properties to predict risks associated with rising water levels accurately. Desjardins also developed a radar feature, free with its mobile app, that warns policyholders of severe weather risks.[39]

Figure 7. Advanced technologies can improve underwriting profitability

Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

We expect an increased focus on underwriting accuracy in 2023 as insurers implement transformation programs that reduce expense ratios and boost profit through process efficiency and effective decision-making. However, the transformational shift to automation will require budgetary investment in data and predictive analytics.

The payoff is that carriers that automate underwriting platforms reduce human effort, manual error, and process time – enabling underwriters to focus more on high-value activities. Potential benefits are likely to accelerate investment in automation and encourage the adoption of new solutions in the months ahead.

TREND 8

INSURERS ARE PRIORITIZING SUSTAINABILITY WITHIN CORPORATE STRATEGY

As climate change issues increasingly affect the P&C industry, more firms are committing to the ESG (environmental, social, and governance) agenda to protect the earth and mitigate future risks.

CONTEXT

As part of Capgemini's World Property and Casualty Insurance Report 2022, 44% of polled insurance executives said climate risk was a primary concern affecting profitability (74%) and insurability (73%). And more than 65% of customers said they are interested in climate risk prevention and mitigation services.[40]

- Future-focused insurers are weaving ESG resiliency into their corporate sustainability strategies, with clear actions assigned to C-suite executives to ensure ownership and accountability.
- Insurers are revisiting business models and matching risk prevention with risk management.
- Increasingly, P&C insurers are partnering with asset managers to develop diversified, sustainable investment strategies for their portfolios.
- Insurers are driving behavioral changes amongst policyholders by providing green product offerings.

CATALYSTS

Globally, economic losses driven by climate change have increased by 250% in the last three decades.[41] At the same time, the World Property and Casualty Insurance Report 2022 identified only 8% of insurers as resilience champions. While this is concerning, it presents an opportunity for insurers to pivot and recalibrate to serve customers in a dynamic landscape.

- Policyholders interviewed in our report said climate change was their top concern after COVID-19, and most had begun their journey toward sustainability. Therefore, it is no wonder carriers are designing sustainable products to match customer expectations.[42]
- Adopting strategic ESG practices helps insurers build a favorable industry reputation, remain compliant with legal and ethical standards, and mitigate potential reputational damages. 59% of the executive participants in our 2022 Report say they embedded ESG scores into their firm's investment decisions.
- A resiliency roadmap and defined strategy can help insurers access new data through engagement with non-traditional ecosystem partners, capture ESG data, and embed IoT solutions to secure real-time data.

IN A NUTSHELL

- French multinational insurer AXA included a climate and ESG pillar into its ***Driving Progress 2023*** strategy and is monitoring its success through the ***AXA for Progress Index***. Additionally, AXA designed a ***Green Business*** framework to assess how offers may positively impact the environment. It also built a tailor-made ***Inclusive Protection*** framework to guide entities on how to develop an inclusive protection portfolio.[43]
- US-based Prudential Financial's 2021 ESG report outlined the organization's intention to achieve net zero emissions across primary domestic and international home office operations by 2050. In addition, the report introduces restrictions on new direct investments in companies that derive a material portion of their revenues from thermal coal.[44]
- Switzerland's largest insurer, Zurich, has launched climate change resilience services to help businesses identify, assess, quantify, mitigate, and adapt to current and future risks. The offering integrates climate change data based on the United Nation's Intergovernmental Panel on Climate Change assessment (IPCC AR6). It also helps develop a set of scenarios on how climate change will evolve. In addition, the Zurich services define optimal operational setups.[45]

Figure 8. How insurers can incorporate sustainability as a part of corporate strategy

Build your resiliency roadmap
Define your strategy

Establish sustainable ecosystem partnerships to access new data
Engage with non-traditional partners, capture new data (including ESG data), embed IoT solutions for securing real-time data

Add climate risk insights and implement change detection at renewal
Deploy AI/ML insights, embed data in underwriting and pricing

Get the right infrastructure to enable scalable capabilities
Migrate to the cloud for scalability during and after NatCat events, explore quantum computing for faster simulations, deploy green IT

Evolve your product propositions, including risk prevention and mitigation solutions
Advance your underwriting techniques, assess use cases for behavioral science

Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

We anticipate sustainability efforts to gain traction in 2023 and beyond. As more extreme weather events intensify and regulatory pressures increase, insurers will continue to embed ESG scores in their investment decisions and appoint chief sustainability officers to orchestrate critical initiatives across their organizations.

We also expect insurers to continue integrating sustainability into their corporate strategies. The trend may help firms attract talent, reduce costs, and boost profits by accurately modeling risk and assisting policyholders in threat prevention.

Climate resilience is an incredible opportunity for the industry. Insurers have real skin in the game and can align with customer outcomes. If not insurers, then who?"

Hanno Mijer
Global Head Zurich Resilience Solutions
Zurich insurance group, Zürich

TREND 9

CARRIERS ARE PREVENTING CYBERATTACKS BY FORTIFYING CUSTOMER DATA SECURITY

Cyber threats are driving P&C insurers to invest in modern technologies – including blockchain, artificial intelligence, and deep learning – to detect security lapses and strengthen core systems and databases.

CONTEXT

Capgemini's World Property and Casualty Insurance Report 2022 found cybersecurity a top concern for insurers worldwide as digital adoption gains post-pandemic momentum.[46]

- Carriers are setting up firewalls, assessing vulnerabilities, carefully handling third-party or sensitive data, and securing financial transactions, enabling carriers and policyholders to identify and prevent data breaches.
- Insurance companies are attractive cyber targets because they hold confidential customer data. As a result, many firms are establishing in-house teams to oversee cybersecurity initiatives.

CATALYSTS

The cost of data breaches will escalate from USD3 trillion in 2021 to USD5 trillion by 2024, according to a 2021 resilience report from Tech Target.[47]

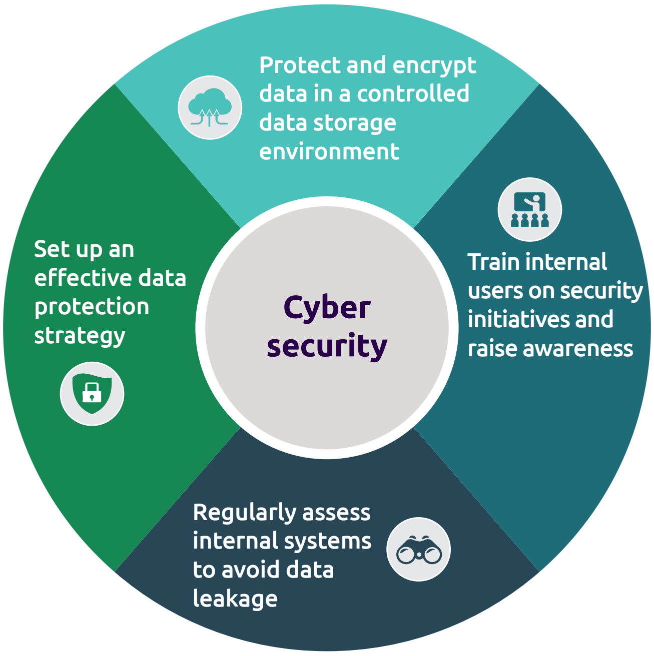
- Check Point Research's 2022 report claimed a 40% increase in cyberattacks globally, with one out of every 61 organizations worldwide impacted by ransomware each week.[48]
- A 2022 report from Boston-based Black Kite, a cyber risk monitoring platform, says 82% of the largest insurers worldwide are susceptible to phishing attacks due to a lack of expertise and tools for adequate incident response.[49]
- Increasing costs, a lack of expertise, and rising cyberattacks are prompting P&C carriers worldwide to mitigate risk by collaborating with cybersecurity software-as-a-service providers.

IN A NUTSHELL

Insurers are increasingly investing in cybersecurity and strengthening internal technologies to mitigate customer data security threats.

- Japan's Tokio Marine, a global P&C insurance group, partnered with San Francisco-based CyberCube to access a suite of cyber-risk analytics products and cyber-modeling solutions. This partnership will enhance the overall risk management of the cyber line of business and offer underwriters tools and analytics to help with risk selection.[50]
- Carriers are unlikely to forget the reported USD40 million paid by a US insurer in 2021 to free data and restore systems from a ransomware attack. The attackers used authentic credentials and tools to infiltrate the carrier's system and copy data to a private cloud repository. Since the incident, the company has implemented numerous additional measures to enhance its network and data security.[51]

Figure 9. As digitalization raises vulnerability, insurers are increasingly focusing on advanced cyber security protocols



Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

By building robust data security mechanisms, P&C insurers will shore up digital vulnerabilities and curtail information breaches. In addition, we anticipate beefed-up strategic collaboration among cybersecurity software-as-a-service providers and insurers, and the deployment of internal cybersecurity teams to stem data breaches. We expect this trend to continue in 2023 and beyond as data breaches and cyberattacks continue and insurers deepen their digital relationships with customers through ongoing transformation initiatives.

TREND 10

TRAILBLAZING INSURERS ARE ENTERING THE METAVERSE FRONTIER

The metaverse is a continuum of immersive digital experiences enabled through virtual and augmented reality. Insurers are considering its potential as a distribution channel and for new digital revenue streams, but regulatory challenges and cyber threats may pose obstacles.

CONTEXT

Insurers are contemplating metaverse techniques – artificial intelligence (AI), augmented and virtual reality (AR/VR), blockchain, cloud, and gaming – to analyze customer behaviors via their avatar activity and purchase history. The strategy allows carriers to offer policyholders appropriate products at opportune times while protecting against risks.

- A Fortune Business Insights study in 2022 projected the global metaverse market at nearly USD100.3 billion in 2022, with growth expectations at around USD1.5 trillion by 2029 – about a 48% CAGR (2022-2029) during the forecast period.[52]
- Metaverse platform proponents say it will raise brand awareness, engage policyholders, and improve the claims experience. As platforms evolve, insurers can create agent and policyholder avatars that virtually discuss coverage details and policy purchases, offering the potential to boost customer acquisition.
- Professional indemnity/technology liability, cyber, and directors and officers (D&O) liability are the types of P&C business lines currently showing the most interest in metaverse platforms.
- The metaverse also opens doors to coverage of property that exists only digitally, which means P&C carriers will have to calculate risk and define value for possessions that do not physically exist.

CATALYSTS

Metaverse adoption drivers include the acceptance of digital platforms and the movement to Web 3.0, which incorporates decentralization, blockchain technologies, and token-based economics. Not surprisingly, visionary insurers are innovating ways to reach new customer segments through metaverse interactions.

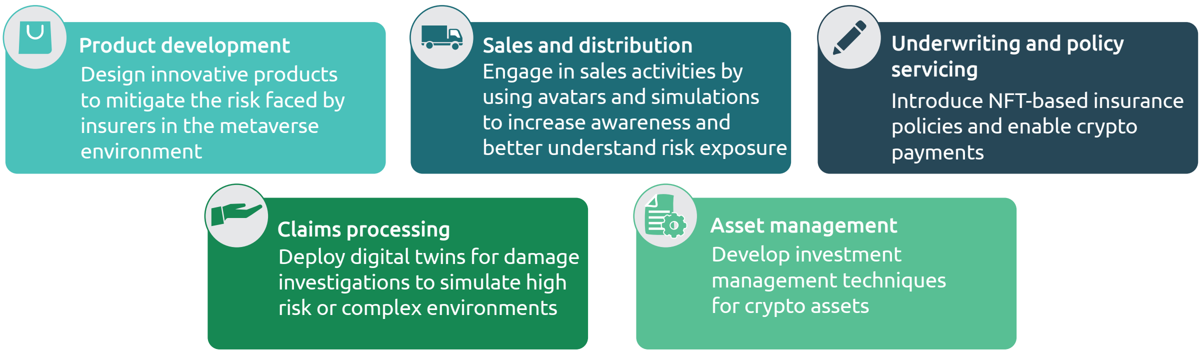
- Metaverse ecosystems are evolving across industries in parallel. Insurers seeking to remain relevant are getting involved early in metaverse customer journeys and building embedded insurance products.
- However, criminals seeking to expand their deception repertoire are creating and leveraging fraud farms to target metaverse companies, according to Silicon Valley-based fraud prevention firm FinTech Arkose Labs. As a result, metaverse companies faced 80% more bot attacks and 40% more human attacks in 2021 than other enterprises.[53]
- Opportunities are cropping up for insurers to protect real-world meta products, such as AR/VR headset insurance and liability coverage from AR/VR use. Coverage for metaverse assets such as non-fungible token (NFT) theft and cyberattacks are additional possibilities.

IN A NUTSHELL

- Glasgow InsurTech Hubb claims to be the first metaverse insurer to offer demand-driven coverage. It uses a metaverse alternative-reality platform to create a novel hybrid working environment with time spent in and out of a shared virtual space.[54]
  - » Hubb executives say their hybrid environment helps facilitate employee onboarding because it offers instant access to senior staff in a more personal and productive manner than video meetings.
  - » Hubb hosts regular sessions on *Horizon Workroom* – a collaboration platform that allows employees to virtually gather using VR or the web, and engage through whiteboards, VR workstations, calendar apps, file sharing, chat, and other virtual office tools.[55]
- French multinational insurer AXA purchased a digital plot (a land parcel available for sale in the virtual world) in the Sandbox. The Sandbox is a decentralized virtual gaming subsidiary of Hong Kong-based Animoca Brands, a digital entertainment, blockchain, and gamification specialist.
  - » AXA leverages the advanced metaverse platform to familiarize itself with the new virtual world and promote its presence among tech talent. It set up a virtual metaverse agency dedicated to the virtual world through which customers are advised online about complex policies or can virtually explore a contract wearing VR glasses.[56]

- Estonia-based decentralized insurance and reinsurance platform Uno Re provides metaverse and NFT users with customized protection for virtual assets. The company insures smart contracts behind a user's avatars, safeguarding virtual valuables (home, virtual weapons, and means to commute).[57]
- US-based State Farm harnesses metaverse techniques by developing and deploying VR and AR capabilities through State Farm labs and enterprise technology. The insurer reimagines engagement to create an immersive environment where users can work and play.[58]

Figure 10. The metaverse may unlock opportunities across the insurance value chain



Source: Capgemini Research Institute for Financial Services Analysis, 2022

IMPACT

The metaverse is in its infancy yet toddling its way forward to more steadfast maturity. P&C insurers that stay in sync with the trend may eventually be poised to offer exciting new ways to interact with policyholders. And as a new channel, the metaverse can likely help uncover new prospects through deep, engaging, and interconnected experiences.

Immersive metaverse experiences will allow customers to understand insurance products more deeply, and we expect the trend to be embedded in the insurance value chain as the technology matures and existing digital customer journeys transform to become immersive. In addition, insurers will benefit from increased brand awareness by targeting customers drawn to game-like metaverse platforms and building personalized one-on-one relationships.

P&C firms have yet to adopt the metaverse broadly. It's an early-stage trend, and it will take insurers time to understand its implications thoroughly: compelling business cases are still nascent. But P&C trailblazers are cautiously exploring its revenue stream and operational productivity potential.

CONCLUSION

In 2023 and into the foreseeable future, P&C insurers will prioritize digital transformation initiatives to shore up internal capabilities to navigate geopolitical risks more safely, supply chain disruptions, sluggish growth, and rising inflation. Digitalization will also boost product innovation, open new business models, and help carriers leverage advanced tech solutions. As a result, firms will strengthen their core systems, optimize costs through streamlined IT operating models, and build a resilient, future-ready enterprise.

In addition, top trends for the industry point to several other significant developments:

- Future-focused insurers will improve on their core propositions by developing more accurate and faster underwriting processes and improving the claims experience while tackling emerging risks.
- We expect innovative products aimed at new customer segments such as the gig workforce, micro-mobility, or the metaverse that bridge the protection gap and foster investments around digital and technological capabilities.
- Other growth areas include risk-engineering services that enable specialized risk-mitigation coverage, and embedded insurance with hyper-personalized products and services to create seamless insurance buying journeys.
- More and more insurers will enhance customer experience and increase customer touchpoints to cultivate lifetime partnerships with policyholders.

And what will be the results? We anticipate increased customer trust and loyalty, better risk mitigation, additional up-sell and cross-sell opportunities, and faster product development and industrialization.

In 2022, the industry accelerated its post-pandemic transformation effort. Moving forward in 2023, however, P&C insurers will strategically navigate challenging macroeconomics by focusing on customer centricity, prioritizing agile product innovation, embedding sustainability into corporate strategy, and building advanced digital capabilities.

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