Pulse Check – State of the European Insurance Industry 2021

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Survey

INTRODUCTION

The European insurance industry is at its digital tipping point. The rise of millennial buyers, emerging competition, margin pressures, and a tightening regulatory environment have come together to create a perfect storm. What we're seeing here is a "survival of the fittest" situation; only agile, data-driven, and digitally enabled insurers will survive in the coming years.

The second edition of our annual ISG Pulse of the Insurance Industry Survey explores how insurers can ensure they survive and thrive in this new digital era. As part of our research, we interviewed **more than 200 insurance and technology ecosystem executives** across Europe to get their perspectives on what needs to change for insurers to succeed.

Our discussions ranged from managing customer centricity in the industry to the emergence of "hyperscalers", to competing for data, optimizing internal operations, improving customer experience, and building the insurance industry of the future. We explore all these areas in depth in this edition of our annual ISG Pulse of the Insurance Industry Survey.

Our study reveals a comprehensive picture of the European insurance industry, reflecting on what is possible when using technology as the platform for future success.

State of the European insurance market

In March 2020, the World Health Organization (WHO) declared the first global pandemic in over a century. Control measures, while necessary, immediately impacted all countries and sectors, dragging global GDP down by **3.3 %** – with Europe recording a **7.2 % drop. Eurozone GDP shrank by 0.6 %** in Q1 2021 – its second consecutive contraction.

The insurance industry was one of the most exposed verticals during the pandemic. *Insurance Europe* reported that the total premiums written dropped in nearly **two-thirds** of the 25 European countries during 2020, while global pandemic-related losses for insurers are estimated to have been around €41 – 82 billion in 2020.

Preliminary figures indicate that the situation has varied considerably between different lines of business – for example, the life insurance market appears to have been impacted more severely than other areas. However, the European life insurance business has been flat for nearly a decade – growing less than **0.6 % per year** over the last ten years – a quarter of the rate at which P&C insurance has grown during the same period.

Premiums are down, but revenues are up

The insurance market continues to be cyclical. It's currently going through a period of "hardening", with insurers pushing for higher premiums and tighter terms and conditions. This trend is likely to help insurers increase profits and make up for some of the drops in their topline performance.

We're already seeing some successes (although part of this is due to markets starting to bounce back a bit after the initial shock of the pandemic):

- The four major reinsurers (Munich Re, Swiss Re, Hannover Re and SCOR) reported a huge aggregate net profit of **€3.6 billion** in the first six months of 2021 (it was €200 million a year earlier).
- **NN Group** reported a doubling in its first-half (2021) net profit (€1.4 billion up from €587 million).
- Aegon recovered from a loss a year earlier to post a net profit of **€849 million** in Q2 2021.
- Zurich's operating profit jumped 60 %, to **$2.7 billion**, in the first half of 2021.
- Allianz realized 82 % of its 2021 operating profit outlook of **€12 billion**, reporting €9.9 billion in the first nine months. Compared to Q3 2020, Allianz operating profit grew 11.3 %, from €2.9 billion to €3.2 billion. It was mostly driven by strong performance in the asset management and life/health business segments.
- AXA reported 7 % **growth** in overall revenue during Q3 2021, driven by strong performance in all business lines and geographies.

- In light of recurrent COVID-19 outbreaks in China, Ping An reported a sturdy 9.2 % year-on-year growth in operating profit in the first nine months of 2021. Even in the first nine months of 2020, Ping An witnessed a decent year-on-year growth of 4.5 % in operating profit. It managed this steady growth due to its early digitalization efforts, rich ecosystem and technology-led capabilities that offered differentiated services such as Ping An Good Doctor (telemedicine) and AskBob (AI-based image-reading system to customers and medical service providers). These digital solutions helped the company reduce costs, improve customer experience, and deliver better results. Ping An is clearly moving away from a conventional product-based business model to a services-oriented one.

H2 2021 may potentially offset the H1 performance

While the first half of 2021 has been encouraging for most insurers, we expect the profitability of European insurers to be offset by claims relating to natural calamities arising from heavy flooding in Europe and China, civil unrest in South Africa, evolving cyber risks and the potential threat of an active Atlantic hurricane season. We're likely to see this increase in claims impact the overall performance in the European insurance sector and offset its performance in H1 2021 by a noticeable margin.

While the eurozone's household savings rate **increased by 53 %** between 2019 and 2020 (exceeding €1.45 trillion), the savings rate has **fluctuated more in 2021**, although it remains higher than pre-pandemic levels. There's still plenty of opportunity for life insurers to attract new customers. The only way they'll do this, however, is by providing products that are both easy to buy and have more attractive rates than competitors. One of the best ways of doing this is by adopting the right technology and using it to improve the affordability and relevance of products.

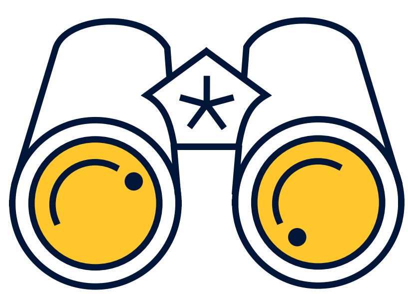
Evolving regulatory requirements and their impact on the insurance business

The pandemic has disrupted many aspects of insurance operations, forcing companies to be more flexible and to accelerate their digitalization programs, but it's also exposed potential sticking points with existing regulations.

The disruption has affected government regulations specific to the insurance industry. For example, during the lockdown, Italian government regulations prevented enterprises in the country from moving their data outside the country for processing.

More generally, the insurance industry needs to be able to share and distribute data with greater freedom, but insurance supervisors are also concerned about potential sources of operational risk. In the UK, for example, the Prudential Regulation Authority is monitoring potential concentration or systemic operational exposures.

We could see a reassessment of regulation as technology develops and insurers look for ways to make their operations more efficient and resilient.



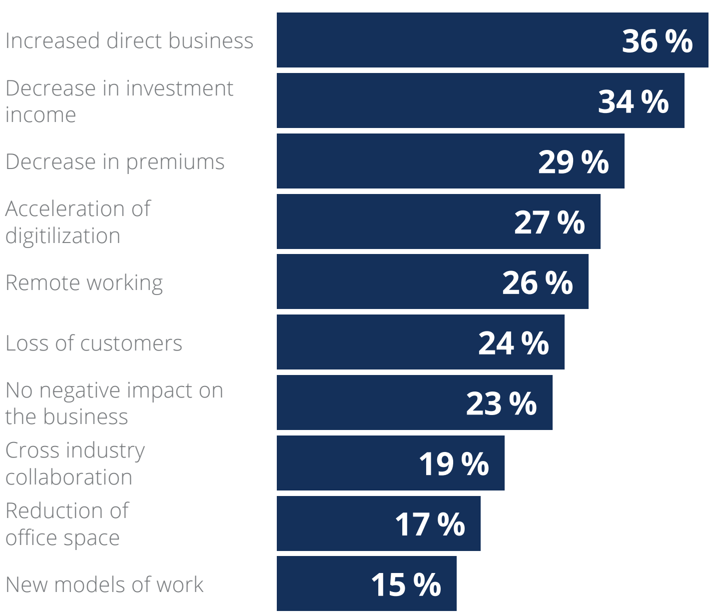
CORE RESULT 1: Insurers are seeing more direct business

Emerging from a longer period of restricted mobility and discretionary spending, European customers' attitude towards buying insurance has notably changed. Prospective customers and policyholders expect their insurers to make it easy to sign up for and manage policies, and that claims (and settlements) will be handled efficiently. Most customers look for hyper-personalized solutions at a competitive price through channels they are familiar with. The need to keep up with this demand is driving the switch to technology-based processes.

We asked insurers how the change in customer behavior has impacted their business. Most insurers reported that the pandemic had resulted in an increase in direct business.

HOW HAS THE COVID 19 PANDEMIC AFFECTED YOUR BUSINESS?

(% indicates the respondents who selected the below options)



Insurance companies are realigning their operations to an "online-first" customer engagement strategy to meet changing market expectations. As a result, we're seeing more insurers adopt the internet as a direct sales channel, offer alternative payment channels or smart contracts and focus on the seamless integration of omnichannel customer touchpoints.

The shift from traditional sales to direct business is already becoming an important agenda for insurers. We're seeing insurers provide their on-the-ground experts with digital systems that improve efficiency and response times.

Our survey reveals that 43 % of responding executives have already tapped the internet as a direct sales channel, and the returns are paying off – with more than 35 % of respondents seeing an increase in direct business during 2020. Biggest gainers were the insurers in Austria, the UK and the Nordic region, where direct business in the combined markets grew by more than 40 % in the last two years.

Managing operating costs and enterprise resilience is gaining centerstage

CORE RESULT 2: Insurers are investing in technology that supports agile and resilient business models

Operating costs for insurers are expected to increase in 2022 – 23.

Newly announced regulations (Solvency II and the expected introduction of IFRS 17), changing workplace conditions and the drive for customer acquisition and customer retention will affect the operating margins of every insurer.

As cost pressures mount, insurers are focusing on improving their operating models and accelerating their efforts to reduce expense. They're doing this by moving away from their traditional legacy systems, rationalizing their application portfolios, and heavily simplifying their products. Migrating workloads and systems to cloud-based solutions and digital platforms is something many are looking into.

Insurers are investing heavily in technological solutions for building agile and resilient organizations. We're also seeing significant investment in improving customer-facing and workplace technology, supporting remote work efforts and increasing security of various technology touchpoints.

Drivers of change: Factors influencing digital transformation for insurers

CORE RESULT 3: Improving customer experience lies at the heart of digital transformation

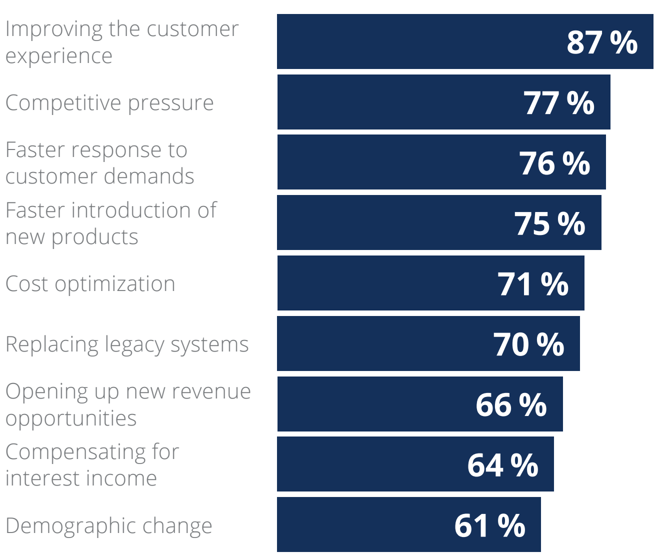
Most insurers are undergoing a continuous digital transformation led by technology adoption, customer proximity and operating margin pressure. Although this transformation has been accelerated by the pandemic, the changes were already underway by 2020 (one of the ways we can see this is in the rise of price comparison websites).

Proliferation of automation, artificial intelligence, embedded analytics, and platform-based services continue to change the face of the industry.

When asked what the top business drivers were in designing their transformation initiatives, 87 % of respondents to our survey cited improving customer experience as their top priority. The cost of acquiring a new customer, which is typically seven to nine times more expensive than retaining an existing one, continues to rise, so retention remains a crucial way to keep costs down.

IMPORTANT FACTORS INFLUENCING DIGITAL TRANSFORMATION INITIATIVES

(% indicates the respondents who indicated the factor as "important" or "very important")



Many insurers are proactively developing form of robo-advisory-automated claims processes that improve customer experience. This trend is also driving direct insurance segments. It is this data-driven technology that is helping insurers keep costs under control.

The "What" of a digital transformation program

Larger insurers have three primary priorities for transformation investments: to improve customer experience, create data-driven business and simplify internal operations.

Larger insurers have a focused agenda to improve overall customer experience, and are implementing simplified contracting, creating mobile apps, and embedding analytics into customer management. For example, AXA partnered with Microsoft to build a digital healthcare platform that would offer a more integrated and personalized experience to policy holders.

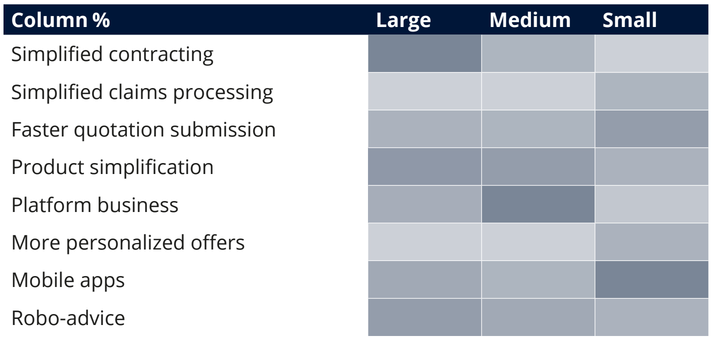
We're seeing the tendency for mid-sized insurers to prioritize investments on thematic platforms, while smaller insurers tend to focus on mobile apps.

A handful of insurers have also taken a step toward leveraging internal and external data to boost business productivity and revenue opportunities.

AXA's EB360 platform is another good example of how a data-driven platform offers value to various stakeholders in the ecosystem. The platform hosts a suite of analytics-powered tools that help brokers track the status of applications, manage compensation and commissions, and monitor progress on business goals – giving a significant boost to efficiency.

Belgian insurer KBC Verzekeringen, for example, has used its data resources to build a digital home insurance product that is quick and easy to buy. KBC Home policy collects three critical data points – type of home, size of the property and property address. By using this information, KBC generates an almost instant quote, and so speeds up the time to convert a lead from prospect to client.

DEVELOPMENT OF ROBO-ADVISORY REMAINS A COMMON INVESTMENT THEME ACROSS ALL INSURERS



Revenue ranges – Large: $20 B + | Mid-sized: $500M+ |
Small: $500M and less

Least reported Most reported

The "how" of a digital transformation program

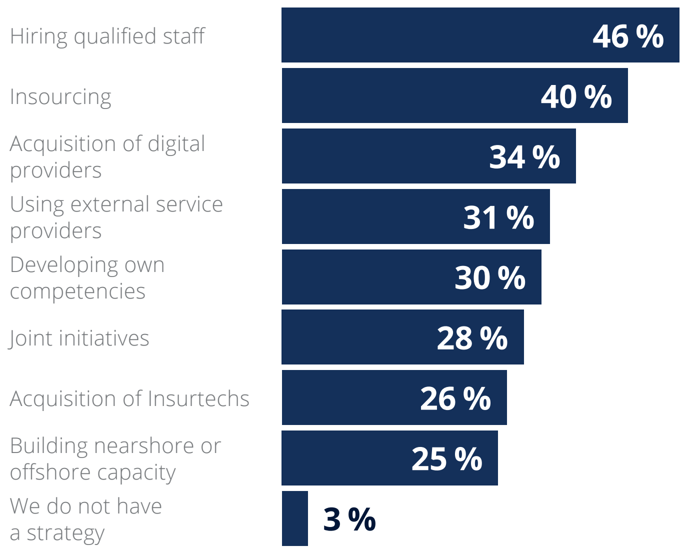
CORE RESULT 4: Insurers recognize the importance of hiring the right talent for digitalization initiatives

We asked insurers about their strategy for implementing digitalization initiatives, and 46 % of respondents said that adding skilled talent remains the most critical strategy for their business.

Insurers have accelerated their digitalization efforts to engage with customers in real-time and launch their products faster. To support this initiative, most insurers are looking to add qualified employees, such as data scientists, to build customer-centric data models. They are upskilling their existing non-technical staff in areas of new technology, such as virtual claims platforms. Insurers are also capitalizing on

INSURERS' PREFERRED STRATEGY FOR IMPLEMENTING DIGITALIZATION INITIATIVES

(% indicates the respondents who selected the below options)



hybrid work models, such as hiring gig workers to keep up with the rising level of customer queries.

Interestingly, about 40 % of respondents have an established strategy to "bring digitalization home" through insourcing and acquisition of technology partners. One-third still believe that they need a specialized external party to help them navigate through this effort, whereas some see developing nearshoring or offshoring capabilities as a preferred strategy.

Most of the world's largest insurers (AXA, Allianz, AIG, MetLife, and Generali) have established their own in-house venture capital (VC) funds and committed investment in startups. These investments let them bring digital home more quickly than some of their competitors.

Insurers must treat a digital program as a truly inclusive or 360° transformation opportunity

People – the true transformation

The rapid adoption of digital models exposes insurers to risks and concerns that may need to be resolved at an early stage. For example, employees are often resistant to adopting newer systems.

Some worry that automated systems will take their jobs, for example. Insurers need to focus on building confidence and trust between the business and its employees by showing them how new technology provides more opportunities – such as training, upskilling and creating a more resilient and agile organization.

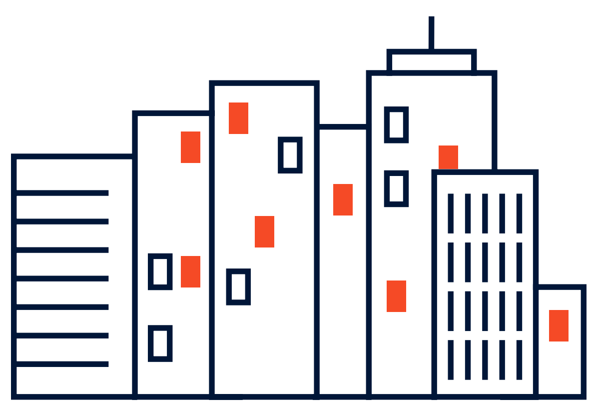
Cybersecurity, technology threats and revenue opportunities

Multiple sources of threats and risks originating from porous customer and workplace technology touchpoints expose insurers to threats that may have a lasting impact on their operating models and reputational equity. Democratization of IT and the recent change in working models have further increased the risk exposure. As a result, we expect the cybersecurity market will experience growth in the next few quarters.

More than 40 % of the European insurers we surveyed are expected to increase their investments in IT security technologies to enhance their protection.

The rising number of cyber breaches also offer insurers revenue opportunity. Insurance organizations are already helping their customers improve their cyber resilience through a holistic risk management approach and by expanding cyber coverage. Using this risk management approach, cyber insurers are also looking for new opportunities to better engage with their customers.

Some insurers are also bundling cyber coverage with rich features such as cyber risk reports, cybersecurity training for subject-matter experts (SMEs) and risk advisory services. These new offerings, whether sold together or as standalone products, could open new revenue streams for insurers. For example, Zurich has created a new business unit, Zurich Resilience Solutions, to strengthen the resilience of policyholder businesses along with offering traditional insurance policies.



Improving internal operations

While a complete transformation may not always be in the cards, insurers are using merging technology like AI/ML and analytics to help their on-the-ground experts.

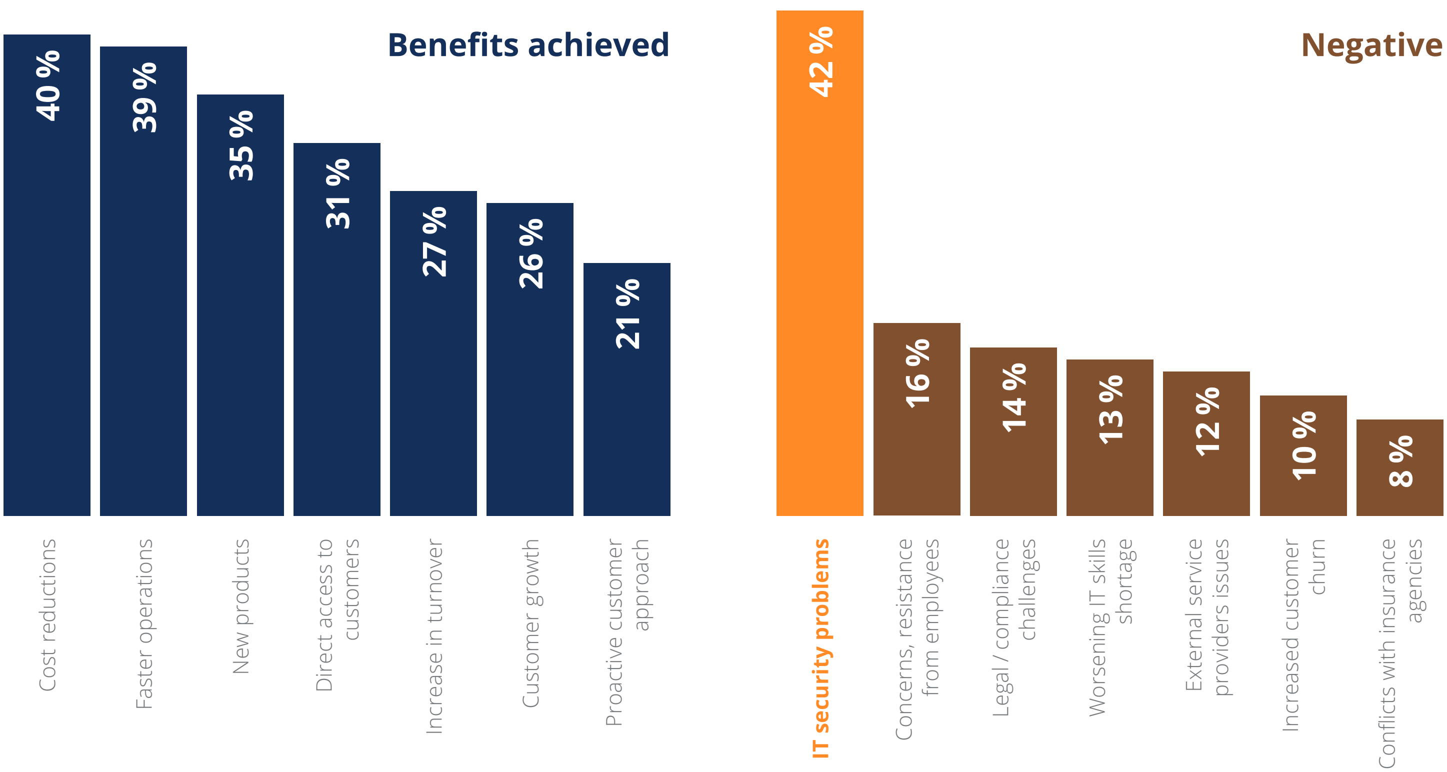
For example, while more than 90 % of the Generali business is generated by traditional sales forces, its workforce is empowered by its Digital Agent.

The Generali Digital Agent platform is a best-in-class B2B2C platform franchising the Generali brand digitally through 70,000 insurance agents around the world. It allows seamless data and work flow between Generali, agents, and clients.

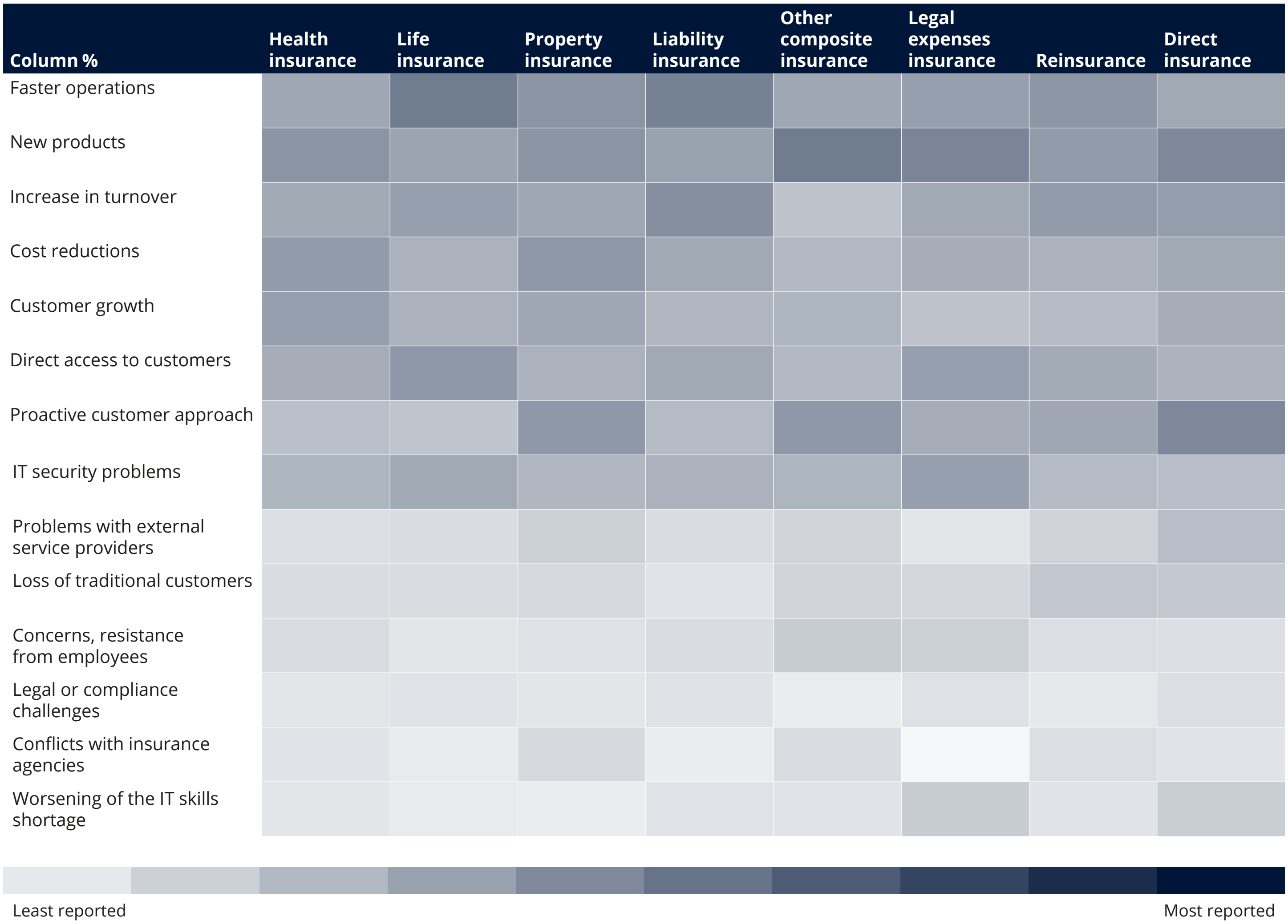
With Digital Agent, agents can use online marketing tools in a ready-to-go approach. They can send email and SMS campaigns that are pre-curated by the Generali marketing organization based on a data analytics platform, as well as chat online with the customers and manage and run Google AdWords campaigns. Real-time notifications enable agents to respond to customers as they visit the website from marketing campaigns, or to any other organic visitor.

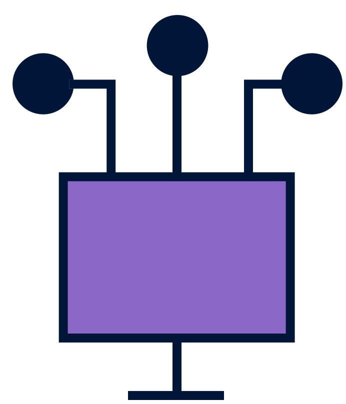
This is just one example of how insurers are managing the shift from a traditional to a digital model. While most insurers have already embarked on their digital journeys, there's a growing need to keep up with their more agile competitors. Creating a scalable system is crucial to carrying out a successful transformation.

THE OUTCOMES ACHIEVED SO FAR
(% indicates the respondents who selected the below options)



KEY BUSINESS OUTCOMES ACHIEVED BY INSURANCE SEGMENTS BY THEIR DIGITALIZATION JOURNEY SO FAR





The changing face of technology budgets in an insurance company

The revenue share of IT solutions in the budgets of insurance companies is higher than that of most other industries. On average, insurers spend 3.5 % of their revenue on IT investments. At its peak, spending is as high as 10.4 % of revenue.

While not every insurer is born digital, most insurers are moving to become digital natives, and this is driving up their average technology budget. Insurance companies are among the most important consumers of IT solutions in Europe.

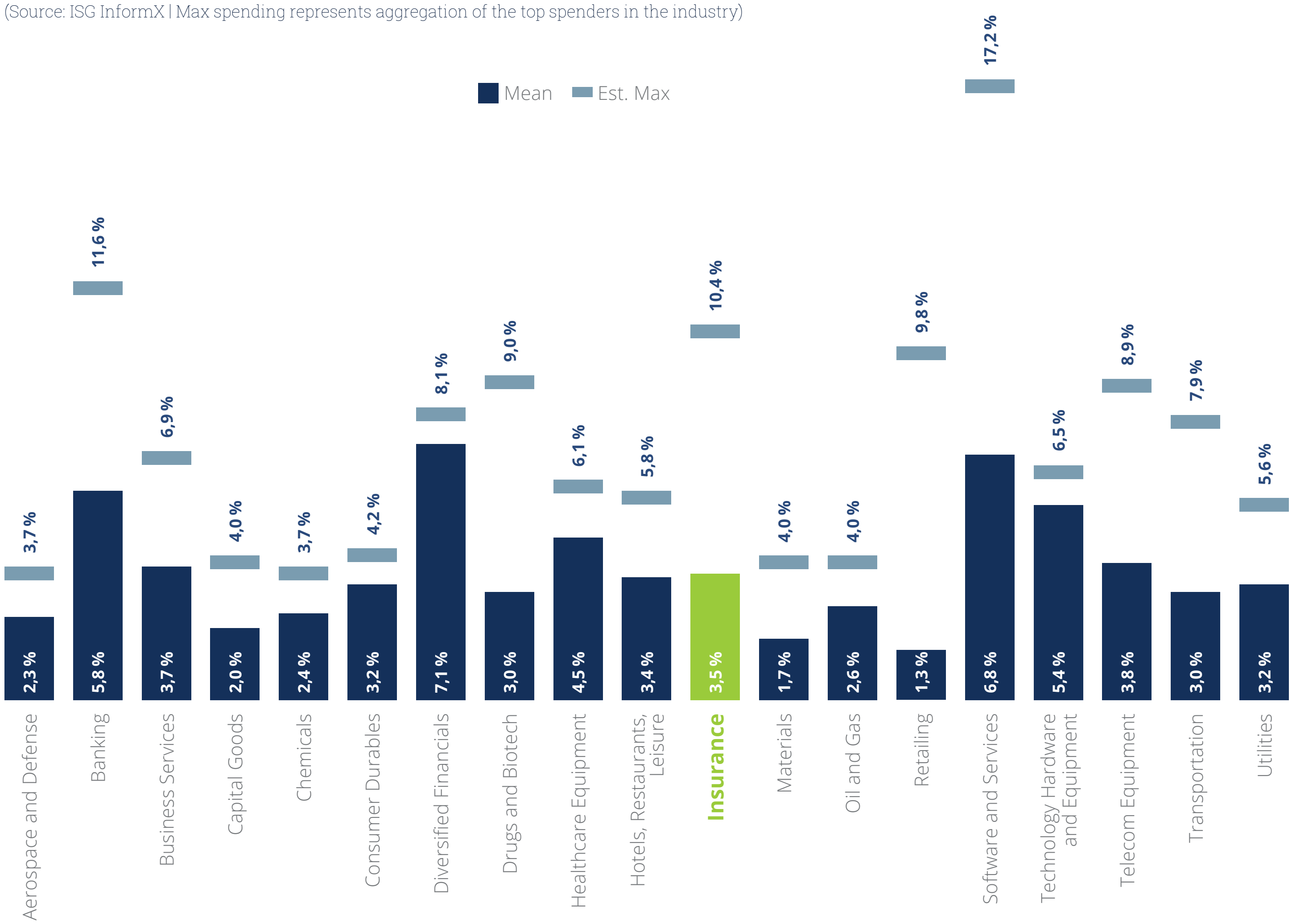
In addition to current investments in digitalization, the reason insurance companies have an above-average revenue share of IT expenditure is because their assets exist almost entirely in digital form.

In their digital transformations, insurance companies often prioritize their spending on cloud infrastructure. Spending on managed services is also growing strongly. Annual contract value (ACV) in the combined global market surpassed **$19 billion for the first time** ever in the third quarter of 2021, according to the ISG Index™. Likewise, managed services registered its best quarter ever, up 22 % year-on-year, and the cloud-based as-a-service market reached a record $13.4 billion in the third quarter, up 55 % against the prior year – the highest quarterly growth rate ever.

Software (both on-premises and cloud-based) is also in high demand.

AVERAGE SPENDING ON IT AS A % OF REVENUES

(Source: ISG InformX | Max spending represents aggregation of the top spenders in the industry)



Setting up the right ecosystems and accelerators for sustainable transformation

Insurers have invested billions of dollars in their transformation programs and often get a dismal return on investment. At ISG, we observe that while everyone understands the “why”, very few truly understand the “how” of a truly effective transformation program.

We’ve seen many insurers have developed and deployed, sometimes even scaled, digital initiatives and capabilities. However, the challenges for true digital transformation go much deeper than that. There needs to be a clear development and execution strategy in place if digitalization is to be successful.

Insurers need to focus on educating the whole business to understand and drive change toward a digital future. Everyone needs to see technology as an enabler of (future) business, rather than as a threat or an irrelevance. For this to happen, digitalization needs to be a top strategic priority and incorporated into the targets of the top and mid-level executives.

The importance of technology partnerships

Digital transformation is often a long and complicated process, requiring long-term and sustainable technology partnerships. ISG firmly believes that insurers with strong technology ecosystems have greater potential in the digital future than those who lack competitive partnerships.

A powerful partner ecosystem not only empowers efficient business operations but also has the potential to open new revenue streams for insurers. Insurers no longer view their technology partners as “fix it” vendors; many realize they get a better result from long-term relationships with their partners.

Having stronger technology ecosystems also allows insurers to reduce capital requirements and innovate at scale or even reduce time to market. Insurers benefit from strategic collaboration with platform, cloud, and other technology providers to expand their digital ecosystems and bring in customer-centric solutions and self-service options.

We’ve seen insurers maintain a healthy ecosystem that ranges across various technology towers. For example, insurers are proactively working with hyperscalers to drive their digital agenda.

In November 2019, **Allianz SE and Microsoft** announced a strategic partnership focused on digitally transforming the insurance industry – making the insurance process easier while creating a better experience for insurance companies and their customers. Microsoft and Allianz’s solution combines their insurance and technology expertise. They’re helping to support innovation across the sector by providing an insurance platform and software application marketplace that’s open-source and cloud-based.

From a tactical vendor supporting non-core technology requirements to a strategic arm of insurance companies, the role of providers is often determined by the digital agenda of the insurer. ISG notes the role of IT providers among insurers has changed over the last few years. The role of a provider needs to evolve with changing business strategies. Typically, every client maintains a pool of providers that fit in all quadrants.

PERFORMER

- IT as a performer, delivering value for the business
- Business recognizes the value of IT and requests their support in enabling their needs

BUSINESS TRANSFORMER

- Acts as a business advisor and innovator across the enterprise
- Takes ownership of activity and business value
- Performance measured according to customer terms (ROI, industry benchmarks)

UTILITY

- Processing customer requests (change orders, service desk)
- Performance measured and reported in IT terms
- IT not linked to business results

PROTECTOR

- Governance of cost
- Custodian of assets
- Security and service continuity

Insurers focus on developing a consistent and sustained approach for overall business growth. While doing so, most insurance companies are investing in technology where the provider offers them a great outlook for the future organization. Expectations of a provider are well established in the current context.

CORE RESULT 5: Insurers prioritize expertise in their search for partners

More insurers turn to their service providers to help them build a resilient and competitive organization. Our survey revealed that insurers place the highest value on the thought leadership, consultancy and industry expertise that providers offer to insurance companies.

INSURERS VALUE THOUGHT LEADERSHIP, CONSULTING CAPABILITIES AND INDUSTRY EXPERTISE THAT PROVIDERS OFFER

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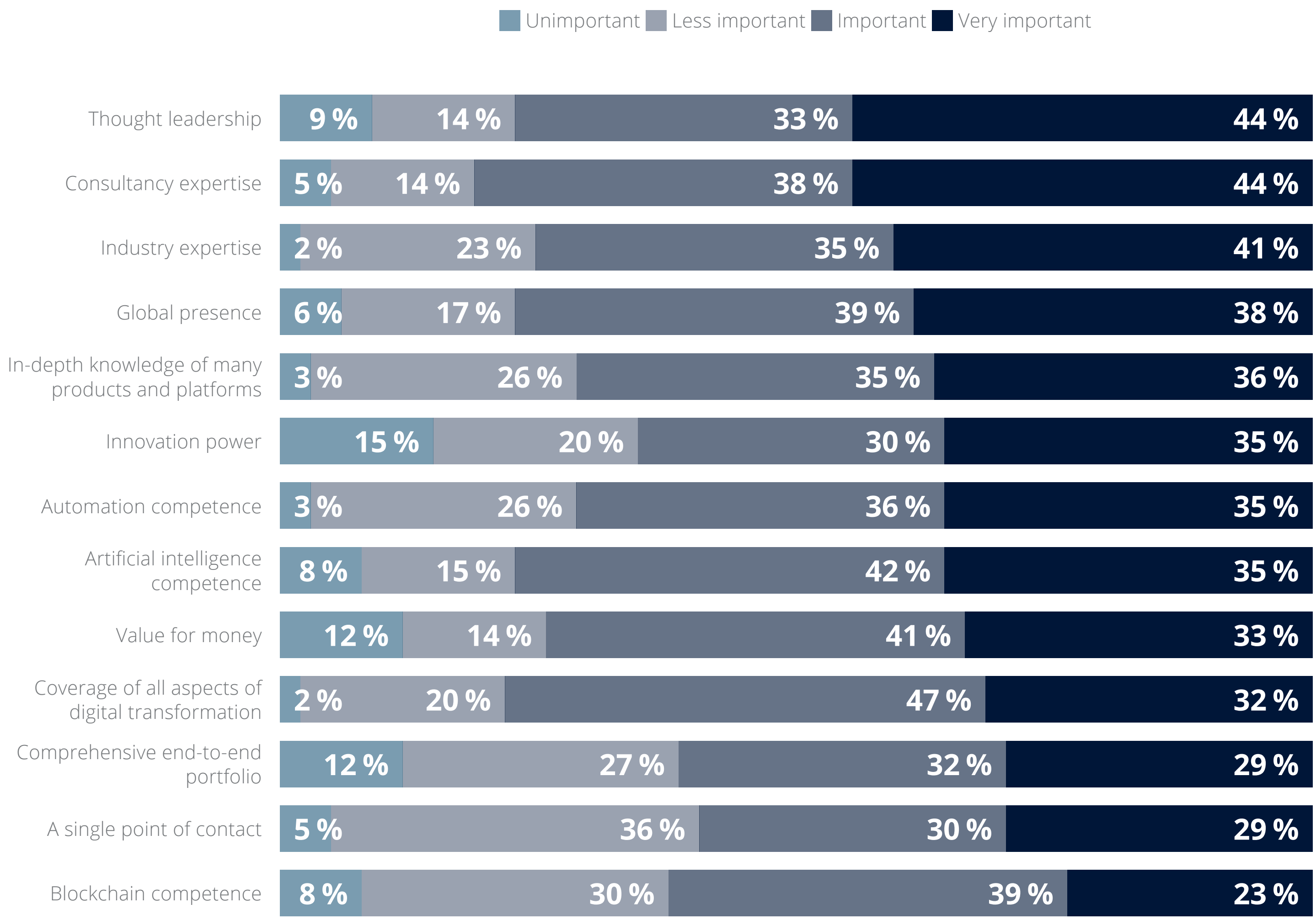
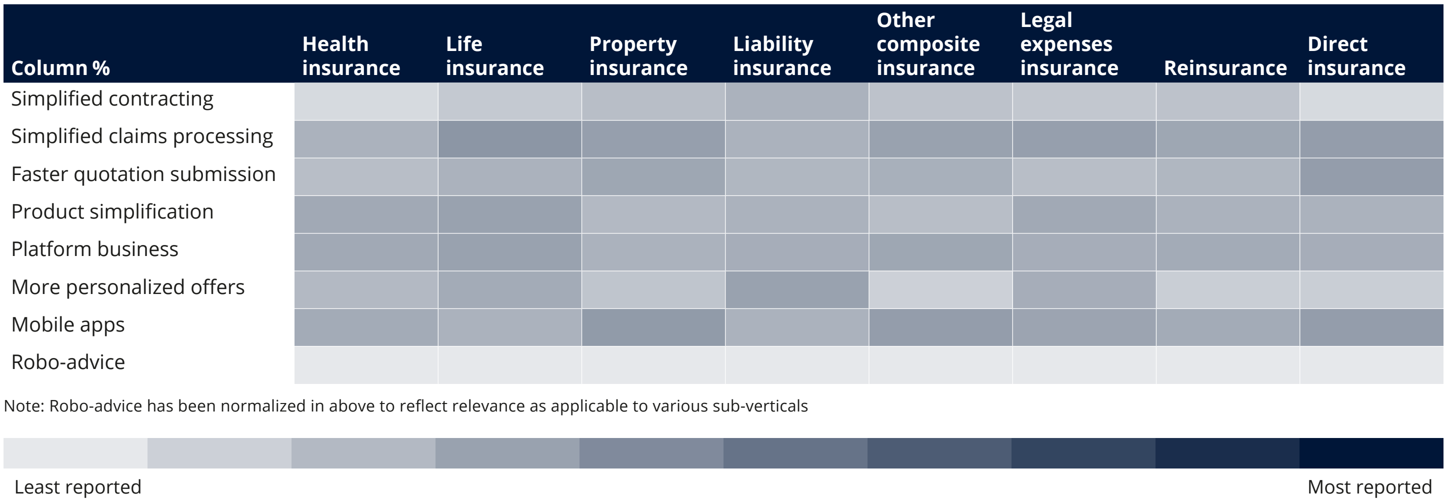


MEASURES ARE TAKEN TO IMPROVE CUSTOMER EXPERIENCE

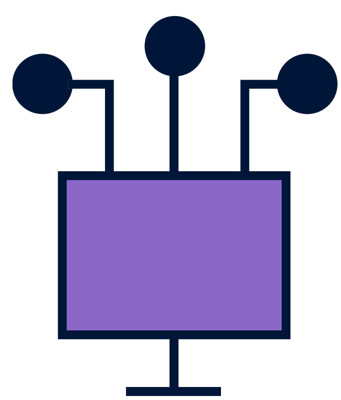


Improving customer experience through digital solutions

Insurers have adapted their customer management and product strategies as consumer behavior has evolved. The ISG Index™ shows that as-a-service and managed services generated all-time high revenues in the third quarter of 2021, with managed services up 22 % on the strength of midsized deals. The uptake of cloud across various industries has been a notable shift, with insurers looking at “cloud-first” technology investments.

According to our survey, more than 40 % of insurers see faster response to customer demand and improving customer experience as the most important factors driving digitalization initiatives. Top insurers are focusing on three core areas for improving customer experience: “mobile-first” customer management, personalization of products and offers, and simplifying customer touchpoints (such as claims and document management).

Mobile applications and platform-based customer acquisition and management remains a common investment area for almost every insurance segment.



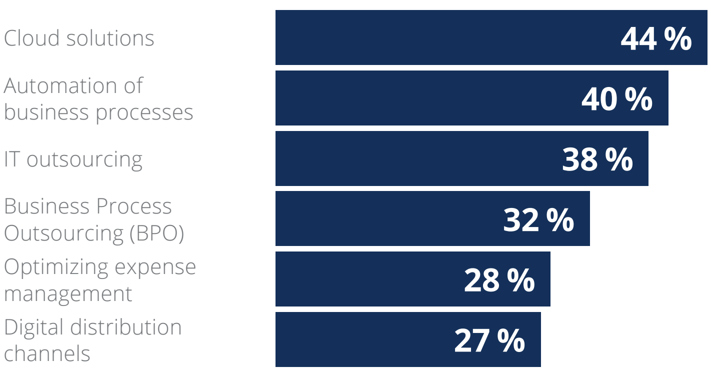
TECHNOLOGY PRIORITIES AND INVESTMENTS

Cloud investments are growing

Our survey shows 44 % of European insurers have leveraged cloud solutions to optimize their internal processes, achieve cost efficiencies or, in certain cases, build a foundation for a futuristic organization. They plan to invest more in the automation of business processes in the next two years, mainly in fraud detection and claims processing. Direct insurers are driving particularly strong spending on cloud infrastructure. This is obvious, as the business model of direct insurance is strongly based on internet-based solutions. Germany, Austria, and Switzerland are leading the way in cloud investments.

WHAT MEASURES HAS YOUR COMPANY TAKEN TO REDUCE COSTS?

(% indicates the respondents who selected the below options)



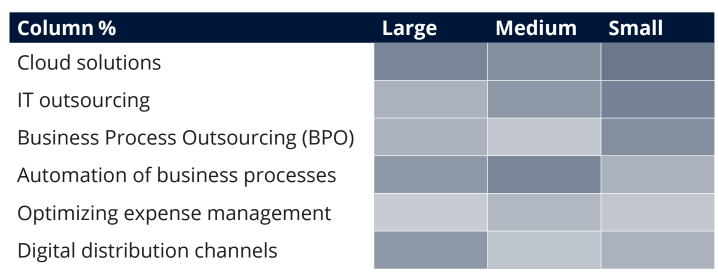
More than 40 % of respondents have already invested in automation and cloud platforms to reduce costs. One of the examples of platform initiatives is direct-to-consumer platforms that offer customers access to various insurance products and rich tools such as retirement planners and life expectancy calculators through their online accounts.

Insurance-as-a-service (InaaS) platforms are also becoming more prominent. Insurtechs are leveraging such platforms in collaboration with cloud providers and enabling other non-insurance businesses to build products to sell directly to customers. For example, **TONI Digital**, a European Insurtech, launched its new insurance-as-a-service platform in collaboration with Socotra, a cloud-native insurance core platform provider. The solution allows other enterprises, such as banks, to enter the insurance market using the existing customer base of TONI and offer tailored insurance products to its customers.

Another example of changing business models is Zego, which offers an hourly policy for scooter delivery drivers. This means drivers stop paying for insurance they don't need. Instead, they can get flexible coverage for the hours they work. Zego doesn't charge for any administrative work, such as changing addresses or vehicle details, and runs a near-zero paper policy. This is what the next generation of insurance looks like.

While almost half of the large insurers have already tapped into cloud solutions, smaller insurers are focusing on IT and business process outsourcing initiatives to reduce costs. Survey respondents from medium-sized insurers saw automation of business processes as their preferred way to achieve cost efficiencies.

CLOUD-BASED PLATFORMS AND AUTOMATION ARE THE MOST PREFERRED INVESTMENT INITIATIVES FOR COST REDUCTIONS



Revenue ranges – Large: $20 B + | Mid-sized: $500M+ | Small: $500M and less

Artificial Intelligence and Machine Learning

Transforming an insurance company starts with transforming the way it manages data.

Insurance companies today deal with more volumes and sources of data than ever before. The rise of AI and data-centric operations will have a seismic impact on how insurers adapt to the future.

The focus on omnichannel customer management and the rise of social media has generated unfathomable data streams and sources that insurers will eventually need to manage to stay competitive in the market.

While traditional insurers find their legacy systems are incapable of handling large volumes of customer data, Insurtechs are quickly responding to the emerging need for effective data management. The platform model is transforming data management amid the need for the modernization of legacy systems, and we firmly believe this trend will maintain its momentum for the next few years.

Forty-two percent of traditional European insurers are expected to invest in data analytics to generate personalized customer insights and drive sales.

Integrating AI into behind-the-scenes processes, including regulation, feature development and production, is the new boardroom conversation as European insurers await the disruptive waves from American insurance to hit their shores.

While Europe has already seen the rise of disruptors like "Bought by Many", the birth of the Insurtech Lemonade is most likely to change the way insurers adopt AI/ML in their businesses. Insurers such as Covéa in France, Talanx-Warta in Poland and Ageas in the UK are all using an AI system developed by the UK company Tractable to generate end-to-end repair estimates.

Insurers are also collaborating with providers to leverage their proprietary AI-powered solutions in operations such as underwriting and claims to offer a differentiated experience to customers. For instance:

- Hexaware's AI/ML-led automation platform for the Guidewire and Duck Creek suites supports insurers prevent incidents, automate the recovery process and focus on core activities such as enhancing customer experience through chatbots and intelligent assistants. Hexaware's Decision Sciences Lab implements AI/ML solutions on volumes of unstructured data and helps insurance underwriters organize, analyze and identify claims patterns and achieve significant productivity gains and accurate estimates.
- LTI's Mosaic AI platform is rich with differentiated capabilities, such as risk predictions based on sensor data. Underwriting Advisor Bot helps insurance underwriters make better risk assessment and pricing decisions.
- IBM's Data and AI Expert Labs & Learning (DAELL) unit engaged with health insurers to reimagine their CX capabilities by implementing conversational AI solutions with Watson. The solutions help insurers address huge call volumes, understand and analyze the intent of incoming calls, and offer faster and more accurate responses to queries on insurance coverages.

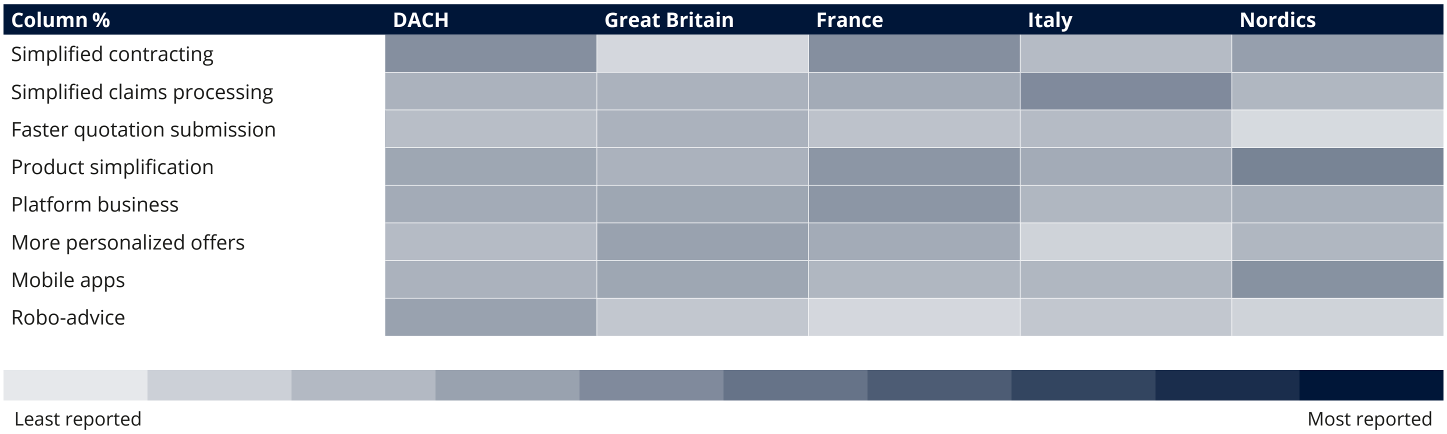
Personalization through technology as a differentiator

Customers want hyper-personalized insurance solutions that provide an integrated experience across channels. Technology giants such as Tesla and Amazon are armed with vital customer data, insights, richer technological capabilities, and established partner ecosystems and are meeting these customer expectations with tailored solutions.

For instance, Amazon recently started offering insurance plans to small business customers in the UK. Collaboration with Insurtechs and other technology partners is more vital than ever, and it's these partnerships that will help insurers gain insights from their data and provide better digital experiences.

REGIONAL INSIGHTS

INVESTMENTS IN THE DEVELOPMENT AND IMPROVEMENT OF ONLINE DIRECT SALES CHANNEL REMAINS A PRIORITY ACROSS EUROPE



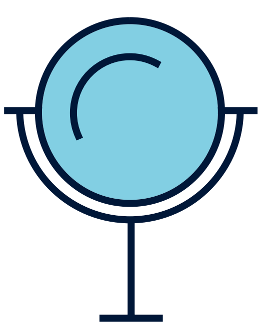
From a regional standpoint, the DACH and UK region exhibit greater maturity in technology adoption. Nearly 70 % of Swiss insurers have already taken steps to simplify the contracting process, with more than 40 % of German and UK insurers investing in smart contracts to simplify the payment process and to prevent fraud.

In comparison with the overall result, over half of Swiss insurers used technology to generate personalized offers and improve customer experience. At the same time, more than 70 % of Swiss insurers plan to invest in marketing through thematic platforms over the next two years.

More than half of insurance industry respondents in the UK have invested in alternative payment channels and are planning investments in pay-as-you-go and geographic expansion models in the next two years. They also have invested in digital programs facilitating seamless multichannel touchpoints to promptly address customer issues. Almost 52 % of insurers in the UK have invested in platform businesses to improve policyholder experience.

French insurers were less keen to invest in alternative payment channels such as Apple Pay or Android pay. However, nearly 30 % of French insurers were planning to invest in Insurtech partnerships and marketing via thematic platforms in the next two years.

Italian insurers also tapped into smart contracts and alternative payment channels and were planning to invest in Insurtech partnerships and marketing via thematic platforms in the next two years.



OUTLOOK 2022 AND BEYOND

Proactive investment in environmental, social and governance (ESG) measurement efforts is another evolving trend. In the light of extreme weather events and other man-made risks, European insurers are integrating ESG components into their operations to identify and manage ESG exposures.

Insurers are using reporting methodologies and technologies to measure these new risks and build a comprehensive risk management practice. While ESG is not limited only to climate risks, but extends to diversity and data security issues, climate change is a primary concern.

Global losses from natural disasters in 2020 were **US $210 billion**, according to Munich Re, and regulators are taking note.

Industry regulators are prompting private companies to disclose information on how they operate and manage social and environmental challenges.

For example, the European Union, under the Non-Financial Reporting Directive (NFRD), has mandated sustainability reporting, which will affect 50,000 companies. These companies are required to provide disclosures related to their exposure to climate risk, and efforts to manage those risks.

In response, insurers are embedding ESG practices into their business practices, such as engaging with banks to provide inclusive insurance to qualifying customers, building frameworks to address ESG exposures, and offering risk management services.

European insurers such as Allianz, Marsh and Zurich have rolled out initiatives around restrictive underwriting for coal- or fossil-fuel-based projects. Some insurers are migrating to the cloud to reduce the energy consumption required to run on-site data centers. They are leveraging cloud capabilities such as analytics dashboards to manage risks and advance their ESG initiatives.

IN CONCLUSION

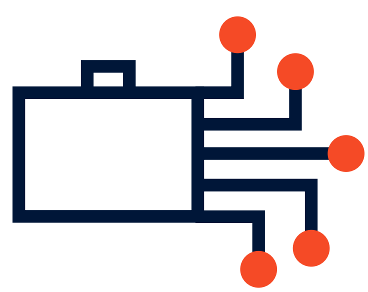
As the insurance industry focuses on investment to improve customer experience, most are also focusing on developing new products that enable geographic expansion and improve their portfolio diversity. Modern insurers will need to improve performance to adapt to the speed at which their customers expect them to operate.

The heightened complexity of changing customer needs and increasing demand for personalized solutions are driving the future of this sector. Insurance companies need to focus on four key areas to be future-ready:

1. Addressing changing customer behavior
2. Optimizing internal operations
3. Adopting emerging business models
4. Complying with regulatory requirements

The success of insurance companies will be determined by how well they integrate their customer-facing technologies with middle- and back-office processes for a seamless customer experience, while continuously increasing operating profits through optimized technology use.

Insurers need the agility to keep up with ever-changing customer needs and the resilience to weather any storm that comes their way. As we can see in this survey, industry leaders across Europe are well aware of the need to invest in new forms of technology so they can provide an excellent customer experience, while also cutting costs and being ready to meet future trends.



ABOUT ISG

Information Services Group (ISG) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including more than 75 of the world's top 100 enterprises, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 digital-ready professionals operating in more than 20 countries – a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data.

For more information, visit **www.isg-one.com**

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ABOUT HEXAWARE

Hexaware's Digital Insurance Services deliver transformative solutions to Insurers. Focused on three main themes of Automation, Cloudification, and Transforming Customer Experience, Hexaware partners with Insurers to reduce their cost of business operations, improve customer & partner experience, and improve speed to market to launch new products and channels of service. Hexaware has a strong team of 3,000+ techno-functional professionals focused on the Insurance vertical and 250+ industry certified SMEs serving 25+ Insurance customers globally across Property & Casualty, Diversified & Specialty, and Life & Annuities. Hexaware follows a holistic approach to drive the digital journey that encompasses Employees, Customers, and Suppliers while providing end-to-end digital services across front-office, middle office, and back office, systems of insight and infrastructure.

Hexaware leverages its accelerators Amaze® (for cloud replatforming), Tensai® (for enhanced automation), and Mobiquity (for customer experience transformation) to provide the following services:

- Building innovative systems of engagement: Design the customer & agent journey to deliver multi- and omni-channel experience through portals, mobile applications, and intelligent virtual assistants (e.g., chat / voice robots, IoT, etc.)
- Digital enablement through smart processes and integration: Expose core services to customers and agents to enable self-service through an API-led architecture and orchestration across channels. Optimize business processes and enable extreme automation through implementation of robotic process automation and cognitive / machine learning
- Core insurance system implementation: Deliver straight-through-processing and maximize efficiency with strong capability and partnerships with core platforms like Guidewire, Duck Creek, Sequel, Salesforce and Socotra
- Harness the power of data through systems of insight: Hexaware has invested in building Insurance specific tools and frameworks that enable customers to build and strengthen their data and data management foundation to derive real-time actionable insights through search driven analytics
- Migration of applications and infrastructure on cloud: Automation-led modernization of core insurance legacy applications through enablement of microservices architecture and transition to cloud

Proof Points

- For a Pan-European Insurer, Hexaware implemented Guidewire Digital for customers and producers in their Personal line of business, enabling improvement in online customer conversion by almost 30 %
- For a UK Insurer, Hexaware supported core claims application implementation on Guidewire Cloud Platform leading to a 2 x increase in release velocity
- For an Insurer in the Benelux region, Hexaware implemented Guidewire Insurance Suite to deliver 25 – 30 % improvement in operational efficiency
- For an Insurer in North America, Hexaware migrated the core Insurance application to cloud 5x faster and at half the cost
- For an Insurer in the Benelux region, Hexaware delivered end-to-end test automation services to increase coverage by 2 x at 30 % reduced cost
- For a Pan-European Insurer, Hexaware increased the claims recovery by 1.5 x through analytics and modelling

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