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6 factors that will shape P&C insurance by 2025

By **Michael Parcelli** | November 11, 2021

With a projected compound annual growth rate (AGR) of almost 6%, **according to Mordor Intelligence**, the U.S. property and casualty (P&C) insurance market outlook for 2020-2025 looks robust. Technology initiatives in this sector are also ripe for investment, with industry watchers reporting that insurtech investment hit $7.4 billion during the first half of 2021.

To offer competitive products and solutions, insurers are leveraging such emerging technologies as the internet of things (IoT) connected devices, cloud, blockchain and artificial intelligence (AI) technologies including robotic process automation (RPA). However, evolving risks, steep business competition, changing customer expectations, new regulations and aggressive newcomers are symptomatic of the U.S. P&C landscape.

- **RPA to Accelerate Processes**

  RPA utilizes robots to automate and streamline manual processes and often concurrent tasks related to insurance, such as data ingestion. Adopting RPA in insurance has several advantages, including reduced handling cycles, better quality output reducing exceptions, easier policy cancellation, assimilation of new business, and cross-selling opportunities. There is excellent traction with embedding automation. According to **Gartner**'s projections, global RPA software revenue will reach $1.89 billion in 2021, nearly 20 percent more than 2020.

- **Increase in Net Premiums**

  Data from the National Association of Insurance Commissioners shows the net premiums written by the U.S. P&C industry was at an all-time high, up to $658,386 million in 2020, and up by 2.4 percent year-over-year, with no change in the combined ratio. And, that upward trend hasn't reversed due to the pandemic. According to a mid-year 2021 survey of senior U.S. insurance financial executives conducted by **Deloitte Insights**, 66 percent of P&C respondents expect topline growth, including 18 percent anticipating revenue gains of over 10 percent. That could be attributed to many large-scale loss events in 2021, resulting in improved risk assessment and increased premiums. The same survey also found only 23 percent of respondents anticipate a drop in net income. However, achieving a healthy bottom line would require P&C insurers to continue focusing on premium growth, and, at the same time, prioritize expense factor reduction. A recent study by **EY and ACORD** unearthed $68 billion in annual savings potential through expense optimization for the U.S. P&C industry.

- **Competitive Landscape**

  Despite the recent hike in the federal fund rates, the interest rate continues at an all-time low, affecting profitability for insurers of all sizes. As the economy and policyholder expectations have evolved throughout the pandemic, the industry has had to implement continuous reinvention to ensure profitable growth. And, considering the fragmented nature of the market, a single insurer may not be able to absorb first-mover costs repeatedly as market conditions change rapidly. The competitive landscape will undoubtedly shift going forward as insurers come together to create efficiencies and optimize costs through digital-first, collaborative initiatives.

- **Updating Risk Assessment Models**

  The need for accurate U.S. P&C risk assessment models is underlined by the rising instances of major natural catastrophic events. There is sustained population growth in regions prone to natural disasters, such as the now more than 60 million residents along the coasts of the Atlantic Ocean and the Gulf of Mexico, up from 52 million in 2000. Insurers must take a more hands-on approach to risk assessments by enhancing risk detection and quantification methods to get incisive information about the evolving risks attributed to more recurrent natural catastrophes. By partnering with third-party data providers or using openly accessible data elements to offer customized policies to consumers insurers will be able to more easily reassess risk modeling, improve pricing, and increase policyholder awareness to manage threats more efficiently.

- **Leveraging AI-Based Solutions**

  U.S. insurers are rapidly moving to implement AI-based solutions which enhance risk-management capabilities by facilitating continuous risk assessment, real-time monitoring, and risk prevention. The collection of large amounts of granular data is enabled by technological advancements, such as IoT and drones, combined with edge computing. With that in mind, insurers should now be able to accurately assess risk exposure, which allows for a better pricing strategy with advanced machine learning (ML) algorithms and computer vision technologies. For example, State Auto, an Ohio-based digital provider of P&C insurance, deployed Flyreel, an AI-based solution that uses videos captured on a policyholder's smartphone camera for property insurance underwriting, risk management, and claims. To provide personalized safety tips and timely alerts, insurers monitor properties in real-time, leveraging IoT devices and mobile apps.

- **Direct Engagement Channels for SMEs**

  Due to the rise in startup activities and the gig economy, the small and micro-commercial market is booming. Small and micro-commercial business owners prefer digital engagement channels, are price-sensitive, and seek low-cost commercial insurance options. As a result, this sector is driving insurers to conduct business with support from digital tools. With growing contact-to-consumer data from third-party sources, such as made-to-order data pools, data assimilators, and insurtech data providers, insurers can focus on low, no-touch underwriting, simplifying the insurance purchasing process. One example of this is Berkshire Hathaway's simplified three-page policy, The Three, which provides comprehensive coverage for different business needs, including general liability, errors and omissions, and cyber.

An evolving industry

The insurance market is changing, and to keep pace, insurers will have to address evolving customer needs while simultaneously focusing on concerns from regulators around data privacy. Investor interest in insurtech firms will grow as those firms become the primary source of industry innovation. To perk up digital nimbleness and augment functioning competence, insurers will need to expand use of the cloud for deploying core systems while also exploring technologies, like blockchain, to build a more integrated insurance ecosystem. As expectations continue to change, insurers must take on a customer-first approach, enhance products, streamline and simplify processes, and emphasize innovation and pragmatism to ensure growth and future readiness.

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