

20 YEARS
MS^o Management Solutions
Making things happen

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Making things happen

Global Insurance industry outlook

IBA Insurance Conference 2023



International Bar Association
the global voice of the legal profession

www.managementsolutions.com

| April 18th 2023



INSURANCE

1. Management Solutions

2. External factors impacting Insurance

3. Trends and opportunities

1 | Management Solutions

Who are we?

Management Solutions is an independent, multinational business consulting firm with its headquarters based in Madrid that provides advisory services to our more than 1,500 corporate clients in leading industries worldwide



We have offices in

39 cities



From which we operate in

+50 countries

Americas (18):

Toronto, New York, Boston, Pittsburgh, Birmingham, Houston, San Juan de Puerto Rico, Mexico City, Monterrey, Queretaro, San José, Bogota, Medellín, Quito, Lima, Sao Paulo, Buenos Aires, Santiago de Chile, Panama, Dominican Republic, Venezuela, Bolivia, Honduras, Nicaragua, El Salvador, Guatemala, Uruguay, Paraguay

Europe (17):

Madrid, Barcelona, Bilbao, Coruña, London, Frankfurt, Düsseldorf, Paris, Amsterdam, Copenhagen, Oslo, Warsaw, Zurich, Milan, Rome, Bologna, Lisbon, Belgium, Austria, Sweden, Finland, Greece, Luxembourg, Andorra

Africa (1):

Johannesburg, Senegal, Equatorial Guinea, Angola

Asia (2):

Beijing, Istanbul, Singapore, India

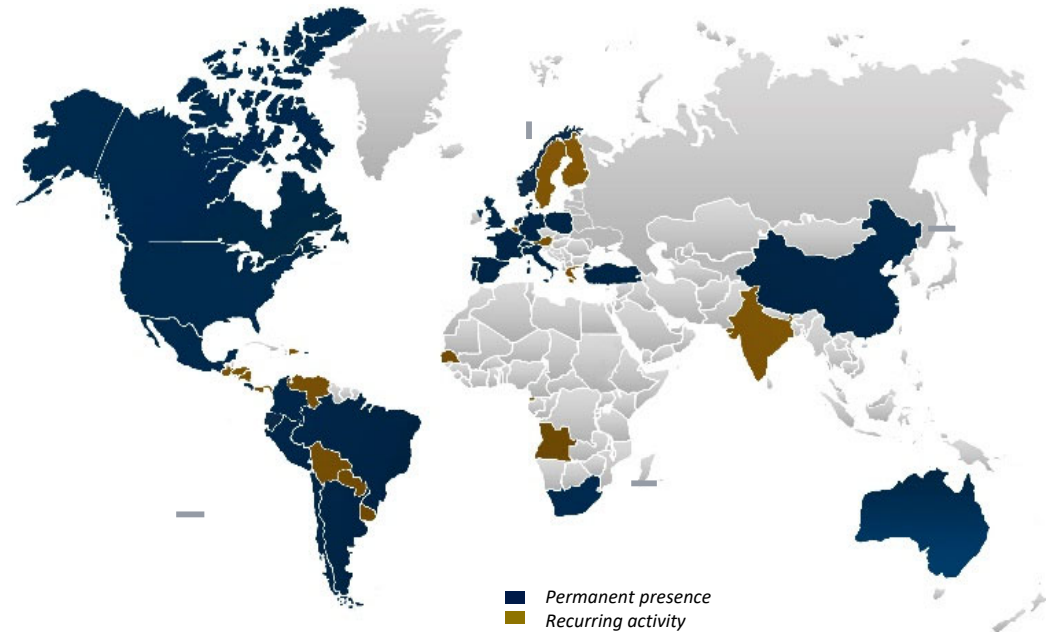
Australia (1):

Sydney

Professionals: Multidisciplinary team with different academic backgrounds:

+ 3,200 40% functional, 30% quant & 30% technical

One firm with an international footprint





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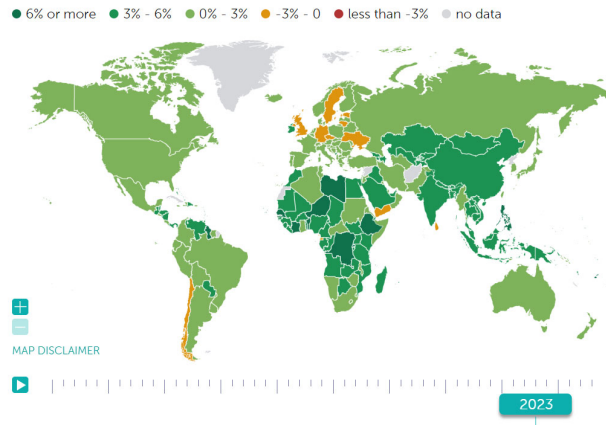
2 | International economic overview

Market environment for Insurance industry (1/3)

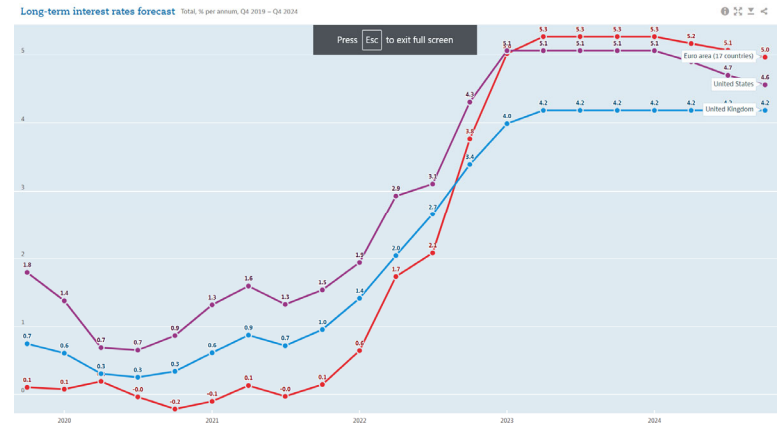
1

Macroeconomic environment

- Expected **GDP growth** in most of the advanced economies below 3%.



(Source IMF)



- **Inflation rates** in 2023 predicted to continue above historical. Expected decrease towards Q4/2023 and Q1/2024.
- **Interest rates evolution.** Expected to continue like that for the first part of 2024 at least.
- **Debt sustainability:** Public spending commitments in the face of higher interest rates.
- **Financial stability risk:** Key higher-frequency metrics of financial stability risks keep deteriorating.

2 | International economic overview

Market environment for Insurance industry (2/3)

2

Environmental
and Climate.
Broader ESG.

- **Physical Risks** derived from increase in temperatures. Increased in frequency and severity of extreme weather events, Excess mortality, cost of building / reparation.
- **Transition Risks** derived from shifting to a global net zero emission. This has different implication for insurers both at Liability and asset level.
- **Sustainability and Governance:** Increased awareness, increased stakeholder expectation to manage risks and contribute to broader sustainable economic and social development. objectives.
 - Human Rights violation
 - Bribery and Corruption
 - Financial Crime
 - Corporate Governance
 - Diversity and inclusion

3

Aging and Health

- **Covid** derived mortality.
- **Long life-span** with higher exposure to age related deterioration and chronic conditions.
- **Habits and lifestyle** bringing those to earlier age populations.
- **Mental** health conditions.
- **Medical advances** will partly counter-balance these factors, and it is still unclear how the net effect will play.

4

Supply chain
fragmentation

- **Different players** (Insurtechs and others) participating in parts of the end-to-end Insurance Value Chain: developing products / services, supporting distribution, supporting servicing, etc
- **Implications** around Legal / Regulatory /Mandatory, Sustainability, Conduct Risk, Financial Crime / Money Laundering, Business Continuity and operational resilience.

2 | International economic overview

Market environment for Insurance industry (3/3)

5

Technological developments

- **Robotics** and automation
- **Artificial Intelligence and Machine Learning:**
 - Machine learning enabled insight into driving or house behaviours
 - Fraud sophistication.
 - Impact in unemployment
- **Autonomous machines.**
 - Self-driving cars
 - Mobility solutions
- **Journey to Cloud**
- New challenges from a **liability perspective** around:
 - Decisions made by machines
 - International Data Transfers
 - Data Privacy and Protection
 - Information Security and cyber-risks

6

Regulatory scrutiny

- **Granular regulation** worldwide on aspects ranging from:
 - Information security (Digital Operational Resilience Act)
 - Data Privacy and Protection (e.g. GDPR)
 - Conduct Risk (e.g. Consumer Duty)
- **Harmonised supervision** across regions.

7

Geopolitical landscape

- Liberalisation and globalization to 'nationalisation' or protectionism
- Different sorts and international conflict.
- Tightens global supply chain, reduces trust and impacts global commerce (including sanctions).



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2 | International economic overview

Trends and opportunities (1/5)

1

Coverage of Insurance Gap

- Different analysis point to gaps and potential to further insure underlying risks worldwide. Either by increasing penetration of insurance coverage onto existing risks or by covering new / emerging risks.

Key facts about the protection gap

The increase in the protection gap due to demographic and social contract changes represents an opportunity for insurers, but they must overcome supply and demand barriers to take advantage of it.

+\$1.4 trillion USD

Global insurance protection gap

2x

Growth in the gap since 2020

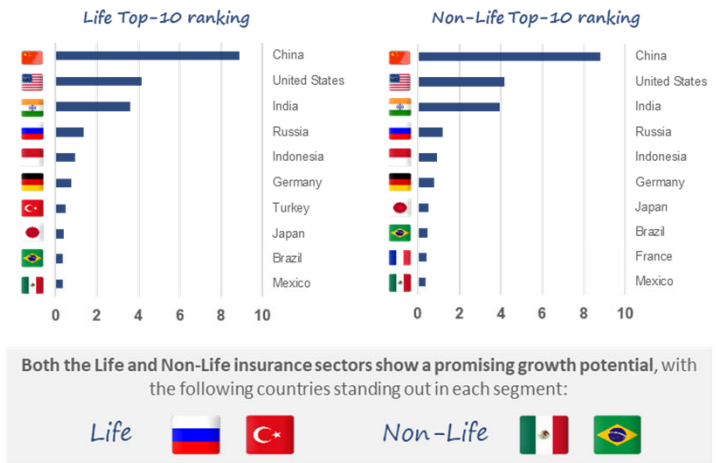
\$60-\$80 billion USD

Potential increase in annual industry profits if it narrows the protection gap

Source: Mapfre Economics, 2022
Swiss Re Institute, 2022

(*) The Global Insurance Potential Index provides a score that ranks each market according to its contribution to closing the Insurance Protection Gap (measured in basis points of global GDP or as a percentage of the total market), making it a metric comparable to the concept of "market size".

Top ten markets according to insurance potential



- Opportunity to cover new risks or risks derived from changes in demographics or environment:
 - ESG
 - Cyber
 - Data
 - ...

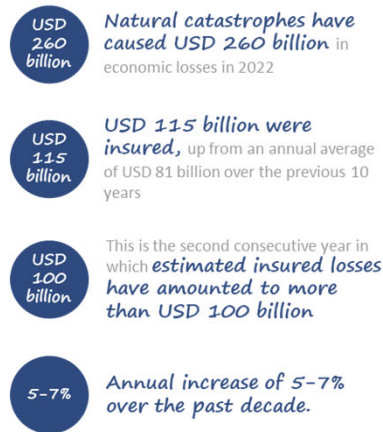
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Trends and opportunities (2/5)

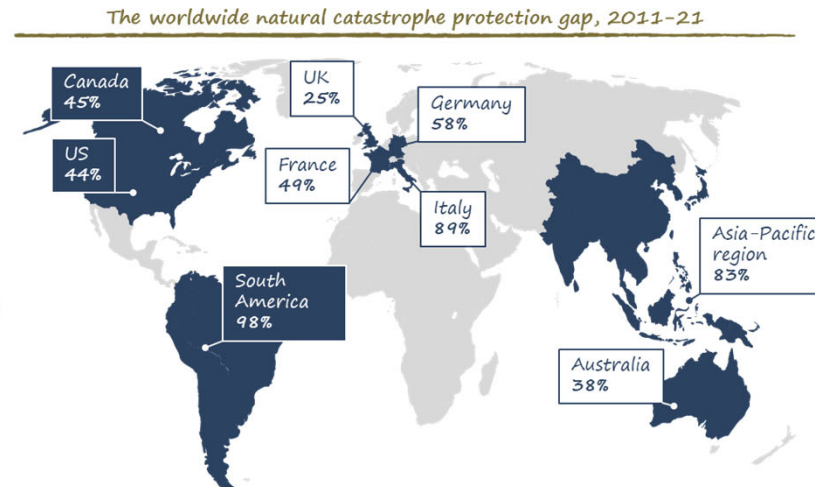
2

ESG

- Opportunity around development of **new products / services** specifically devoted to insuring physical and transition risks.



(Source: Swiss Re, Aon, Swiss Re Sigma Explorer, Geneva Association)



- Embedding into **underwriting processes**
- New culture of **Corporate Governance**:
 - Stronger Governance arrangements
 - Stronger formalisation of accountabilities and escalations
 - Clarity around lines of defence
- **Embedding into** third-party risk management processes.
- New approach to **social support** and social impact. Contribute to society ensuring sustainability of the business.

2 | International economic overview

Trends and opportunities (3/5)

3

Data and analytics

- Transition into a **data driven organisation**:
 - Investment in **foundations**.
 - Investment in '**offensive**' modelling for commercial and risk management purposes.
 - Investment in **infrastructure**. Journey to Cloud and exploiting Cloud native services.
- Implies a **cultural change**.
- Development of **Data Ethics**.

4

Commercial efficiency through a smarter distribution.

- **Improved segmentation** (point in life + behavioural aspects).
- **Granular product proposition / bespoke** (for each of the segments). Bundling of products, flat rate.
- **Strengthen network of brokers** / distribution agents, aggregators, whilst ensuring oversight.
- Partner with **Fintechs** to increase reach.

2 | International economic overview

Trends and opportunities (4/5)

5

Customer
Experience /
Journey.

- **New eco-systems** of **added services** around a core product.
- **Agreement with Insurtechs** that can provide a better customer journey and experience in different parts of the journey, with seamless transition.
- Investment in '**broker experience**' and enabling the agent to interact with the client in an 'Insurer' driven platform.
- Obsession with **customer service** and operational excellence.
- Investment in end-to-end Customer Journey redesign at a structural level.

6

Compliance by
design

- Embed the **LRM requirements** into the business operations.
- Develop **strong second line of defense** function to effectively oversee the operations and maximise effectiveness of the function.
- Develop **new oversight** capabilities.
- Develop **Regulatory relationship** teams

2 | International economic overview

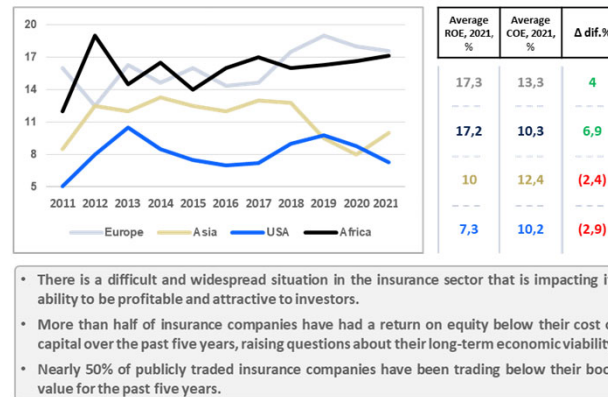
Trends and opportunities (5/5)

7

Cost and restructuring.
Productivity

- The evolution of **profitability** measurements seem to point towards opportunities for improvement in terms of cost reduction.

Insurers' ROE by region (evolution) - 2011–2021, %



(Source Bloomberg)

- Recipe will vary from company to company. Some levers in the market:
 - Organisational structure measures
 - Workforce structure and near-shoring / off-shoring
 - Ways of working (quicker time to market + attract talent)
 - Process automation and streamlining
 - Legacy infrastructure redesign