

# 2020: A Defining Year for Insurers



For insurers, the end of 2019 was marked by an increased focus on solving technology challenges that were an offshoot of regulatory reforms. Along with that came the constant pressure to improve operations and a confluence of cyber, climate, market and macroeconomic risks. However, as COVID-19 spread, it led to a global economic crisis, and drove widespread and unprecedented changes to business operations. With offices quickly moving to remote working and with operational resiliency often challenged, markets dropped significantly in early 2020,

giving rise to volatility and illiquidity. As markets start to recover and economies start to open up, a number of long-term trends in the insurance industry's workplace practices, business operations and technology are likely to come out of the experiences of the last few months. In addition to continued focus on technology, operations and risk, 2020 has also brought forward an accelerated shift in the investment philosophy from a conservative, passive approach to a more active, albeit riskier approach.

# Operations Before COVID-19: Unlocking the Power of Data

**Globally, the insurance industry has faced deep and continuous regulatory scrutiny since the 2008 financial crisis and executives at insurers worldwide see more pressure coming from regulators.**

Much post-2008, regulation of insurers has already been brought into force – Solvency II in Europe in 2015<sup>1</sup>, for example, or Principle Based Reserves<sup>2</sup> in the United States in 2017 – but policy makers continue to give their attention to the market.

While insurers were not opposed to effective regulations that improved their ability to meet client needs, managing multiple sources of data as part of the regulatory requirements presented a challenge that they grappled with. The need for technology's help in generating, storing, analysing and marshalling the increasing volumes of data soon became a common theme in the industry.

Our 2019 Growth Study<sup>3</sup> distinctly captured this trend: 60 percent of insurers claimed that their organization will lose competitive advantage if they fail to improve integration and harmonization of data. Given the scale and nature of the data challenge generated by regulation, it is not surprising that 55 percent of respondents admitted that they currently struggle to take advantage of third-party data and analytics platforms because of difficulties in onboarding new technology solutions.

While it was clear that regulation was a key driver for technology investment, insurers were keen to digitize their operating models to gain a holistic view of their portfolio and to analyse performance across asset classes. Technology was seen as an enabler to reimagine operating models and deliver straight-through processing and real-time data.

As 2019 drew to a close, the insurance industry was poised to make some transformational changes. However, the onset of the global pandemic in early 2020 deepened the challenges insurers faced, driving forward data and technology investments among their new set of priorities.

<sup>1</sup> <https://eiopa.europa.eu/regulation-supervision/insurance/solvency-ii>

<sup>2</sup> [https://www.naic.org/cipr\\_topics/principle\\_based\\_reserving\\_pbr.htm](https://www.naic.org/cipr_topics/principle_based_reserving_pbr.htm)

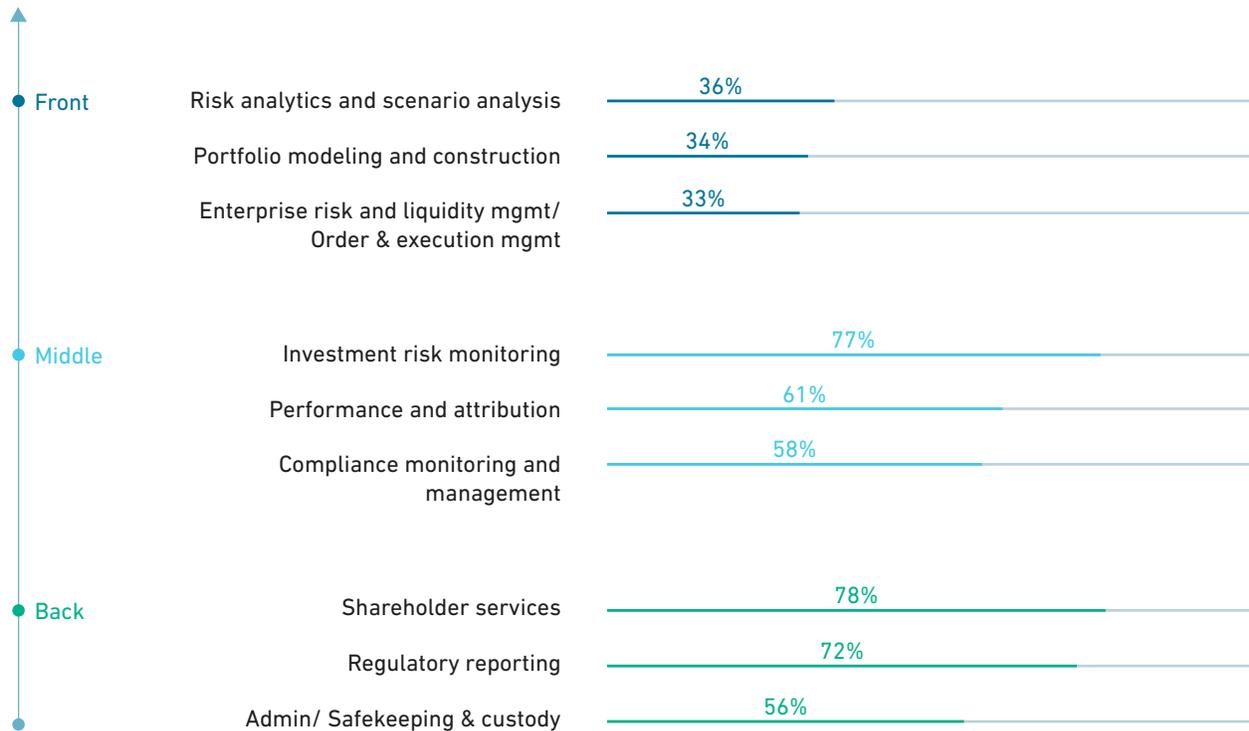
<sup>3</sup> State Street engaged Longitude Research to field a global survey of 523 industry executives from 17 countries, during November and December of 2019. Respondents span investment, operations and distribution roles, representing institutional asset owners, asset managers and insurance companies. Insurers accounted for 100 responses globally.

**Figure 1: Current state of data integration across the enterprise**



Source: State Street Growth Study, 2019

**Figure 2: Future priorities from introducing more advanced technologies over the next 12 months**



Source: State Street Growth Study, 2019

# Operations During the Pandemic: Crisis Response and Insurers' Appetite for Alternatives and Active Management

**COVID-19 pushed the insurance industry headlong into changes of operational resiliency, technological priorities and asset allocations. Where regulatory concerns once impeded progress, the promise of the industry's role in the revival of the global economy has now moved barriers and set insurers on an open road to progress.**

In April, at the height of the downturn, we wanted to understand the impact of COVID-19 on investors and insurers and their views on how asset managers have handled the crisis. We commissioned CoreData Research to conduct a global survey with respondents spanning investment, analyst and advisor roles, representing institutional investors, financial advisors and gatekeepers.

## **Crisis Communication and Asset Allocation**

Over the course of the crisis, strong communication and crisis support from asset managers have helped instil investor confidence. Our research indicated that 78 percent of insurers globally are confident that their asset managers can navigate the current financial crisis caused by COVID-19. When asked about the most important element of support provided by asset managers, 76 percent cited the provision of market commentary and strategic reviews, followed by 47 percent who claimed assessment of investment opportunities.

The crisis fuelled the appetite of insurers for alternative asset classes too, particularly in private credit and private equity. Most investors anticipated a relatively swift bounce back in equity markets which, coupled with confidence in managers, was driving long-term optimism in reaching investment objectives.

In the short term, 33 percent planned to increase their allocation to private credit and 28 percent in private equity. Alternatively, 10 percent expected to decrease their allocation to private credit and 13 percent within private equity.

**“With traditional fixed income strategies generating lower returns, we are observing insurance companies increase allocations into this asset class at an accelerated pace. We are seeing an uptick in insurance firms coming to us for our alternative asset servicing capabilities and differentiated skill sets, as well as our broader technology offering. We believe the current COVID-19 crisis will further intensify the move towards alternatives.”**

PAUL FLEMING

Global Head of Alternative Investment Solutions  
at State Street

### **Increased Focus on Active Management**

When it comes to their asset allocation, the survey reveals more than a third (36 percent) of insurers expect to increase their allocation to actively managed investments in the short term, compared to one in ten who anticipate it to fall, as is common during market downturns.

Insurers have faced a variety of investment challenges during the crisis. The survey found that respondents have faced difficulties around security valuations (39 percent), liquidity challenges (36 percent) and cash forecasting (25 percent).

As insurers embrace the new normal, there is a renewed focus on operational efficiency, resilience and data management to achieve better outcomes. These three areas will remain priorities for insurers in the foreseeable future to optimize cost and return.

**“The COVID-19 crisis has created a number of challenges for asset owners and managers, but our research shows insurers appear to be coping well when it comes to their investment operations. They have confidence in their asset managers and plan to make changes to their asset allocation to address the new world that we now live in.”**

AKHIL JAIN

Global Head of Insurance at State Street

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<https://www.statestreet.com/ideas/articles/volatility-study.html>

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