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A report from the
Deloitte Center for Financial Services

2021 insurance outlook

Accelerating recovery from the pandemic while pivoting to thrive

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Contents

Key messages	2
Where do insurers stand as they enter 2021?	3
Expense management still front and center to free up funds for accelerated digitization	6
Technology could play a crucial role, but most feel digital capabilities come up short	10
Insurers reevaluate talent strategies by balancing return-to-office plans with a hybrid workforce	14
Finance priorities reconsidered for reporting, M&A, and taxation	21
Insurers should keep innovating to thrive after the pandemic	27
Endnotes	29

KEY MESSAGES

- The COVID-19 pandemic severely disrupted insurer operations, prompting an overnight shift to remote work and virtual customer engagement while exposing gaps in digital capabilities and raising cybersecurity concerns.

- Deloitte's global outlook survey of insurance executives found expense management more strongly emphasized than before the outbreak. However, rather than cutting costs across the board, most insurers are likely delaying or scaling back prepandemic investments in part to free up capital for higher priority projects and talent that can help them adapt sooner rather than later.

- The need to accelerate digitization and enhance virtual operations turned headwinds into tailwinds at many insurers, driving faster action to deliver within the coming year what might originally have been three-to-five-year transformation plans.

- Necessity might have been the mother of reinvention for many insurers during the pandemic, but the speed of change and much greater reliance on connectivity and remote access may also generate a host of new exposures for carriers and their policyholders, particularly in terms of cyber risk and business interruption.

Where do insurers stand as they enter 2021?

WHAT A DIFFERENCE a year makes. Or even a few months. The COVID-19 pandemic and resulting economic fallout radically shifted consumer and employee needs, habits, and expectations, while compelling virtualization of insurer operations practically overnight. But while most of those in the industry adapted quickly, insurers are still likely facing lingering obstacles to growth and profitability in the year ahead.

A global outlook survey by Deloitte's Center for Financial Services found that many insurers know they still have their work cut out for them, even after spending most of 2020 adapting to the outbreak's impact. Forty-eight percent of 200 responding insurance executives agreed the pandemic "showed how unprepared our business was to weather this economic storm," while only 25% strongly agreed their carrier had "a clear vision and action plan to maintain operational and financial resilience" during the crisis. (See "Methodology" for details about who was surveyed.)

Pandemic losses hurt the property-casualty bottom line

The pandemic and other catastrophe losses hit many insurers hard in first-half 2020, especially those writing events cancellation and workers' compensation. To illustrate, North American property-casualty insurers saw first-half annualized GAAP operating return-on-average equity fall to 2.8% from 8.3% the year before, in large part due to US$6.8 billion in incurred losses related to COVID-19 and concurrent drops in premium volume for key lines.[1] Overall, the year-to-date total return of S&P's Insurance Industry Index lagged the broader S&P 500 by 24.6% as of September 30, 2020.[2]

Given the pandemic's impact on employment, business activity, and trade, global nonlife premiums are expected to be flat for full-year 2020, including a 1% decline in advanced markets.[3] However, despite these challenges, the industry may yet rebound to 3% growth in 2021, led by a potential 7% boost in emerging regions (figure 1).[4]

FIGURE 1

Global nonlife premiums falter in advanced markets, but keep growing in emerging countries

Markets	2009–2018A	2019	2020E	2021F
Advanced	2.6%	2.7%	-1%	3%
Emerging	7.7%	7.7%	3%	7%
World	3.2%	3.5%	0%	3%

Note: A denotes average, E denotes estimate, and F denotes forecast.
Source: Swiss Re Institute, *sigma* No. 4/2020.

The pandemic and its aftermath are expected to continue hitting some property-casualty lines harder than others. Workers' compensation insurance sales, for example, were undermined by massive job losses,[5] and Deloitte's US premium projection suggests volume may not return to prepandemic levels until after the fourth quarter of 2022.[6] In addition, small business premiums, battered by shutdowns and bankruptcies, may also be slow to recover if many more retailers, restaurants, and personal services outlets close down.

On the other hand, while many US auto insurers saw a significant loss in premiums after providing policyholders with rebates and rate cuts to reflect less driving during the pandemic, carriers may see improved profitability with an expected drop in accident frequency.[7]

Life and annuity sales undercut by pandemic, interest rate drop

Life insurance premiums may decline 6% globally through the end of 2020 and by 8% in advanced economies, while a recovery of 3% growth is projected overall for 2021. Emerging markets once again will likely lead the way while advanced markets continue to struggle (figure 2).[8]

FIGURE 2

Global life insurance premiums written are forecast to recover to prepandemic levels in 2021

Markets	2009–2018A	2019	2020E	2021F
Advanced	0.6%	1.3%	-8%	2%
Emerging	6.5%	5.6%	0%	7%
World	1.5%	2.2%	-6%	3%

Note: A denotes average, E denotes estimate, and F denotes forecast.
Source: Swiss Re Institute, *sigma* No. 4/2020.

Meanwhile, annuity sales also took a big hit. In the United States, for example, nearly all types of annuities plunged by double-digits in the second quarter (see figure 3), except for registered index-linked products—which are a cross between fixed and variable annuities with limited downside investment risk.[9]

Growth and profitability in both annuities and many nonterm life insurance products will likely be impacted through 2021 and beyond by persistently low interest rates. The German 10-year yield, for one, is expected to remain negative,[10] while the US Federal Reserve has indicated it will likely leave rates near zero at least through 2023.[11] This could pose challenges, particularly for insurers with increased exposure to lower-rated, less-liquid investment-grade securities.[12] The same goes for annuities, as lower interest rates historically prompt a reduction in benefits offered, which could make them a harder sell this coming year.[13]

At the same time, life insurers may see 50% more losses on mortgage loans than what they experienced during the Great Recession.[14]

While it was hoped the pandemic might at least raise consumer awareness about the value of mortality products, a J.D. Power study found that not necessarily to be the case. Despite COVID-19 fatalities exceeding 200,000 in the United States at the time of the study, consumers surveyed did not seem any more motivated to buy life insurance, due to a "combination of infrequent client communications and a pervasive perception of high cost and transaction complexity."[15] This indicates the industry likely has more fundamental issues to address to expand consumer awareness and market penetration.

FIGURE 3

Total US annuity sales plummet in Q2 2020

Product sales	Q2 2020	% CHANGE FROM Q2 2019
Total annuities	$48.8B	-24%
Variable annuities	$20.5B	-20%
Registered index-linked annuities (RILAs)	$4.5B	8%
Total fixed annuities	$28.3B	-26%
Single premium immediate annuities (SPIAs)	$1.5B	-44%
Deferred income annuities (DIAs)	$370M	-50%

Note: All dollar values are in US dollars.
Source: LIMRA, "Secure Retirement Institute: Total US annuity sales tumble in the second quarter amid economic fallout from the pandemic," July 27, 2020.

Looking ahead to 2021 and beyond

Businesses must concurrently manage three key phases of the COVID-19 crisis—*respond*, *recover*, and *thrive*.[16] When the pandemic emerged, insurers responded by taking immediate steps to ensure business continuity, and help customers and their communities cope.[17] As they head into 2021, insurers should consider a mix of offensive and defensive actions to accelerate longer-term recovery efforts and pivot to the thrive phase when growth is reemphasized, despite challenging economic conditions.

Deloitte's third-quarter US forecast includes a 55% probability that under the most likely scenario, with the population being vaccinated throughout 2021, there may still be "significant drags on economic growth."[18] Worse, there is a 25% probability of facing a "no end in sight" scenario where a vaccine is delayed, resulting in protracted weakness in the economy.[19]

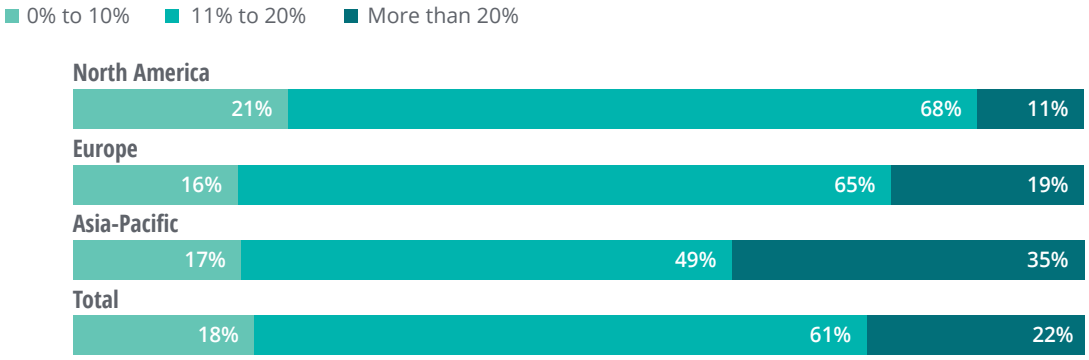
Considering these and other challenges facing insurers around the world, this year's outlook uses Deloitte's global survey to explore both the tactics industry leaders are following to ensure their foundation remains strong for however long the pandemic lasts, as well as the strategies they're beginning to deploy to position themselves for success in the coming years. We examine how insurers are adapting and planning to invest from the perspective of operations, technology, talent, and finance.

Expense management still front and center to free up funds for accelerated digitization

IN OPERATIONS ACROSS insurance organizations, expense management efforts—which began well before the pandemic hit—remain crucial, not only to offset added costs incurred to respond to the outbreak, but also to fund faster innovation, spur quicker recovery, and fuel future growth.[20] Sixty-one percent of survey respondents expect to cut costs between 11% and 20% over the next 12-to-18 months. Those from the Asia-Pacific region (APAC), especially Australia and Japan, anticipate more stringent reductions, with 35% expecting cuts over 20%, compared to 19% in Europe and 11% in North America (figure 4).

FIGURE 4

Proportion of overall cost reduction expected over the next year



Note: Percentages may add up to more than 100% due to rounding.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

However, most insurers are not looking to cut across the board. They are more likely resetting priorities, reducing nonessential expenses, and postponing less critical investments to free up capital for areas needed to recover and thrive, with spending priorities differing by region (figure 5) and type of technology (next section).

FIGURE 5

Operational priorities differ regionally

Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

Product development may shake up status quo

New types of coverage may be spurred in part by the pandemic, such as the launch of more parametric policies (which pay upon the occurrence of a triggering event rather than having to claim a specific insured property loss). This was cited as the top product development priority among North American and European respondents and number three in APAC. The concept, which has already been rising in prominence in property-catastrophe coverage, might have applications for future viral outbreaks. Lloyd's of London recently introduced a parametric business interruption policy for small- and medium-sized firms suffering IT disruptions.[21]

Insurers also may have opportunities to innovate more in personal lines with the pandemic-induced change in driving habits and work environments. Many of those responding to a Deloitte global auto and homeowners' insurance consumer survey taken during the early part of the pandemic indicated a preference for greater customization. Younger buyers in particular showed interest in wider-ranging policies, including one covering all types of transportation rather than being tied to one vehicle.[22]

Distribution balances hybrid systems

Forty percent of those surveyed expect to increase investment in direct online sales, which is not surprising since most customers likely didn't want to meet face-to-face with insurance salespeople during the pandemic—a trend that may continue long term.

Still, most insurers indicated they are hedging their bets by supporting agents and brokers in a variety of ways—from prospecting to sales management. Many European respondents went so far as to cite direct financial aid for struggling distributors as their top priority, although that option finished eighth in North America. Such help will likely be welcome, as nearly half of those surveyed by the Independent Insurance Agents & Brokers of

America reported a loss of commercial lines clients and decreased revenue for 2020, while 70% received a Payroll Protection Program loan or some other grant or financial assistance during the pandemic.[23]

Bolstering cybersecurity for a largely remote sales force during the pandemic was the number one distribution consideration of respondents in North America—coming in second for APAC and third for Europe.

Underwriting looks to augment roles

Many insurers are in the early stages of underwriting transformation projects going well beyond automating routine, labor-intensive data gathering and processing tasks. The ultimate goal is to better leverage artificial intelligence (AI), alternative data sources, and more advanced predictive models to augment an underwriter's capabilities and eventually transition them to higher-level, multifaceted roles—such as portfolio management and greater interaction with brokers and large customers.[24]

For example, Ping An Life Insurance Company of China has an advanced risk model on its smart underwriting platform that served over 18 million policyholders in 2019 and approved 96% of policies through automated underwriting, cutting average turnaround time from 3.8 days of manual underwriting to 10 minutes.[25]

The question is whether most insurers will invest enough to make this vision a reality, at least in the short term. Increasing automation was the top underwriting priority among respondents in North America, but only ranked fourth among those surveyed in Europe and fifth in APAC. Expanding the use of AI in underwriting ranked eighth in North America versus second in APAC and Europe, while enhancing predictive modeling ranked fifth or lower across all regions surveyed.

Claims goes virtual, but can it be a differentiator?

Trends prompted by the pandemic have likely required insurers to contend with much more remote claims handling, formerly executed on the ground.[26] Thus, it was surprising that "increasing virtual claims interactions" finished as a fourth claims priority across all regions surveyed. Similarly, "upgrading detection capabilities for claims fraud" finished sixth, even though fraud frequency often increases during economic distress.[27] These results may reflect the need to make hard budgetary choices across multiple priorities.

For claims to become a more reliable retention driver and even a competitive differentiator, carriers will likely need to not only adopt new technologies and alternative data sources, but "establish a connected partner ecosystem and talent model that values technical claims handling and data science skills."[28] For example, Zurich UK has teamed up with Carpe Data to automate and accelerate its claims processes and detect fraud using alternative data.[29]

In the long term, such a course would likely help "reduce pressures of an aging workforce as no-touch insurance claims processing increases."[30]

Compliance challenges emerging

Regulators have focused on multiple areas of concern during the pandemic, from policy disputes over infectious disease-related coverage,[31] to consumer protection as more sales and claims handling go virtual.[32] But there are many other compliance issues for insurers to address that have nothing to do with the pandemic. (See figure 6, and look for Deloitte's *2021 Insurance Regulatory Outlook* for a comprehensive analysis.)

FIGURE 6

Insurers face mounting regulatory challenges in 2021

Among the pandemic-related challenges:

Market conduct

Regulators pay close attention to how insurers are treating policyholders, both on claims directly prompted by COVID-19 losses, as well as the sudden shift to virtual sales and claims handling.

Business interruption

Claims will continue to be a concern, as court challenges over COVID-19 claims play out and as the industry and governments around the world consider public-private approaches to provide coverage for future pandemics.

Workers' compensation

Claim disputes should mount as more employees return to their workplaces, while debate continues over liability waivers for employers.

Solvency concerns

Will rising COVID-19-related and nonpandemic catastrophe losses (such as West Coast wildfires) threaten any insurer's financial strength?

Among the regulatory issues unrelated to the pandemic:

Artificial intelligence

Regulators may seek to scrutinize what's in the "black box" behind underwriting, pricing, and claims algorithms, as the US National Association of Insurance Commissioners sets principles on how insurers' artificial intelligence systems should operate.

Social unrest

Insurers respond to protests against systemic racial discrimination while regulators and advocacy groups spotlight diversity and inclusion efforts among insurer boards and management.

Climate change

Regulators seek to maintain affordable coverage for policyholders in highly exposed catastrophe areas while asking insurers for financial disclosures specific to climate risk.

Cybersecurity and data privacy

Insurers face increasing local and global regulations, while some look to pivot to more transparent proactive engagement with consumers offering greater value for more data-sharing.

Source: Deloitte Risk and Financial Advisory, Deloitte & Touche LLP.

Operational agenda items to consider for 2021

Which expenses might be delayed or cut to free up funding to more quickly digitize and virtualize operations?	How might you balance support for agents and brokers adapting to the pandemic while advancing direct sales options?	With fraud likely to increase in tough economic times, how can you upgrade detection capabilities with a limited budget?

Source: The Deloitte Center for Financial Services analysis.

Technology could play a crucial role, but most feel digital capabilities come up short

TECHNOLOGY WAS VITAL in helping insurers shift to remote work environments and in ensuring employees had the tools to conduct business while remaining connected with distributors and clients.

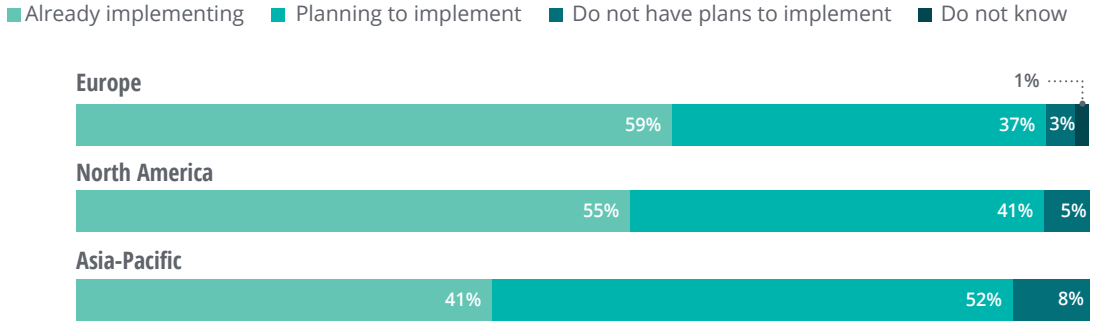
Even so, Deloitte's survey found 79% of respondents believe the pandemic uncovered shortcomings in their company's digital capabilities and transformation plans. That rose to 87% among respondents with operations responsibilities, who were probably the most directly impacted.

In response, 95% of those surveyed are already accelerating or looking to speed up digital transformation to maintain resilience. Europe (59%) and North America (55%) seem further along in implementing such plans, compared to 41% in APAC (figure 7).

FIGURE 7

European respondents emerged further along with implementing digital transformation plans

Nearly all insurers are at least planning to enhance digital capabilities over the next 6-12 months to maintain resilience



Note: Percentages may add up to more than 100% due to rounding.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

Insurers plan to double down on cybersecurity

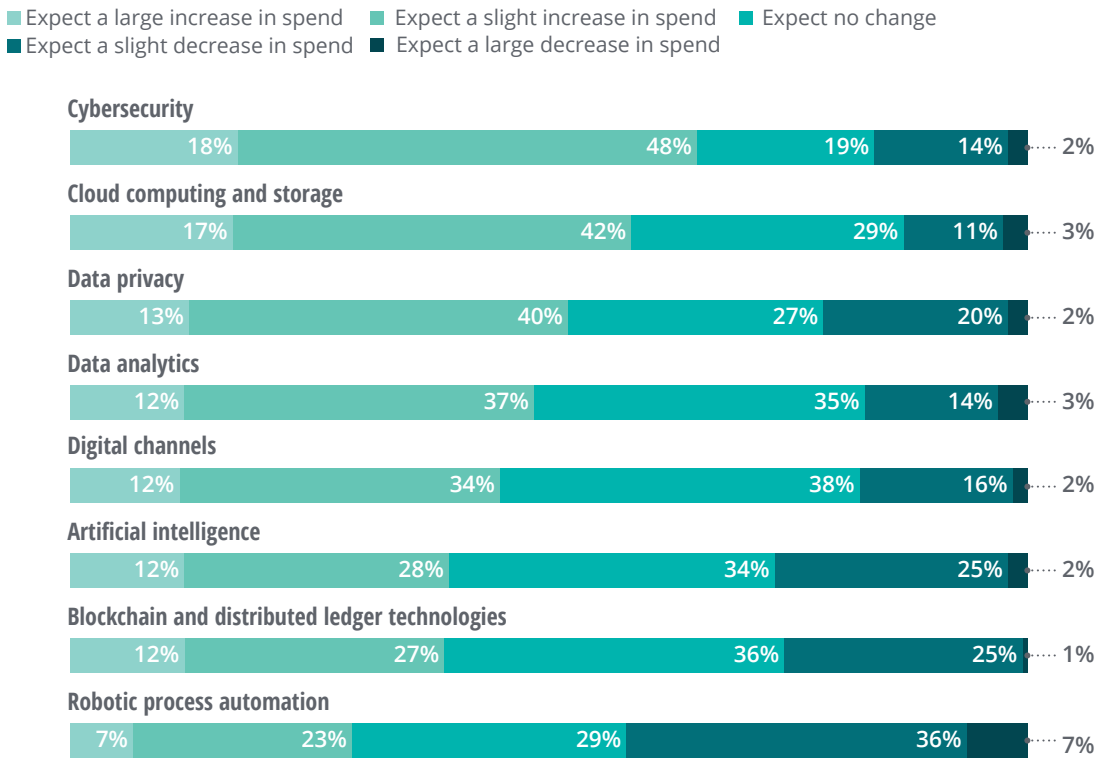
As insurers begin to focus more on the thrive phase, most CIOs surveyed will be reallocating technology spending as they reprioritize ongoing and planned projects (figure 8). Cybersecurity tops the list among those surveyed in terms of an expected increase in investment.

Close to two-thirds of respondents across all regions are looking to increase spending on cybersecurity. With most employees working remotely and more data and applications moving outside the traditional security perimeter, cyberattack risks keep rising. Insurers should consider implementing "zero trust" principles by imposing verification requirements on anyone seeking access to data or systems, regardless of being internal or external, while adopting "security by design" principles during technology development.

Cybersecurity teams should consider enhanced controls and endpoint protection technologies to exert greater control over end-user devices. Companies should also increase training and awareness activities, focusing on remote guidelines and etiquette for work-from-home environments.

FIGURE 8

Cybersecurity, cloud, data privacy, and analytics were identified as tech investment priorities



Note: Percentages may add up to more than 100% due to rounding.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

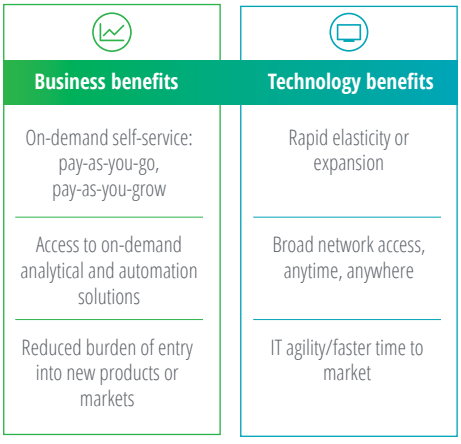
Cloud migration gaining momentum

Although the shift to cloud computing was already well underway before the pandemic, it appears to be an even bigger priority now as insurers look to shed fixed expenses. Cloud's consumption-based cost model can facilitate expense management while enabling leveraging of cloud services to drive innovation and agility. Cloud transformation projects are likely to accelerate in 2021, as building the cloud foundation would allow insurers to rapidly and cost-effectively implement advanced analytics and automation tools (figure 9).

To prioritize cloud investment, carriers should look to first migrate and modernize systems-of-engagement, enabling different ways to interact with customers and distributors. Next, insurers should consider moving systems-of-record, readying core systems for digital technologies powering new business models. In September 2020, for example, Prudential decided to utilize Vitech's cloud-based V3locity as its core administration platform across its group insurance business.[33]

FIGURE 9

Potential business and technology benefits of cloud



Source: Deloitte Consulting LLP.

Companies should keep in mind cloud adoption goes beyond IT upgrades. For benefits to materialize, it should be part of broader business transformation, including people and processes as integral components.

Privacy and data security (addressed below) should also be top-of-mind, as insurers are still accountable for protecting customer data through encryption and by applying appropriate security and access controls to cloud applications.

Data privacy a rising priority as sources, analytics keep expanding

With data-related regulations and cybersecurity concerns increasing, privacy is a growing board-level priority for insurers. Fifty-two percent of those surveyed (including nine of 10 CEO/president respondents) expect to boost spending on data privacy.

With data-related regulations and cybersecurity concerns increasing, privacy is a growing board-level priority for insurers.

However, 27% expect no change, while 22% may cut spending on privacy, which could prove problematic given emerging vulnerabilities. Insurers may also have to increase spending if they expect to move beyond their traditional focus on regulatory compliance and engage more proactively and transparently with consumers by offering value for

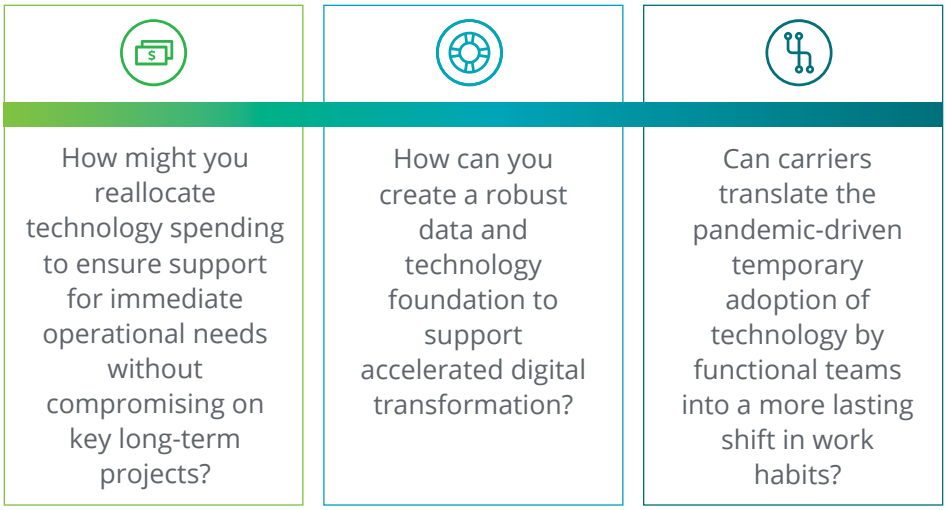
new types of data, thereby making privacy management a competitive differentiator.[34]

Cybersecurity and privacy are prominent concerns not only because of increasing regulatory pressure, but also due to how rapidly data volume is growing through sensors, third-party aggregators, and other alternative sources. Combined with advanced analytics, insurers can reconcile, combine, and analyze data from multiple sources to generate real-time insights that were previously not feasible technologically or viable economically. No surprise, then, that 49% of respondents (led by 56% in North America) are looking to boost investments in data analytics.

The goal is to speed up underwriting and improve customer experience. For example, Policygenius, a New York-based InsurTech, utilizes analytics on past medical and prescription data to offer accelerated term life products without a medical exam for eligible applicants.[35]

Building a data-driven organization requires a strong foundation that is secure and scalable, allows linkages to multiple internal and external data sets (possibly as microservices), and supports advanced analytics and automation capabilities. Insurers should keep modernizing outdated legacy systems that could prevent carriers from extracting value and making new data actionable.[36]

Technology agenda items to consider for 2021



Source: The Deloitte Center for Financial Services analysis.

Insurers reevaluate talent strategies by balancing return-to-office plans with a hybrid workforce

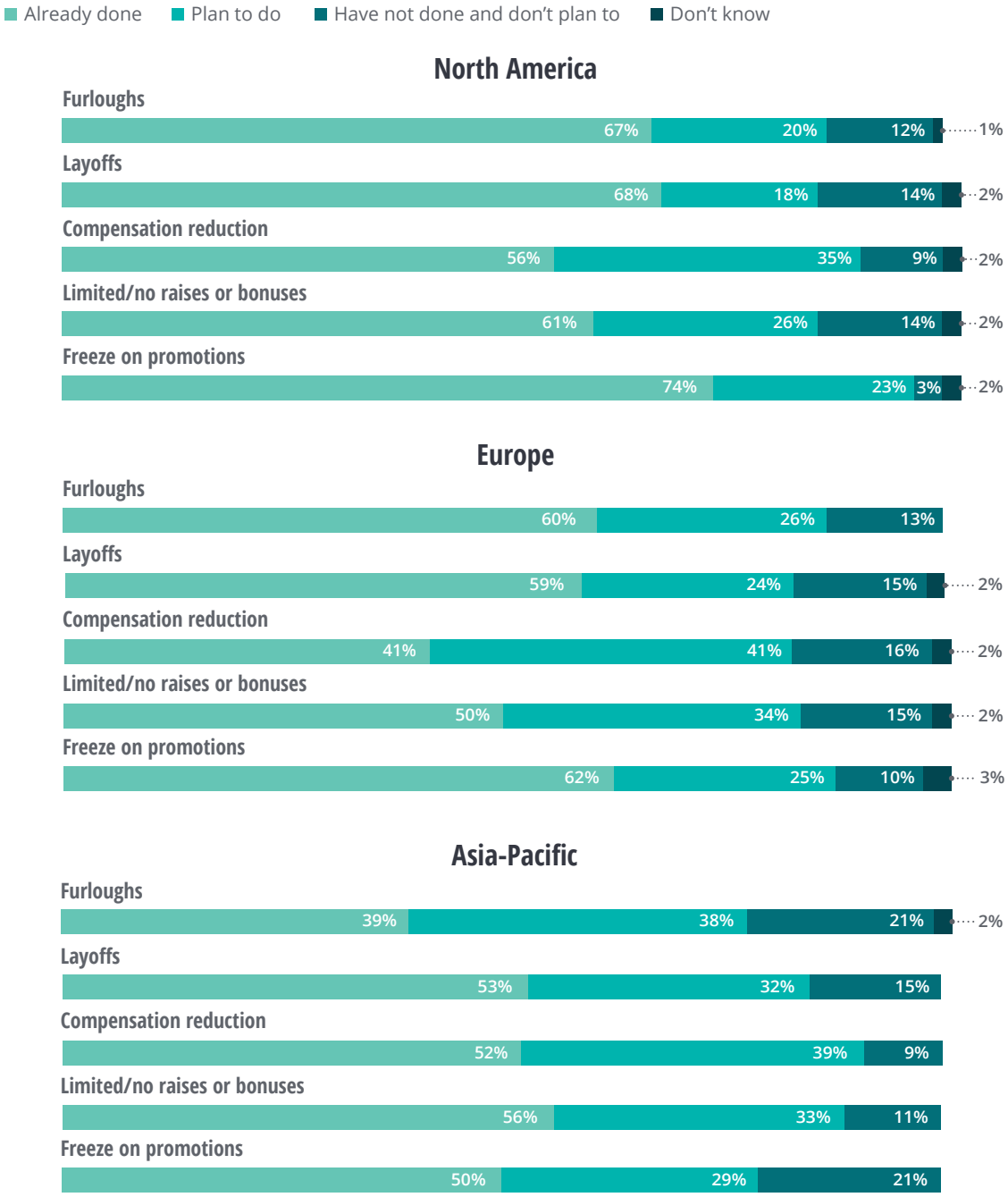
THE INSURANCE WORKFORCE was not immune to COVID-19's effects. About 60% of those surveyed reported their companies had seen furloughs and layoffs. Over 50% experienced compensation reductions, limitations on raises and bonuses, and promotion freezes.

While the impact was felt across regions, respondents from North America reported being harder hit by various reductions (figure 10). Looking ahead, to support operational and financial stability, 39% of respondents believe they will need further rationalization of compensation and headcount.

Most insurers are looking to eventually get the bulk of their people back to the office. However, with the risk of periodic surges in COVID-19 infections and uncertainty around large-scale vaccine availability, many workers may be concerned about potential health and safety risks.

FIGURE 10

Actions taken to reduce workforce-related expenses



Note: Percentages may add up to more than 100% due to rounding.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

Mandatory work-from-home models compelled unprecedented changes in day-to-day operations

Office closures and restricted movement prompted everyone and everything that could go virtual to do so immediately. However, the sudden pivot left insurers to grapple with challenges from multiple talent perspectives.

- **Workplace:** Many insurers with a traditional office mindset had to overcome a plethora of technology and collaborative obstacles to support a virtual operation of this magnitude while maintaining their productivity and culture.

- **Workforce:** Employees working remotely may lack an appropriate ergonomic space. Many must contend with additional personal responsibilities, such as child or elder care, requiring flexible or reduced schedules. These circumstances compelled many employees, especially women, to take voluntary career breaks.[37] Indeed, the start of the new academic year for students learning at home prompted four times as many women as men in the United States to quit their job in September 2020.[38]

- **Work expectations:** There are often no clear policies laid out about what's expected of virtual workers. Plus, the uptick in online insurance applications and claims management is fast-tracking digitization, impacting the nature of work and likely requiring retraining.

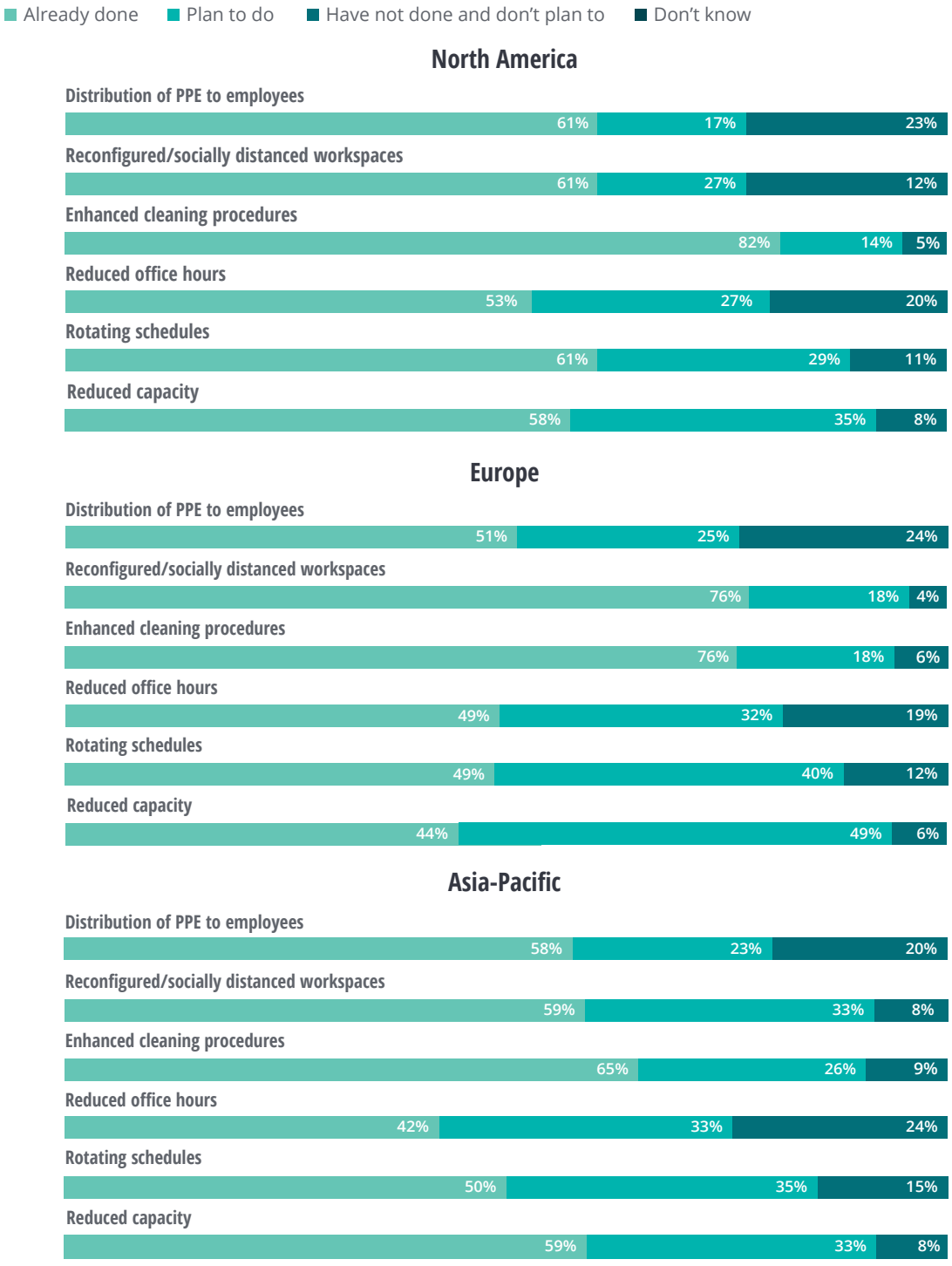
Those who have acclimated to remote work may question the need to return to an office.

Most insurers are looking to eventually get the bulk of their people back to the office. However, with the risk of periodic surges in COVID-19 infections and uncertainty around large-scale vaccine availability,[39] many workers may be concerned about potential health and safety risks. Indeed, 74% of respondents feel their organization's success post-COVID-19 may be hampered by employee fear of returning to the office. Compounding this, those who have acclimated to remote work may question the need to return to an office, regardless of COVID-19's status.

Respondents report taking several measures to ensure employee safety for those asked to return (figure 11). Insurers have opportunities to further reduce liability and enhance safety by utilizing adaptive technology. For example, insurers could require employees to download a mobile app regulating access to office facilities, while tracking intra-office activity and interaction if contact tracing is required.[40]

FIGURE 11

Measures taken to ensure employee safety when offices reopen



Note: Percentages may add up to more than 100% due to rounding.

Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

However, as most insurers are likely to at least offer remote work options until mid-2021 or beyond, they should therefore rethink "return to normal" talent strategies to enable productivity, collaboration, and innovation no matter where people work.

Conventional work strategies reimagined for near- and long-term

Insurers should consider moving beyond traditional structures and build a road map to thrive virtually. Some may decide to shut selected offices for good—an option chosen by Nationwide, which had already made long-term technology investments that facilitated a quick transition during the pandemic to a work-from-home model for 98% of employees.[41] Others may consider a hybrid remote/office system, or at least a more flexible template.

As insurers look to maintain their work culture for the postpandemic world, insurance leaders might consider three potential archetypes (figure 12): traditionalists (all employees eventually returning to the office); progressives (a hybrid on-premise/virtual model); and visionaries (most working virtually).

FIGURE 12

Organization archetypes based on workforce and workplace assessment—and future implications

Definitions		Future implications in a post-COVID-19 world
Traditionalists	**Organizational culture is office-based.** Employees largely prefer to work and collaborate in office	• Likely now competing for talent with firms that offer more flexible work arrangements • Adapt existing space to accommodate workplace distancing • Likely to delay workplace modifications under the expectation that the pandemic will conclude
Progressives	**Company culture that supports both virtual and on-premise work.** Employees are comfortable working in either a virtual or on-premise format	• Support employees who choose to work off site and those who choose to come to the office • Consistent productivity measurement and culture maintenance • Managing a hybrid workforce will require new capabilities and technology infrastructure to support employees (e.g., tools, processes, data security)
Visionaries	**Culture supports employee autonomy for workplace choice.** Allowing employees to identify the appropriate type of workspace based on their needs, but still provide group space for collaboration	• Largely support work from home and utilize shared workspace to support events and collaborative experiences • Creation and maintenance of culture, consistent productivity and performance measurement, and virtual team leadership • Leverage technology tools to support employees' remote work (individual and collaborative)

Source: Deloitte Consulting LLP.

The vision for each postpandemic organization will be set at the top, so insurance executives will likely face hard decisions about which archetype best suits their company. Team managers will likely need to become microleaders, instituting organizational and cultural shifts at the small group level. Seeking a balanced approach, carriers that gravitate toward the progressive model need to decide what parts of the operation stay virtual versus on-premise.

Formal expectations for remote workers should be established, taking into consideration employees' personal situations while offering resources to enhance productivity, including well-being programs or flexible work options.

In-person training is hard to replicate for remote workers. Insurers with a fully remote or hybrid environment should therefore map out more robust, engaging virtual learning and development programs to complement or even replace in-person training. This could include training in pods and virtual cross-mentoring between seasoned and novice professionals (figure 13).

Modifications to traditional talent models will potentially require revisions to hiring, onboarding, and performance management protocols.

FIGURE 13

Leadership, culture, talent, and learning and development considerations for remote work environment

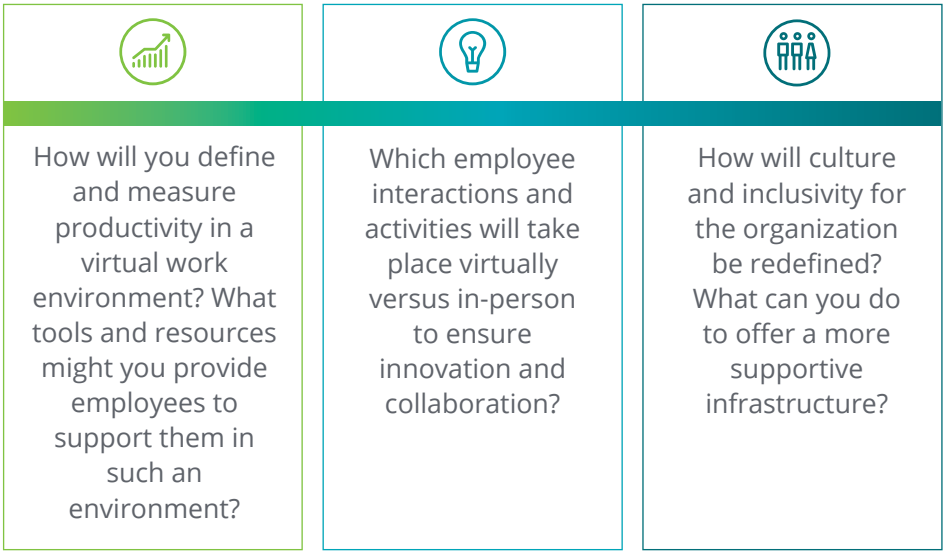
Source: Deloitte Consulting LLP.

Diversity and inclusion efforts still need to be a priority

Beyond pandemic-related talent concerns, addressing employment inequality is emerging as a top priority for insurers. Nearly 67% of respondents report their company is focused on increasing the level of diversity in hiring, development, and leadership. Europe leads the charge for change (75%), followed by APAC (65%) and North America (61%).

Insurers should also not take their eyes off long-standing, longer-term talent objectives, such as attracting more millennials and Generation Z workers to backfill positions left open by what is likely to be a growing number of retirees in an aging workforce. They should also bolster the recruitment of those with advanced data analytics and automation skills to fuel faster, more effective digital transformation.

Talent agenda items to consider for 2021



Source: The Deloitte Center for Financial Services analysis.

Finance priorities reconsidered for reporting, M&A, and taxation

FINANCE LEADERS CONTINUE to reevaluate processes and investments to optimize agility, assets, and growth heading into 2021. However, while only 25% of survey respondents strongly agreed their company had a clear vision and action plan to maintain financial resilience during the ongoing health and economic crisis, most indicated they were at least somewhat confident they are on the right track.

Meanwhile, Deloitte's outlook survey also found 79% agreeing their insurer has been challenged to plan for and invest in targeted areas where they can have a competitive advantage post-COVID-19.

Interest in investment priorities to support financial stability is spread across a wide range of options and varies regionally. In North America, rationalizing compensation and headcount was cited as the top strategy followed by streamlining business functions, while in Europe and APAC, the largest focus of respondents will be on implementation of technology to enhance efficiency (figure 14). In Europe, these tech investments appear to be focused more on shorter-term strategies, as 42% of respondents will cancel or postpone long-term projects at least through 2021.

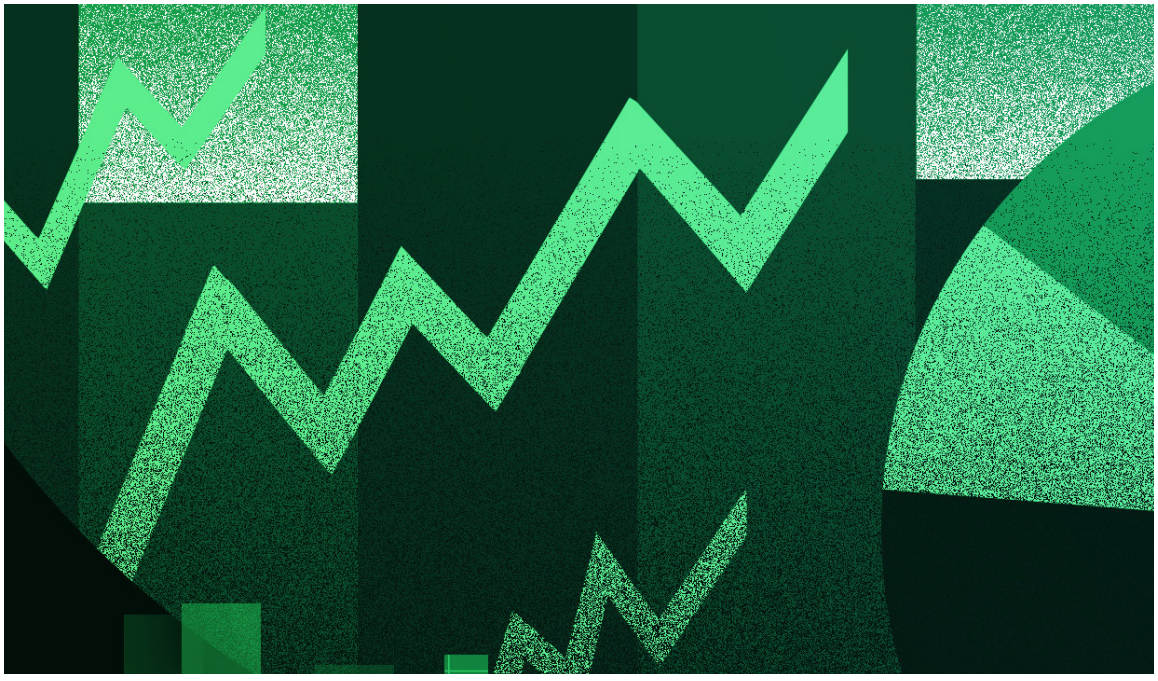


FIGURE 14

Actions to support financial stability over the next 6–12 months

	North America	Europe	Asia-Pacific
Outsource operations	35%	35%	29%
Accelerate innovation initiatives	33%	37%	36%
Decentralize business functions	24%	32%	29%
Centralize business functions	39%	31%	27%
Restructure functional teams and reduce operational costs	35%	24%	36%
Suspend new expenditures and investments	26%	28%	36%
Rationalize assets	36%	38%	36%
Pursue mergers or acquisitions	32%	38%	26%
Divest nonperforming or noncore operations	36%	22%	30%
Implement technology to enhance efficiency	32%	43%	38%
Trim discretionary spending	26%	31%	36%
Cancel or postpone long-term technology projects	29%	41%	33%
Rationalize compensation and headcount	44%	37%	36%
Rationalize real estate footprint	39%	26%	24%

Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

Insurers adapt quickly to meet reporting requirements

Meeting financial reporting deadlines in a virtual environment is one key concern. A Deloitte survey last spring on how insurer finance departments responded to the pandemic found most transitioning fairly well to a virtual actuarial and financial close process. While all insurers surveyed considered making improvements in close automation and 57% will upgrade core collaboration capabilities and communication for virtual exchanges, few reported significant delays in their typical closing time frame.[42]

Looking ahead, US financial reporting will likely become more complicated in the next couple of years. For one, the New York Department of Financial Services will be asking insurers to develop a financial disclosure approach specific to climate risk.[43] In addition, life and annuity insurers will continue preparing to meet updated Financial Accounting Standards Board reporting rules for long-duration contracts, which will fundamentally change how insurers measure, recognize, and disclose insurance liabilities and deferred acquisition costs.[44]

M&A outlook may be more bullish than expected

The first-half global 2020 merger and acquisition (M&A) activity was consistent with the first-half 2019 activity.[45] This was likely because most deals closing in this period were already in flight prior to the full-scale COVID-19 outbreak.[46] In addition, while the level of uncertainty from medical, political, economic, and global trade challenges was expected to be the enemy of M&A, 25 insurance company deals were announced in the United States alone toward the latter part of Q3 2020, indicating the opposite trend may be occurring.[47]

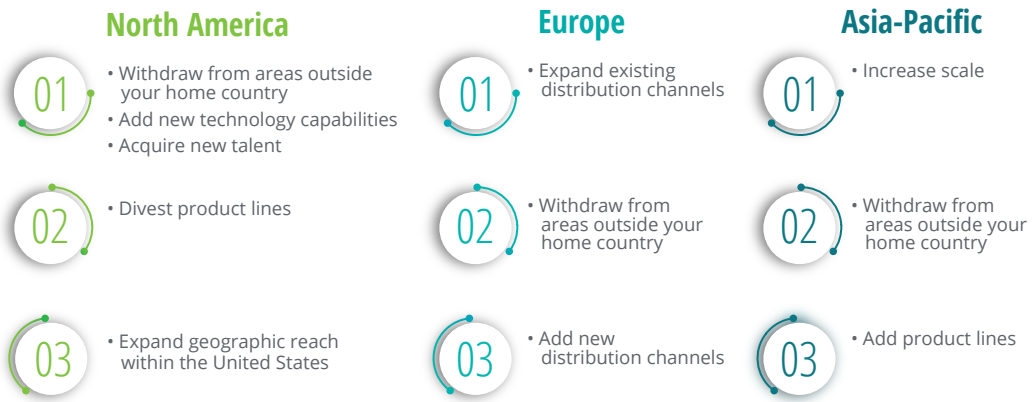
Looking ahead, 31% of respondents said it was somewhat likely their insurer would increase M&A activity, although only 4% said that was very likely. Another 37% said increasing activity was somewhat unlikely, along with 4% seeing that as very unlikely.

New deals will reflect insurers' altered priorities and strategies and vary across regions (figure 15). Exiting regions outside home countries ranked among the top three goals for those considering M&A deals. One example is AXA SA considering a sale of its Greek businesses to Generali SpA,[48] as well its Singapore unit.[49]

A top focus appears to be adding new technology capabilities, at least in North America. Therefore, acquiring more mature InsurTechs could be increasingly attractive for legacy insurers, provided they can make a near-term impact on operations. For example, Prudential Financial announced the acquisition of Assurance IQ to reach a new demographic using the InsurTech's business-to-customer platform.[50] Some of this activity may include a broadening of the definition of buy side/sell side to embrace alliances and partnerships.

FIGURE 15

Top ranked primary M&A goals

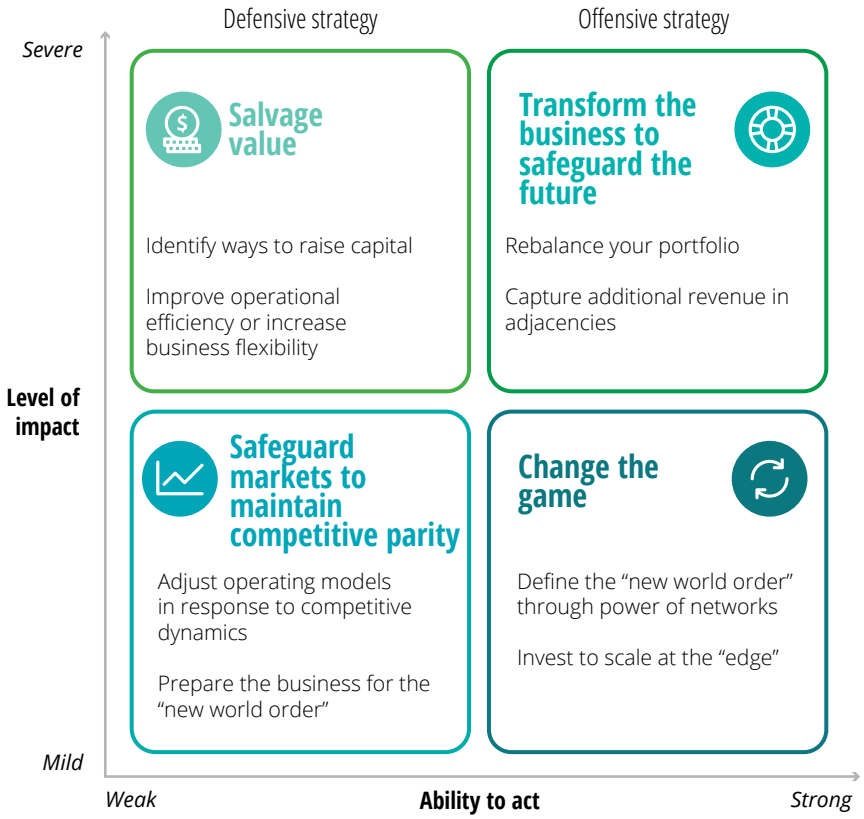


Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

A mix of offensive and defensive M&A strategies will likely materialize as companies position to protect existing markets, accelerate the recover stage, and pivot to thrive (figure 16).

FIGURE 16

M&A strategy framework



Source: Iain Macmillan, Mark Purowitz, and Sriram Prakash, *M&A and COVID-19: Charting new horizons*, Deloitte Consulting LLP, 2020.

Meanwhile, tax planning in 2021 will likely require close monitoring of legislative and economic developments on multiple fronts, as well as investment in tax modeling and structuring to quantify and adapt to whatever changes materialize (figure 17).

FIGURE 17

What should be on the insurance industry's tax radar for 2021?

Organization for Economic Cooperation and Development (OECD) Pillar II—global minimum tax rules similar to Base Erosion and Anti-Abuse Tax (BEAT)

This minimum tax proposal would enable countries to tax profits, which would otherwise be taxed at an effective rate below a "minimum rate." Many details regarding this minimum tax have yet to be developed. Insurers should monitor developments and invest in modeling the potential tax rate impact and exploring potential structuring opportunities based on the final rules.

COVID-19 impact

The spread of COVID-19 led to a flurry of legislative action in 2020, much of which impacted US taxes and resulted in increased federal and state budget deficits. As the economic impact from the virus continues to evolve, insurers should monitor economic and political developments and consider the potential impacts of additional legislative action.

Tax planning in 2021 will likely require close monitoring of legislative and economic developments on multiple fronts and investment in tax modeling and structuring to quantify and adapt to changes.

US tax reform

President-elect Biden has proposed increasing the corporate income tax rate to 28%, increasing the effective tax rate on global intangible low-taxed income ("GILTI") to 21%, and imposing a 15% minimum tax on book income for companies that report net income of more than US$100 million but owe no US income tax. Insurers should be prepared to react to future legislative changes.

President Trump's tax policy platform focused largely on preserving the Tax Cuts and Jobs Act (TCJA), but his budget proposals have not indicated his position on certain corporate revenue-raising provisions in TCJA that are currently scheduled to take effect in the next few years. Increased federal spending as a result of COVID-19 could provide uncertainty regarding the government's ability to keep taxes low relative to historical standards.

Source: Deloitte Tax LLP.

Finance agenda considerations for 2021

Source: The Deloitte Center for Financial Services analysis.

Insurers should keep innovating to thrive after the pandemic

THERE ARE MANY additional challenges facing insurers in the year ahead. For one, while disputes over pandemic-related business interruption claims are resolved, policymakers and industry leaders will likely seek public-private solutions to provide affordable coverage for future outbreaks—no easy task.

Social issues are also expected to be front and center. Seventy-seven percent of respondents say their insurers are reprioritizing environmental, social, and governance issues, led by 88% in North America. And that's beyond more immediate concerns about the impact of worsening climate change on insurer bottom lines, with 80% expecting to increase investment in initiatives promoting climate sustainability.

However, the biggest challenge overall may be coping with what we call "the unknown of unknowns." While response and recover efforts have been generally robust in substituting digitization and virtual encounters for manual processing and face-to-face sales and service, what do these foundational changes mean for insurers, distributors, and policyholders in the short and long term?

It's doubtful we'll go back to what was considered "normal" whenever the outbreak is resolved, and world economies recover their footing. But more rapid digitization also likely means even greater dependence on connectivity. While such monumental operational changes may have been made out of necessity, it created a risk management challenge for the industry and its policyholders. It also poses a big opportunity for insurers to help mitigate and cover any resulting exposures with so many customers undergoing similar digital transformations. This may play out much like cyber risk did—a rapidly evolving exposure both threatening data-rich insurers and opening up a growing market for carriers to cover.

In the meantime, with a new type of economy to underwrite—more flexible, with increasing dependence on interconnections, real-time data, and advanced technology—insurers will likely be called upon to revise siloed thinking given blurring lines between personal and commercial auto, homeowners, and workers' compensation. Similar challenges confront life insurers, with real-time data availability perhaps transitioning carriers into "insurers for life," focused increasingly on maintaining wellness.

How insurers respond not just to the pandemic's impact but to longer-term shifts in technology, the economy, and consumer preferences will be critical. Indeed, generating continuous innovation in insurance policies, sales strategies, operations, and customer experience could turn out to be the biggest differentiator in 2021 and beyond.

SURVEY METHODOLOGY

The Deloitte Center for Financial Services conducted a global survey among 200 senior insurance executives in finance, operations, talent, and technology. Survey respondents were asked to share opinions on how their organizations have adapted to the COVID-19 pandemic's impact on their workforce, operations, technology, budget, and culture. We also asked about their plans for investment priorities and likely structural changes in the year ahead as they pivot from recovery back to growth.

Respondents were equally distributed among three regions—North America (the United States and Canada), Europe (the United Kingdom, France, Germany, and Switzerland), and Asia-Pacific (Australia, China, Hong Kong SAR, and Japan). The survey was conducted in July and August 2020.

The survey included insurers with at least US$1 billion in 2019 revenue. Sixteen percent had more than US$1 billion but less than US$5 billion in revenue, 24% had between US$5 billion and US$10 billion, 45% had between US$10 billion and US$25 billion, while 15% had more than US$25 billion.

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