

SHORT INSURSION INTO THE MEGATRENDS THAT WILL SHAPE THE INSURANCE WORLD

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Summary

A short glance over the current social and economic environment reveals that, for the insurance industry, certain challenges have the capacity to revolutionize this field. The progress of technology in most domains, demographic changes as well as the area of regulation and consumer protection reset the framework of an industry that has its roots in antiquity but which is, at the same time, essential for society to continue developing sustainably. Therefore, identifying the disruptive elements, prioritizing their importance and defining the subsequent processes will occupy, over the next period, more and more of the insurers' agenda.

The insurance industry, one of the traditional business sectors and, at the same time, one of the main pillars that support population and the economy, is now facing the most substantial transformation in the last 30 years and maybe in its entire history.

Therefore, without trying to dive deep into the current numbers, we require a careful look at the megatrends that will shape the insurance industry over the following period, all having a massive impact on the need for protection and on the consumer behavior within this industry.

- Firstly, the majority of forces that trigger or even impose these transformations are generated by external factors. Changes are happening in the following areas:
- Social and demographic (the aging of the population, changes in the lifestyle, increasing inequality among social layers, transformation of the consumer preferences, consumer protection)
- Political environment (growing geopolitical uncertainties, fiscal reforms),
- Economy and finance (low interest rates, new-comers in the industry, collaborative economy)
- Insurance regulation and supervision (Solvency II, IDD, GDPR etc.)
- Global risk climate (increase of catastrophe risk and along with and increasing unpredictability, risks generated by climate change)
- Technology (the impact of digitalization, process automation, cyber risks, higher access to information due to mobile technology).

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It is certain that the aging of the population and the increase of the average life expectancy will generate changes within the industry by adapting for example the investment life insurance products to meet consumers' expectations. An equally important effect of this trend might appear in connection to health insurance that, at a time when governments lean towards relieving public healthcare systems of some costs, will have to answer the new needs of the people.

Changes identified worldwide include also an improved position of consumers as involved stakeholders, a trend outlined also in the insurance industry. Consumers are now better represented and involved in the regulatory process, a situation that can stimulate a higher balance. If 10 to 15 years ago, in the European Union, consumers were involved only through some associations, currently they can submit their views and propositions through multiple official channels. For example, as well as similar authorities that supervise banks and the capital markets, EIOPA keeps an open communication channel with all interested parties with the help of its two stakeholders' groups.

In addition, regulatory factors are making long-term projections more difficult. The framework that governs the European insurance industry has undergone significant changes in a community effort to insure an even higher financial stability of the insurance sector, to go from a static supervision to one based on risk evaluation and to improve consumer protection. This last objective was supported by a set of directives, regulations and technical standards that put consumers in the center of the paradigm and introduce new notions or fortify the ones governing insurance conduct.

This market conduct area comes therefore to complete the prudential regulation setup where, without analyzing in detail the specifics, we must state that Solvency II and IDD are considered milestones in changing the approach of insurance European companies towards the risks they manage, their financial stability and their distribution of specialized products.

Digitalization looms over the entire landscape. Digitalization is the entrance to a new world and a new chapter in the global evolution of insurance. The benefit of the customers is clear: timesaving, simplicity in accessing the offer on the market. The disadvantage is just as clear: focus on price, the tendency not to offer consumers all the necessary information and therefore making it impossible for him to differentiate products based on coverage, exclusions and territoriality. In the companies' perspective, digitalization influences and has complex effects on the entire value chain of insurance, from product development ("insurance on demand", correlations with smart devices), to sales (digitalizing sales departments, CRM solutions, new sales channels, cross selling with other products from different industries), underwriting (automation of underwriting, linking software solutions to generous databases that allow thorough evaluations of portfolios), claims management (automated solutions for assessing, evaluating and settling claims, and fraud management based on artificial intelligence).

Digitalization therefore means much more than changing the way a traditional insurer interacts with its clients, as first thought by the public and some analysts. Digitalization indeed has a very visible component – distribution, followed by everything associated with product development and streamlining internal processes. This obviously makes the impact of digitalization more profound.

The insurance industry, this complex business based on the uncertainty of a risk has allowed that, until now, the competitors of an insurer could be only other insurers. Their large majority functioned using similar methods and their success depended, most of the times, on the way they correlated their commercial strategy with their capacity to cover different risks.

With digitalization, in the future, one can only speculate which will be the competitors of an insurer. In the same context, there is the question about who will be the future clients. If insurers now provide services, directly or through intermediaries, to the final consumers, over the next years several scenarios are possible. Given a more elaborate automation of the products and services we use, the clients of insurers can reduce, on specific lines, to the producers and suppliers of the respective products and services.

Finally yet importantly, there is the question if fintech start-ups will be able to reach a critical mass to become relevant competitors and, finally, if the financial markets, where insurers are significant players, will remain volatile.

Of course that the situations above will not be sudden, neither the changes will be from one opposite to another. In addition, the fundamental concepts of this industry, to mutualize risks and provide financial solidarity in the face of loss will be constant in the future. Nevertheless, the answers to these challenges remain purely speculative.

Conclusions

In any of the scenarios, the insurance industry will have to adapt and provide solutions for the current and future needs of the consumers. Only in this way, there can be a discussion about the evolution of the domain, about the increase of GDP penetration in Romania and the activation of the insurers' role in a functional market economy, to the benefit of the Romanian consumer. This is why the future is open to many possibilities and the Romanian insurance industry is well positioned and connected to the regional and global reality, but remains with the challenge of reaching its potential.

In this context, in UNSAR, we have the most ambitious plan in the union's 25-year history – a plan in which financial education has received a strategic role. In addition, digitalization has come to change the manner in which we create the campaigns designed for this purpose. Therefore, with this dimension of our activity, we stand by the efforts of the Institute for Financial Studies, which we continue to appreciate and support.