Next in insurance 2025

Clear goals and careful execution can help insurers meet complex challenges

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The insurance industry's established way of doing business remains under pressure. Increasingly common and severe weather events — from extreme heat to violent and destructive storms — make it difficult to predict and price risks. This is causing a growing disconnect between the coverage carriers can provide and the protection customers and communities require, jeopardizing the very purpose of insurance.

Moreover, some of the key initiatives insurers have pursued to enhance risk pricing, operational efficiencies and distribution have met mixed results. In the case of technologies like cloud and AI, a variety of factors have limited return on significant investments. These tech challenges, as well as the need for more intentional strategy, are inhibiting the potential of innovative distribution initiatives such as ecosystems that meet customers at key life moments. A clearer focus could improve this state of affairs, but the industry still has far to go to excel in these areas.

Still, there are notable bright spots. Insurance companies remain well capitalized and are attractive targets for dealmakers. Some carriers are quite adept technologically. And their extensive institutional knowledge of risk means they're eminently capable of meeting current coverage and pricing challenges. But insurance leaders do need to take more purposeful action than they have in the past, including closer collaboration with a variety of other stakeholders, to meet industry, customer and societal needs.

Issue 1: Building climate resilience at the community level

Accelerating risks from climate change are challenging the viability of insurance markets. To help derisk, carriers have raised premiums, offered more restrictive coverage terms and in some cases exited markets altogether. While these moves make financial sense in the short term, insurers need new risk solutions to stay true to their purpose of not just protecting lives and property but also enabling economic and social development. Of course, you can't underwrite every risk and you can pay out only so much in claims, but there is a pressing need for innovative solutions to a growing and increasingly serious coverage gap.

What might improve this dire situation, where many coverages have become prohibitively expensive and sometimes unavailable at any price? For starters, there needs to be a concerted effort at building resilience at the community level, where the effects of severe weather events can cascade into systemic financial, economic and even social crises. But because of the massive scope and effects of climate change, no single constituency — insurers included — can devise and implement these solutions alone. This necessitates active collaboration with a variety of stakeholders, from local and state governments to climate scientists and beyond, to chart a viable path to a more climate resilient future.

There's a vital leadership role for the insurance industry to play. After all, carriers have more insight into and data on risk than any other stakeholder on what causes loss and the kind of intervention that can help minimize it. Here are a few ideas.

- Incentivize people — and not just your own policyholders — to protect themselves, whether by hardening their properties against storms, floods and fires or managing the health hazards of extreme heat.
- Expand your work with community leaders on nature-friendly measures to mitigate climate risk such as extending mangroves in coastal areas and restorative/sustainable forestry.
- Be more proactive alerting communities and individuals to government funding that's currently available for some of these resiliency interventions.

Whatever you do, the urgent need to foster climate resilience, adaptation and derisking means that concerted effort is not optional but an immediate necessity.

The need for collaboration

"Who pays for resiliency interventions, whether it's investing in nature-based solutions or investing in a steel roof? These go beyond what insurance companies can possibly pay for, so the challenge is how to arrange incentives that encourage these types of interventions. This is where some creativity is going to be required, and collaboration across stakeholders."

Veronika Torarp, Insurance Sustainability Strategy Leader, PwC US

Issue 2: Getting value from tech investments

Insurers have had difficulty measuring ROI for many new technologies, and they're grappling with how to reconcile their initial optimism with determining realistic returns.

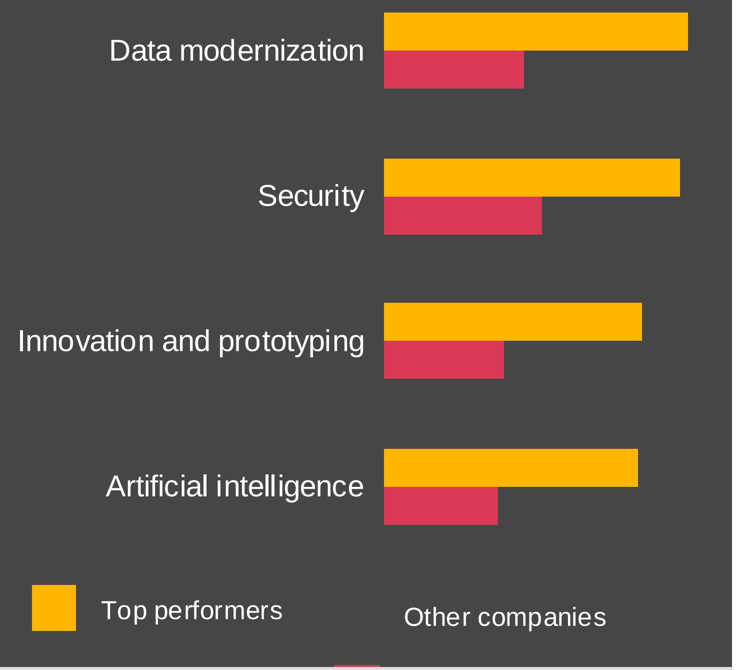
Realizing the potential of any new application ultimately depends on its place in a broader tech and data strategy. To effectively harness innovations like generative AI (GenAI), for instance, you first need to consider underpinning processes. Simply overlaying new technologies on outdated or inefficient workflows — still the unfortunate reality at many carriers — won't yield meaningful results. Without centralized data collection and standardized application, you're unlikely to drive scalable, long-term solutions that benefit more than just pockets of the business.

Moreover, technology applications are rarely standalone solutions. You'll better realize their potential when they're part of a comprehensive tech strategy that integrates them into everyday work, with formal training that helps employees confidently use them. Consider once again GenAI. It needs to work in concert with predictive analytics, machine learning, robotic process automation (RPA) and, most importantly, people. When leveraged properly, these and other technologies boost each other's and human effectiveness, promoting greater efficiency, innovation and competitive advantage.

To capitalize on the increased organizational capacity that innovative tech promises, you'll need to confirm that their operating models can accommodate the evolving nature of work. As routine tasks are automated, roles can shift toward more strategic, analytical and high-value decision-making responsibilities. Say you're looking to AI to reduce routine administrative tasks in underwriting. Are you also considering how to take advantage of increased organizational capacity, such as having your underwriters become more strategic advisors to books of business instead of just line-item owners? This will require defining and fulfilling new job responsibilities and workflows and, more foundationally, organizational readiness to enable change.

Because all this takes time to accomplish, you'll probably need to rethink your approach to ROI, acknowledging that the true potential of many tech applications is unlikely to be evident in traditional calculations. We recommend expanding your focus beyond short-term financial gains to broader impacts on long-term strategic goals, including operational resilience, adaptability and scalability. In other words, approach any new technology as part of a foundational investment that can fuel future growth and innovation. Of course, you'll continue to focus on measuring cost versus value but you need to clearly establish just what that value is.

Cloud activity technical adoption



Source: [PwC's 2024 Cloud and AI Business Survey]

Q: How would you assess the technical adoption of your company's cloud activities across the following areas? **(Response to 'All-in cloud adoption'.)**
Base: Top performers 124, Other companies 906

Issue 3: Driving top-line growth with ecosystems

Partnerships are one of the main ways insurers and brokers broaden market reach and meet customers' diverse needs. These are usually narrow in scope, but building on them by entering into ecosystems — networks of partners featuring complementary goods and services — is a promising variation on longstanding practice. We've observed that the carriers who've most thoughtfully invested in ecosystems have meaningfully improved top-line growth and client retention.

However, most carriers continue to struggle to effectively participate in ecosystems because:

- Connecting and integrating appropriate products and services requires deep insights into targeted segments, something product-centric organizations like insurers often don't have.
- Maintaining a sustainable monetization strategy and partnership relationships within ecosystems can be challenging, as partners' motivation and goals can diverge without ongoing and clear communication.
- Appropriate infrastructure, processes and partnerships require considerable up-front investments. Moreover, technologies like APIs and microservices that create seamless usage and decision-making experiences for all players and customers are complex, especially in large ecosystems. And there are often related challenges leveraging data from multiple entities to track customer interactions and determine subsequent best actions.

How can you avoid these pitfalls?

Above all, start with a clear strategic vision. This sounds self-evident, but many carriers simply don't have one. Does becoming part of an ecosystem make sense considering your actual or desired market reach? If it does, then what's the best role for you? Is it foundation builder, sourcing participants (for example, auto manufacturers, aftermarket suppliers and repair services) and controlling the end customer by curating end-to-end experiences across multiple partners? Is it the (not mutually exclusive) role of orchestrator, which owns data to create integrated user experiences?

If these higher risk/higher opportunity roles require more resources than you can or want to invest, it may be easier to act as an opportunistic participant. We've seen some carriers in this category succeed by offering embedded insurance (for example, warranties) that reaches customers at the point of sale, when they're most likely to consider buying protection.

Whatever role you play, keep in mind there's no single best operating model or organizational design. But you'll need clear accountability, effective processes, sound capabilities and strong data management across the ecosystem to assess and respond to emerging issues, trends and opportunities.

The key to success

"Ecosystems bring multiple entities together to create integrated offerings that center on customer needs. Their success depends on the active and purposeful participation of all members. Unfocused half-measures will almost certainly fail."
Marie Carr, Insurance Growth Strategy Leader, PwC US

Issue 4: Leaning into industry trends with deals

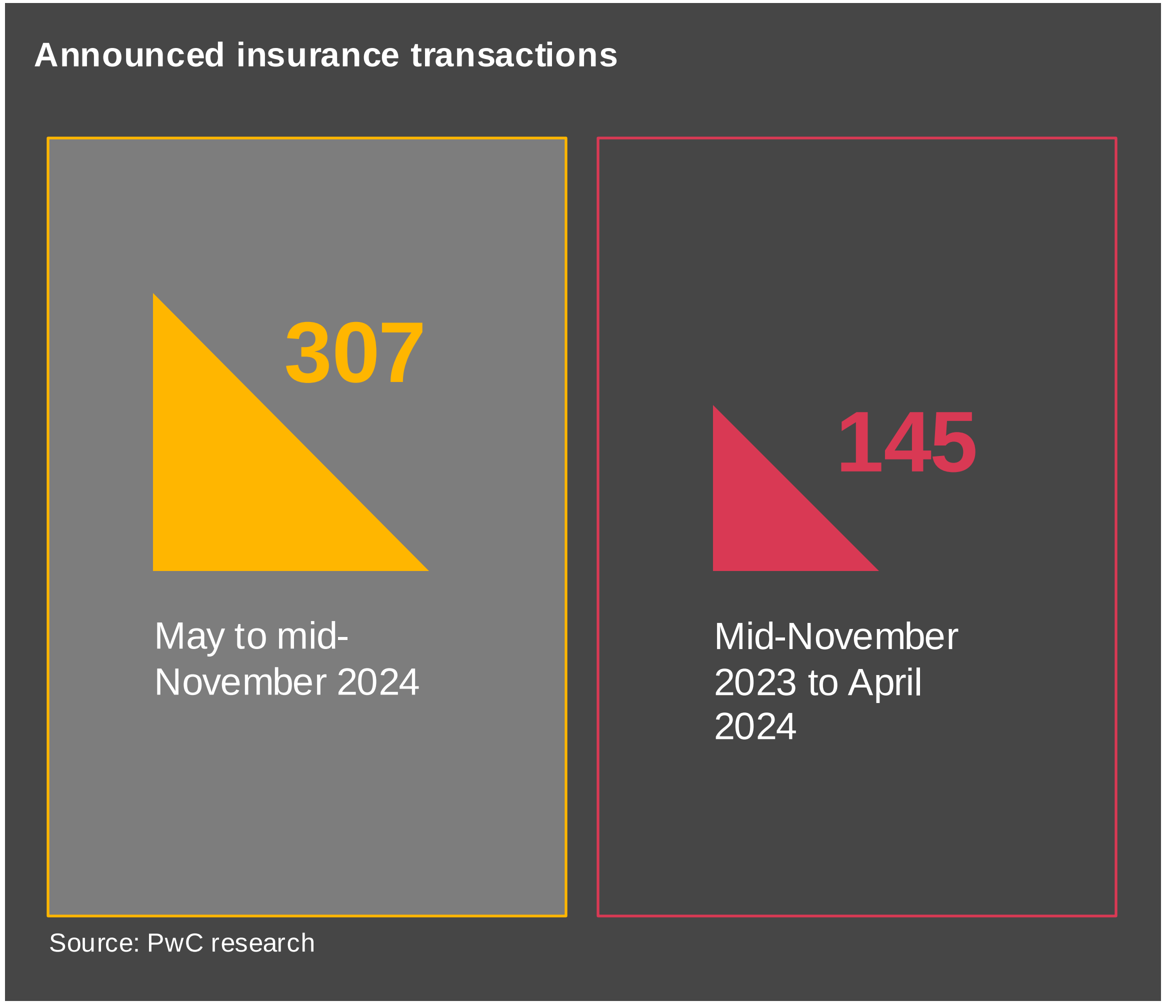
Insurance deals more than doubled in the second half of 2024 compared to already strong activity in the first six months of the year. Considering the current macroeconomic environment, expectations that interest rates have stabilized, likely deregulation in the wake of US elections and private equity (PE) having a backlog of exits, we expect the deals environment to remain healthy in 2025.

The reasons for insurance deals and the areas in which they're happening are increasing. Most notably, we're seeing increased interest in property and casualty (P&C) companies, which has been limited in recent years relative to the still active life and annuities (L&A) space. With specialization, P&C carriers have become more focused underwriters and — especially with premium rates stabilizing — more attractive deals targets. These moves have potentially major implications for P&C overall because they're likely to increase the sector-wide imperative for greater specialization and efficiency.

In addition, private equity firms and broker consolidators continue to shake up distribution, albeit with some recent changes in circumstances. The former are starting to sell brokers they've acquired in recent years to the latter, who are actively looking for margin expansion via further market consolidation. We expect post-election changes in federal policy to encourage more deals in this space — and elsewhere in the industry — which may lead to more IPO activity.

Provided the IPO environment does improve, thoughtfully addressing the following should be at the top of the agenda for every company intending to go public.

- IPO strategy
- Financial reporting and accounting policy
- Taxation
- Compliance
- Internal controls



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