KPMG 2023 Insurance CEO Outlook

Insurers are embracing change and navigating economic challenges to help drive success in a rapidly evolving landscape.

KPMG International

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In an unpredictable operating environment characterized by geopolitical tensions, high inflation and rising costs, CEOs continue to face an array of challenges and opportunities. With change becoming almost a constant, we checked in with 128 insurance CEOs as part of the KPMG CEO Outlook survey, to gain a deep insight into their views and perspectives on the industry and wider economic landscape now and over the next three years.

The picture that emerges is one of overall confidence about the road ahead, but tempered by warning lights that mean caution is also required. According to insurance CEOs, political uncertainty due to ongoing regional tensions has become the top threat to organizational growth over the next three years, followed by emerging/disruptive technology risks and interest rate risk. This marks a shift from 2022 when operational risks and technology risk topped the list. Over the last twelve months, the world has become an even more uncertain and volatile place. Inflation has risen and interest rates have moved on an upward curve.

These factors in combination mean that, while the clear majority of insurance CEOs are confident of growth in the coming years, the numbers have declined compared to 2022. It feels like we have reached a critical juncture — strong and resilient leadership will be needed to help keep insurance firms moving progressively forward on the journey of change and transformation that they are on, especially with new developments like generative AI holding out so much potential to reimagine aspects of how the business is run.

To follow is a detailed look at what insurance CEOs have to say about the key trends impacting the industry in an ever-evolving market. I encourage you to contact your local member firm to discuss the findings and what these could mean for your organization.

The 2023 CEO Outlook draws on the perspectives of 1,325 global CEOs across 11 markets and 11 key industry sectors to provide unique insight into leaders' mindsets, strategies and planning tactics, and their three-year outlook on the industry and economic landscapes. The research was carried out between 15 August and 15 September 2023.

The economic outlook

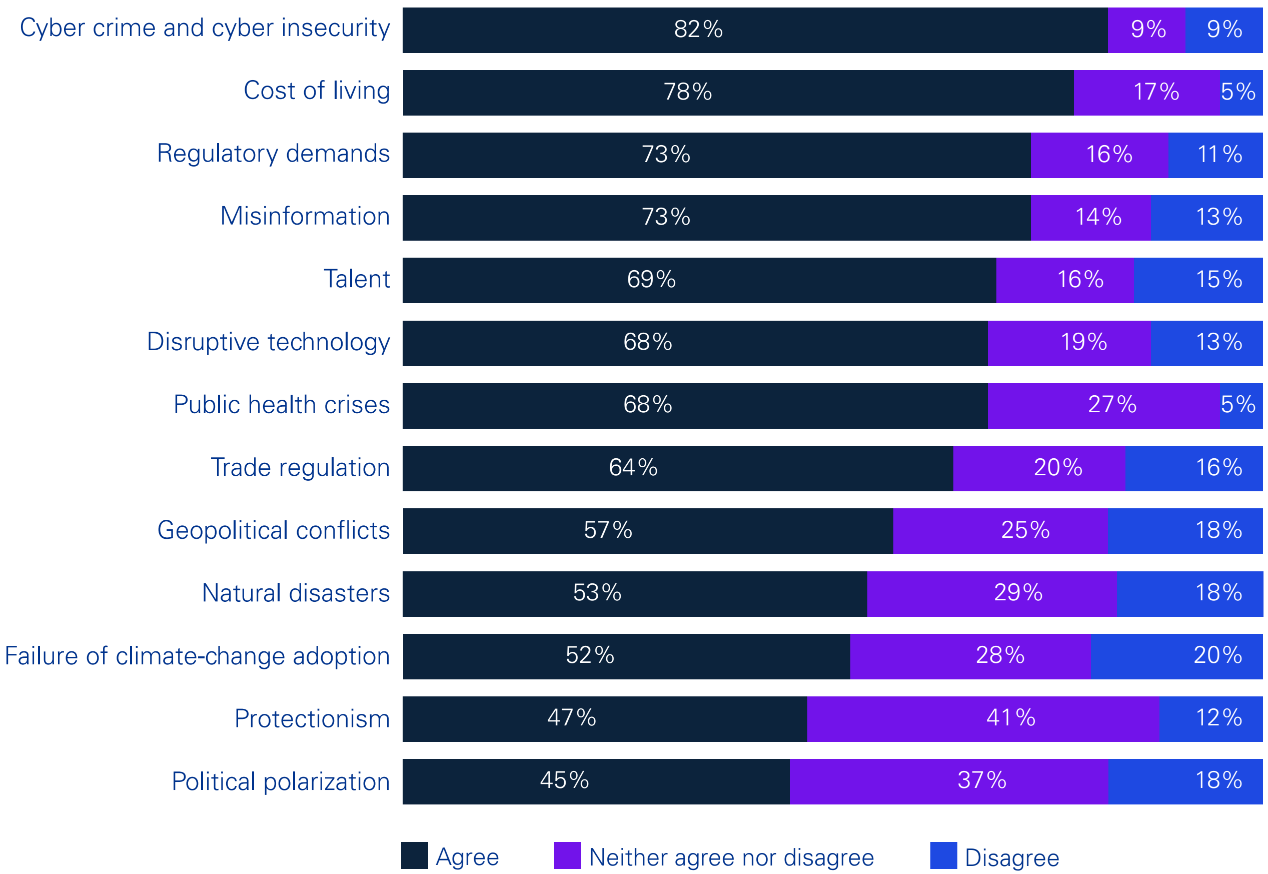
The growth confidence of insurance CEOs, while remaining solid, has comparatively reduced year-on-year. Three-quarters (75 percent) of CEOs are confident about the growth prospects for the insurance industry, down from 90 percent, while 78 percent are confident about the growth of their own organization specifically, a fall from 87 percent a year prior.

Nevertheless, optimism about the global economy as a whole has fractionally increased, from 72 percent to 74 percent. But there is some caution here too — with 76 percent of CEOs believing that rising interest rates and tightening economic monetary policies could prolong any potential recession.

Risks to growth

In terms of risks to growth, CEOs pinpoint cyber crime as a pressing concern (82 percent agreeing), closely followed by the cost of living (79 percent) which may restrict their customers' ability or appetite to take out insurance products. From a wider strategic perspective, political uncertainty and emerging/disruptive technology are the top two threats to growth across the insurance industry.

The most pressing concerns for insurance organizations today

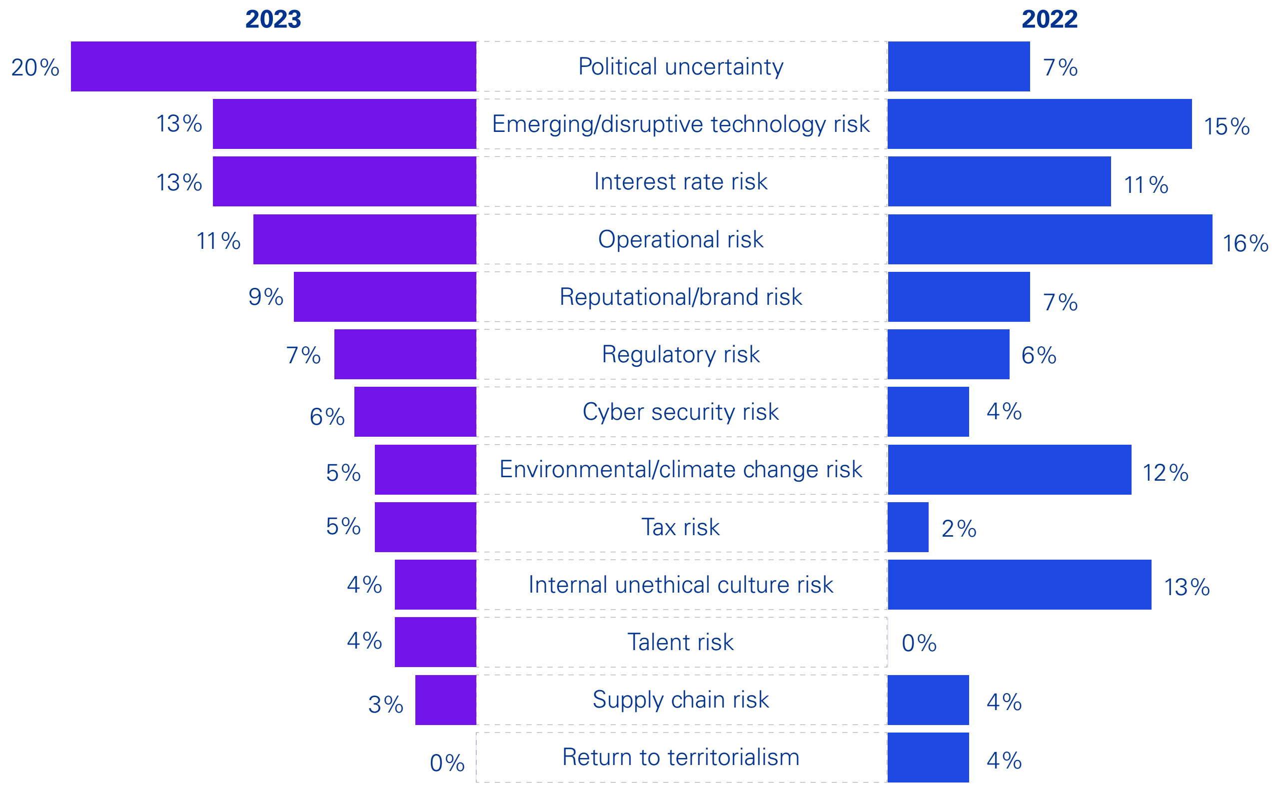


Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

"In a time of great change and transformation, there are many challenges for insurers to navigate. A lot of companies have already made great progress in their transformation and modernization — but insurance CEOs recognize that there is more to do while the world is more dynamic and uncertain than it has been in decades."

Erik Bleekrode
Head of Insurance, ASPAC
KPMG China

The greatest threats to the insurance industry over the next three years



Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

Strategic adjustments

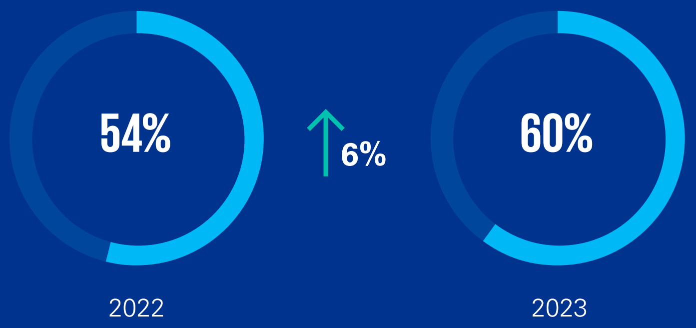
Insurance CEOs are taking an in-flight and proactive stance on strategic decisions with two-thirds (65 percent) saying they have already adapted their growth strategy in light of the prevailing conditions, and the remaining third (35 percent) planning to do so.

Some interesting shifts in strategic emphasis are evident. More CEOs say they are placing more capital investment into buying new technology (60 percent, up six percentage points from 2022), while fewer say they are deploying more investment into developing the workforce's skills and capabilities (40 percent, down from 46 percent).

Insurance CEO priorities for growth and organizational transformation

The technology theme carries over into CEOs' operational priorities to promote growth, with advancing the digitization and connectivity of functional areas emerging as the top focus (25 percent), ahead of improving the customer experience (19 percent) and the employee value proposition (18 percent).

Insurance organizations are placing more capital investment in buying new technology



60 percent
of CEOs are placing more captial investment in purchasing new technology in 2023, compared to
54 percent
in 2022.

Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

> **Our insurance clients recognize the importance of modernizing operations by investing in technology at scale. KPMG professionals believe that the decision-making for these technology investments, including efficiently executing on their implementation, is among the most important decisions that leaders can make to create sustainable profit growth for their organization.**
>
> **Scott Shapiro**
> Head of Insurance, Americas
> KPMG in the US

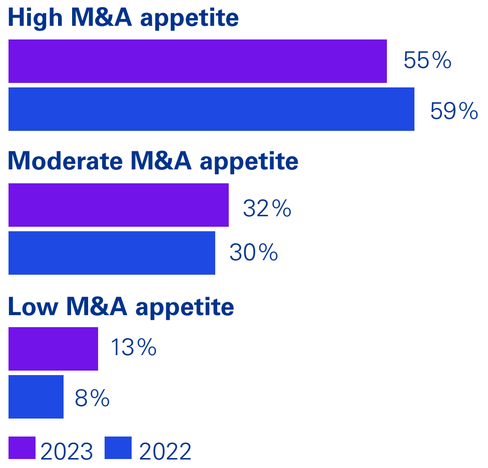
Anticipating M&A

Insurance M&A activity has declined considerably across many regions. However, while potential buyers adopt a 'wait and watch' approach with expectations that a 'higher-for-longer' interest rate environment could persist, the pressure to retain growth momentum within an industry navigating transformation will likely see M&A activity increase. Over half (55 percent) of CEOs describe themselves as having a high M&A appetite, which is only fractionally down on 2022 (59 percent).

A third (32 percent) describe themselves as having a moderate appetite, virtually unchanged from a year previously (30 percent). Only 13 percent characterize themselves as having a low M&A appetite, although this is an increase from 2022 (8 percent).

"As insurance leaders look to transform their business models, acquire emerging technologies and capabilities to improve operational efficiencies, and strive for sustainable profitable growth, we expect to see the return of strategic M&A deals, continued consolidation activity in certain sectors, and the forging of unique strategic alliances and partnerships within the insurance ecosystem."

Ram Menon
Global Head of Insurance Deal Advisory, KPMG International and Partner
KPMG in the US



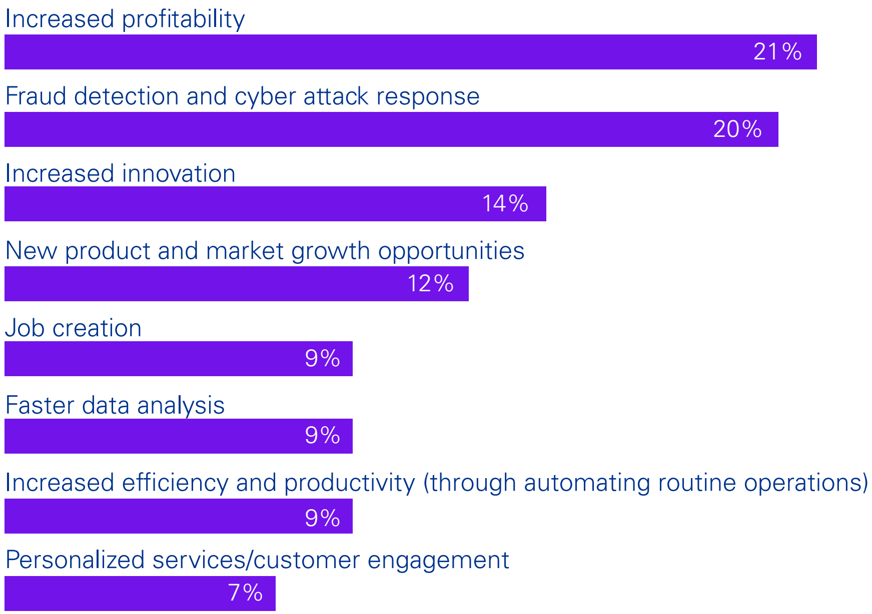
Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

Leveraging technology and AI

CEOs are putting technology and digitization at the heart of their efforts to modernize their organizations, driving up efficiency, streamlining processes and enabling a more customer-centric approach. Many insurance businesses have already embarked upon digital transformation journeys — this has become increasingly imperative as agile insurtechs and new entrants have come into the market and changed the way insurance is sold, serviced and settled.

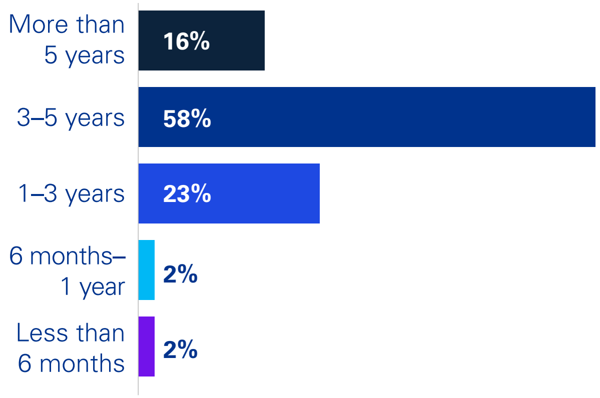
Alongside this push for greater connectivity and automation, generative AI (gen AI) has become an area of intense interest. With a number of platforms that integrate AI shooting to prominence, nearly three-quarters (73 percent) of insurance CEOs say that generative AI is the most important investment opportunity for the organization despite economic uncertainties.

Top benefits of implementing gen AI for insurance organizations



Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

Return on investment in the implementation of gen AI



Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

Insurance leaders are also confident about the returns: 58 percent of insurance CEOs expect to see ROI within 3–5 years, exceeding the cross-sector average of 52 percent. A further 27 percent expect to see ROI in an even shorter timeframe.

The primary benefits anticipated are to increase profitability (21 percent), aid fraud detection and cyber attack response (20 percent) and also boost innovation (14 percent).

“CEOs recognize that AI and generative AI are technologies with huge potential for their business, because they touch on so many core aspects of what insurers do. AI models can simulate future scenarios, enhance the accuracy of risk estimation, and drive better pricing. They can also identify false claims more effectively. There are powerful AI applications for the insurance industry and it will likely force innovation in many areas.”

Simona Scattaglia
Global Insurance Technology Lead, KPMG International and Partner
KPMG in Italy

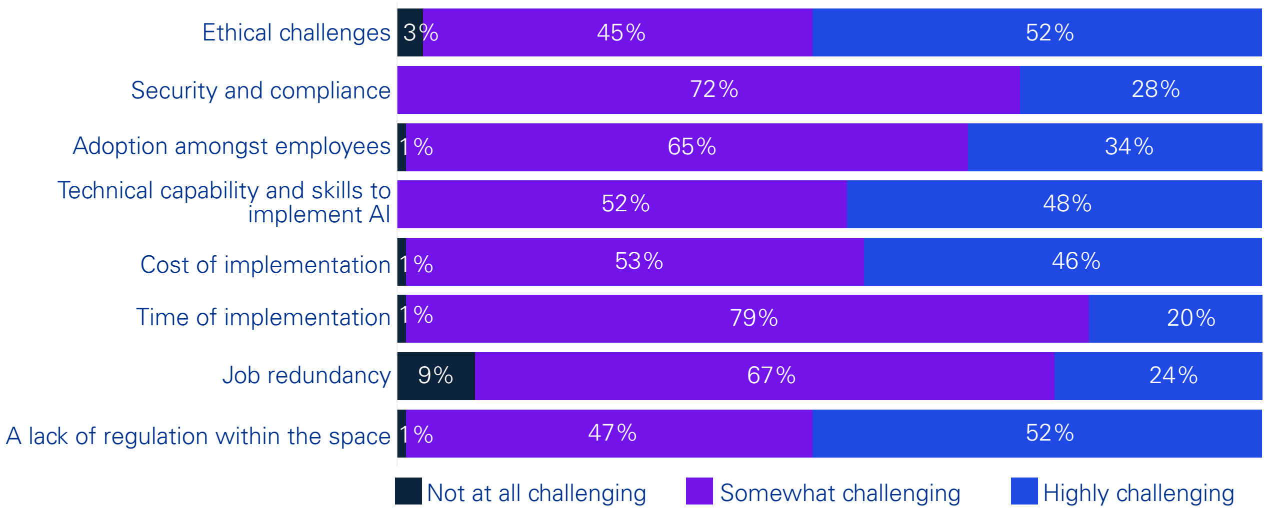
Managing the AI risks

While AI presents enormous opportunity, there are barriers that need to be overcome if it is to be deployed at scale successfully. The biggest concerns flagged by CEOs are ethical challenges (52 percent perceiving these to be highly challenging) and a lack of regulation within the space (52 percent).

Other aspects such as security and compliance, gaining adoption amongst employees, technical skills and capabilities to implement, and time/cost are also seen as barriers, but are perceived to be more manageable.

When it comes to regulation of AI, how far should rules go? Over seven in ten (72 percent) CEOs agreed that the degree of regulation should mirror that for climate commitments — where regulatory requirements have been steadily increasing in detail and volume in recent months.

The biggest challenges for implementing Gen AI



Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

> **A robust regulatory framework for AI is needed, that is proportional to the risks. Regulation should not stifle innovation but safeguard usage through clear requirements around key questions such as the explainability of algorithms, the decision-making processes at play, and measures in place to prevent bias, misinformation and harm.**

Mark Longworth
Global Head of Insurance Advisory,
KPMG International and Partner
KPMG in the UK

Cyber security and resilience

Leaders are cognizant of the cyber security risks posed by generative AI. Eighty-five percent of CEOs agree that it is a "double-edged sword" in that it may aid in the detection of cyber attacks — but also provide new attack strategies for adversaries. Platforms already exist that utilize generative AI to create new attack content, malware and phishing material that may be very challenging to combat.

For this reason, while insurance businesses continue to devote significant time and energy in configuring their cyber defences, CEOs are concerned about the increasing sophistication of cyber threats. The survey identified that cyber crime and cyber insecurity topped the list of CEO concerns in 2023.

Overall, confidence about preparedness has risen — 67 percent of CEOs say their organization is well-prepared for cyber attacks, an increase from 59 percent in 2022. But 32 percent are concerned about the increasing cyber threat and sophistication, while 24 percent cite worries about vulnerable legacy systems or infrastructure.

Primary reason CEO feel underprepared for a cyber-attack

Increasing cyber threat and attack sophistication	32%
Vulnerable legacy systems or infrastructure	24%
Lack of investment in cyber defenses	16%
Shortage of skilled personnel	16%
Cybersecurity not regarded as business priority	12%

Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

> **"With the rise in AI-directed attacks, it is critical that insurers innovate their defense strategies faster than the threats that are emerging, in order to stay one step ahead."**

Simona Scattaglia
Global Insurance Technology Lead,
KPMG International and Partner
KPMG in Italy

Maximizing the impact of ESG

The environmental, social and governance (ESG) agenda is increasingly recognized by CEOs as an indispensable part of their corporate strategy. Nearly three-quarters (72 percent) of insurance CEOs say that ESG is fully embedded into their business as a means to create value. And despite rising regulatory requirements, 75 percent of leaders believe they have the capability and capacity to meet new reporting standards.

With ESG becoming increasingly important to a wide range of stakeholders, CEOs acknowledge the power of ESG to help them build customer relationships (31 percent). But ESG also unlocks commercial value — such as the sale of green or ethical insurance products and investments. One in five CEOs (19 percent) also cite driving financial performance as a key outcome of a successful ESG strategy. And nearly three in ten (28 percent) CEOs anticipate return on investment from ESG in 1–3 years, and a further 54 percent expect it in a 3–5 year timeframe.

72% of insurance CEOs believe ESG is fully embedded into their business as a means of value creation.

75% of CEOs believe they have the capability and capacity required to meet new reporting standards.

Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

> **“ESG represents a huge opportunity for insurance businesses to create differential growth, the challenge is to integrate this into the firm’s strategy and embed it within existing operations. Strong leadership is needed to keep driving this forward despite all the uncertainties in the economic and political environment. For those that get it right, the returns should follow.”**

Roger Jackson
Global Insurance ESG Lead, KPMG International and Partner
KPMG in the UK

Mapping the path to net zero

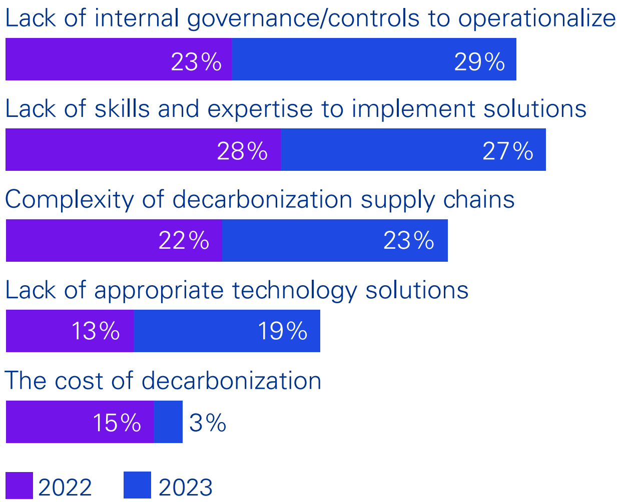
This recent survey underlines the importance of the environmental, low carbon agenda — with the path to net zero an increasing focus for CEOs. Thirty-nine percent of leaders say they are prioritizing environmental issues and net zero most in their ESG investments, ahead of governance models (30 percent), social and community programs (20 percent), and those who are prioritizing all aspects equally (11 percent).

The size and importance of ESG means that meeting all objectives alongside other strategic priorities is a challenge. Half of CEOs (51 percent) are confident they can do so, but nearly a third (32 percent) are not, while 16 percent are undecided.

Looking at the net zero transition specifically, the biggest barrier is seen to be a lack of internal governance/controls to operationalize the shift (29 percent). Other prominent barriers include a lack of skills and expertise to implement solutions (27 percent) and the complexity of decarbonizing supply chains (23 percent).

Insurance leaders are looking at how to better invest in net-zero initiatives and develop insurance products and services, or fund green projects, which can help to reduce carbon emissions.

The greatest barrier to achieving net zero or similar ambitions for global insurance organizations



Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

29% of insurance CEOs feel that, in 2023, lack of internal governance and controls to operationalize is one of the greatest barriers to achieving net zero or similar ambitions.

Interestingly, the cost of decarbonization has fallen significantly as a perceived barrier this year — cited by only 3 percent of CEOs compared to 15 percent in 2022. This is perhaps a result of political signals suggesting a more gradual pace of change than previously envisaged, spreading the capital outlays needed.

Despite confidence in their ability to meet reporting standards, CEOs nevertheless recognize the challenge on-hand. Eighty percent of leaders admit they may not be fully prepared to withstand the potential scrutiny from stakeholders if they fail to meet their ESG expectations and priorities. Any perception or allegation of greenwashing remains a key risk. Some of the chief downsides to falling short on ESG are seen to be recruitment challenges, higher cost and/or difficulty of raising finance, and competitors gaining an edge over the business.

Major downside of failing to meet the expectations of stakeholders in ESG

Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

> **“With a raft of ESG reporting requirements coming down the line, significant effort will likely be needed in response. New data will likely be required from new sources, and it must be accurate and robust. Greenwashing is a key risk. For those perceived to have misled or misstated, the impacts on the business could get serious very quickly.”**

Roger Jackson
Global Insurance ESG Lead, KPMG International and Partner
KPMG in the UK

Embracing diversity and inclusion

A key aspect of any ESG strategy is the Inclusion, Diversity & Equity (IDE) agenda. This is an area where insurance businesses have been active in recent years, driving up efforts to increase diversity and ensure fair opportunities for all talent regardless of gender, background or other characteristics.

This commitment encompasses many facets — 79 percent of CEOs agree they have a responsibility to foster greater social mobility in their organizations, and 75 percent believe that achieving greater gender equity in the C-suite will help the business achieve its growth ambitions.

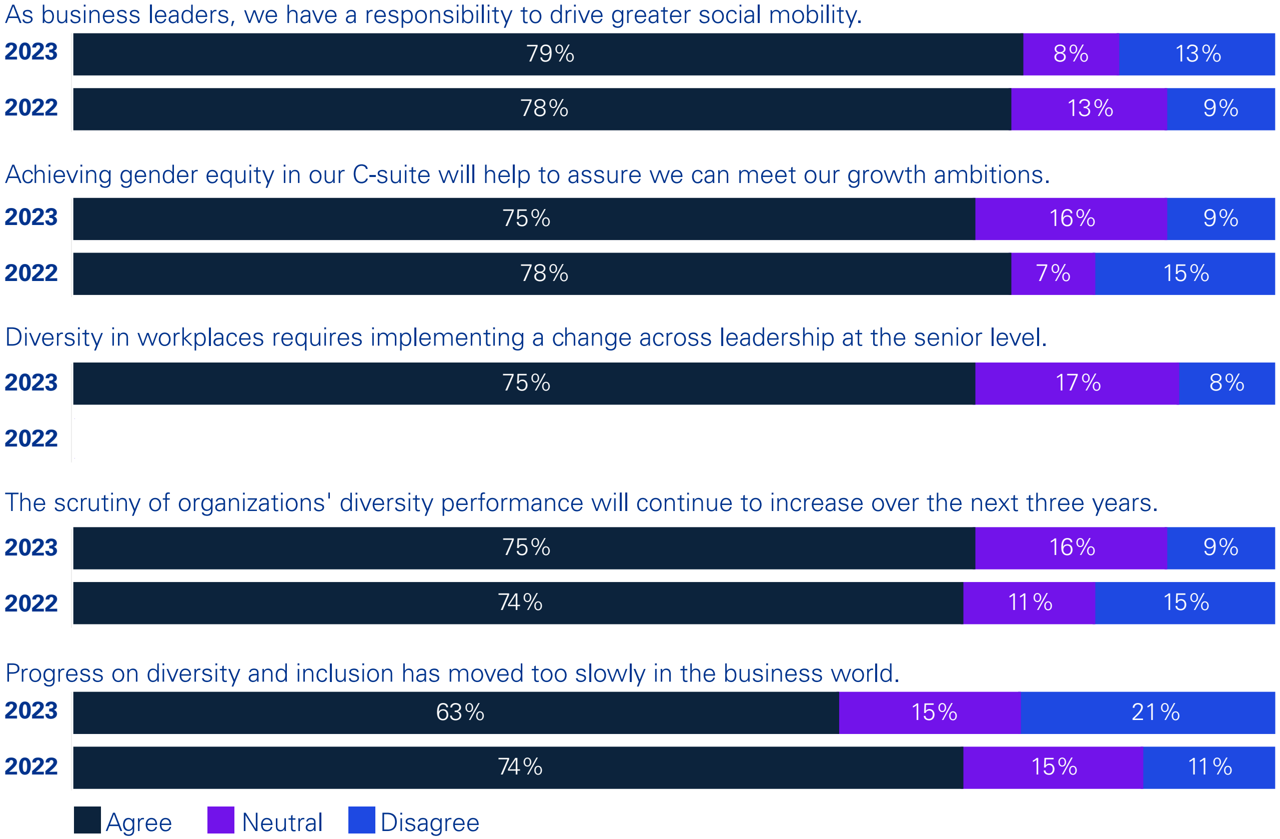
Overall, CEOs believe they are making progress. The proportion of those who agree change is happening too slowly in the industry has fallen this year — at 63 percent compared to 74 percent in 2022.

However, they are not complacent. Three-quarters (75 percent) of CEOs recognize that diversity in the workplace may require implementing a change across leadership at the senior level, and the same proportion expect scrutiny of diversity performance to increase over the next three years.

79% of CEOs agree that as business leaders, it's their responsibility to drive greater social mobility.

Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

Insurance CEO responses on diversity and inclusion



Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

The workforce proposition

Businesses are only as good as their people. Maintaining a strong employee value proposition to attract and retain staff is high on the CEO agenda. Over eight in ten (81 percent) of CEOs expect to increase headcount over the next three years, although this is marginally down from 2022 (87 percent).

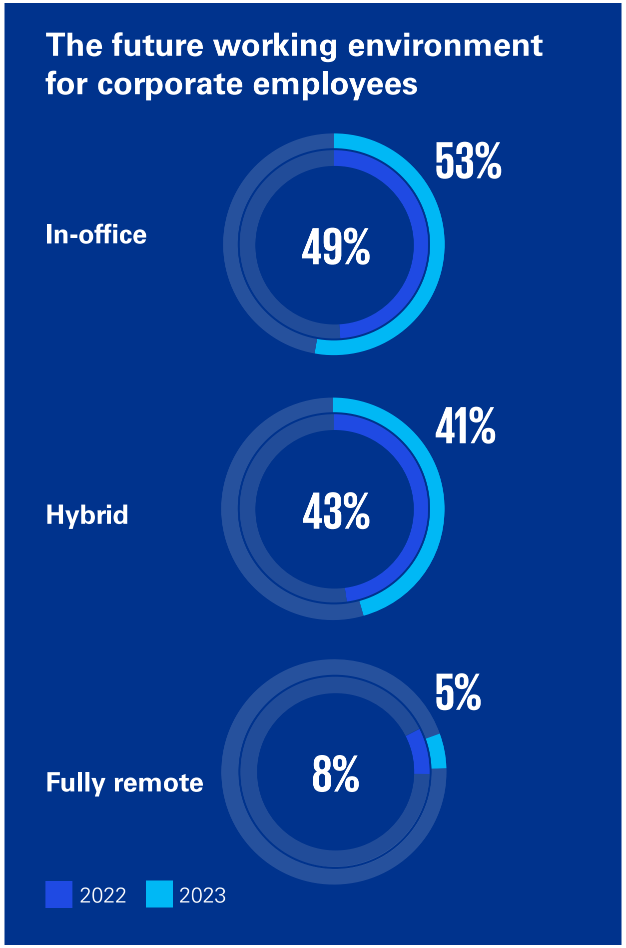
This drop is perhaps a sign of the economic challenges, but also the expected impact of AI and automation — although, rather than lay-offs, this is more likely to involve moving people away from manual, repetitive tasks into more value-adding roles, with an emphasis on upskilling and training.

One of the key issues to get right moving forward is the working model employed in the organization. During and in the aftermath of the COVID pandemic, remote and hybrid working became widespread — but during 2023 there has been an increasing trend back to the office. Now, 53 percent of CEOs envisage that the working model in three years' time will be in-office, while 41 percent foresee the continuation of hybrid working. Only 5 percent give their backing to a remote model.

What is more, almost all CEOs (98 percent) say that employees who come to the office are likely or very likely to be rewarded with favorable assignments, rewards, promotions or salary increases — perhaps the clearest indication of the future direction of travel.

In terms of managing the top team, insurance CEOs place value in having a collaborative leadership style. Nearly two-thirds (64 percent) agree that a collaborative style with shared management and operational responsibilities enables greater success. Seventy-seven percent also say that the rapidly changing environment has changed how they think about succession planning.

CEOs are also prepared to stand up for the brand they represent — with 80 percent saying they are ready to take a stand on behalf of their organization on issues that may conflict with their personal beliefs.



Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)

“However much insurance organizations automate processes and embed AI, their people remain critical to success. Deploying the right working model is therefore key, and we have reached a fascinating point in the debate. How far do leaders push the in-office return? While this may be dependent on the role and function, we may see that, over the years ahead, the younger generation will decide.”

Frank Pfaffenzeller
Global Head of Insurance
KPMG International

Insurance CEO priorities

The KPMG 2023 CEO Outlook highlights that leaders have responded to uncertainty with a purpose-driven, resilient approach, re-evaluating strategies and adopting collaborative leadership. While there are profound challenges ahead, for the right leaders this provides an opportunity to steer economies and society in the right direction — together, for better.

As insurance CEOs move their businesses forward through a complex landscape, here are some steps they can take to help improve resilience.

Exploring opportunities for growth

Technology

- Use technology to enhance how the business services customers and meets their needs — traditional insurers should learn from and, where applicable, collaborate with new entrants and insurtechs
- Embrace generative AI in a way that is ethical, makes the most sense for the business and keeps the needs of employees and clients at the forefront
- Keep an open mind about the best use cases for generative AI — we are at the start of a journey and agility will be key
- Stay up to date with cyber-attack strategies to limit the business exposure to risk

Talent

- Take a long-term view when it comes to employees' desire for hybrid or remote working to help ensure that talent is nurtured and supported
- Whatever policy is adopted, make sure the requirements are clear and understood
- Invest in upskilling for staff so they engage with new technology tools and see the expected benefits of new ways of working
- Set the tone at the top. Senior leadership should make IDE a stated priority, set real targets, fund initiatives and appoint management to lead programs with clear accountability

ESG

- Position ESG as a driver for value creation when it comes to business growth, rather than as a risk to be managed. New avenues open when ESG is considered in the growth conversation
- Stay attuned to shifting ESG regulations to help maintain the business' brand reputation and client relationships
- Focus ESG investments on areas that are in line with the values of the business and that matter to customers and stakeholders. Businesses need to understand their customers, not just in terms of what they buy, but what their sentiment is too
- Recognize that commercial and ESG objectives are increasingly moving closer to each other — look for ways to bring both elements together in the organization's accounts and reporting, presenting a unified and holistic view

Methodology

About the KPMG 2023 CEO Outlook

The 9th edition of the KPMG CEO Outlook, conducted with 1,325 CEOs between 15 August and 15 September 2023, provides unique insight into the mindset, strategies and planning tactics of CEOs.

All respondents have annual revenues over US$500M and one-third of the companies surveyed have more than US$10B in annual revenue. The survey included leaders from 11 markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, UK and US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications).

NOTE: Some figures may not add up to 100 percent due to rounding.

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