

Insurance Practice

# 2022 outlook: Setting a course for the coming decade

A new year has begun—and so has the time-honored tradition of vowing to make the most of it. But a new year's challenges have rarely been so extensive in a situation so uncertain. That's why taking decisive action now and setting the right course for success is so important—not just for 2022 but also for the coming decade.

*by João Bueno, Tanguy Catlin, Ulrike Deetjen, and Johannes-Tobias Lorenz*



**Many of us had a chance to relax** as 2021 wound down. The insurance market seemed quiet then, too: growth in 2021 was steady at 2 percent, and the feared drop in profits due to COVID-19 did not fully materialize. Insurtechs may be innovative, but they are still a relatively small share of the market. And while the A-to-Z list of insurers has grown enormously—covering not just “Allianz to Zurich” but also “Amazon to Zhong An”—the industry has been spared a true shake-up so far.

### **A deceptively calm market**

But the insurance industry’s apparent calm is misleading. Polarization between winners and losers is under way, regardless of whether you look at gross premiums, earnings, or cost ratios. Digitalization plays a central role in this development. Customers who are accustomed to digitally enabled convenience with other products and services in their life expect it from their insurers, too—and a digitalized value chain is key to competitive prices, efficiency, and speed. Opportunists from other industries and regions understand this and are seizing on their advantages in these areas to enter the market.

Moreover, the start of the new year has been filled with uncertainty. How will COVID-19 develop? What changes will we face as we progress through additional Greek letter–monikered variants, and what will our evolving response mean for health insurers and for commercial insurance? How will the continued low interest rate environment and regulatory changes shape the future of life insurance? What consequences will inflation, the chip crisis, and a weak automotive business have on motor insurance providers?

### **A series of clear starting points**

Despite the uncertainty, there is some good news: there are many positive steps insurers can take to set a course for a more successful future—regardless of what that future brings.

**Be truly customer-centric:** Everyone talks about having a customer focus, but few implement it successfully. Across the industry, customers say their central concerns are getting good value for their money (54 percent), convenience (48 percent), and—especially among Generation Z respondents—fairness (24 percent). Insurers need to focus more on solving relevant problems: insuring customers against life-changing circumstances; recognizing these circumstances during the sales process and advising customers appropriately; and resolving claims quickly, easily, and fairly. And a hybrid approach is key to customer centricity. Even before COVID-19 hit, 84 percent of respondents in Germany said they used digital insurance channels.

### **Rigorously expand analytics and automation:**

Major technology trends are changing the world. In five years, the average insurer will have lowered costs by 25 percent, while savings for those in the top quartile will reach up to 40 percent. Insurers should also use analytics and automation to tap attractive market potential by providing customers with the right product for their situation over the right channel at the right time. The road to the future leads in that direction and beyond to ambitious destinations such as the personalized insurance engine.

### **Develop real product innovations:**

Standardized products are trending, creating simpler ways to package more complex life insurance products for today’s low-interest environment and making new approaches possible. But other factors are also driving innovation: environmental, social, and governance (ESG) factors that consider climate change; broad coverage for natural-disaster damage in the wake of extensive flooding in the summer of 2021; the effects of “long COVID” on health and disability insurance; COVID-19 travel-protection coverage; battery coverage in motor insurance; and cyber insurance in a more digital world. All of these considerations are shaping not only products themselves but also prevention and assistance services and new pricing approaches for innovative technologies.

**Occupy an optimal position in the ecosystem:**

It's an open secret that major international tech companies are lining up to get a piece of the insurance market. And the percentage of customers who are willing to buy insurance from tech companies jumped from just 7 percent in 2016 to 44 percent in 2020, thanks in part to the challenges of COVID-19. To compete, traditional insurers must act fast to rigorously optimize their digital services from a customer perspective and seamlessly integrate the digital customer interface into the relevant ecosystem.

**Shape the new world of work:** The COVID-19 crisis has changed the nature of day-to-day work. Hybrid working models are emerging in every industry, with many decision makers reporting that bringing staff back to the office is a “difficult

road” and nearly half saying they face challenges in attracting new talent. Insurtechs, which received funding of more than €10 billion in the first three quarters of 2021 alone, offer digital trailblazers plenty of career opportunities. Insurers need to strike a new balance between providing flexibility to employees and having them on site, as well as between recruiting people with needed skills and broadly building capabilities.

---

Real transformation takes time, and insurance companies need to set a course now for a secure future. What they tackle in 2022 will determine their direction for the entire decade to come.

**João Bueno** is a senior partner in McKinsey's São Paolo office, **Tanguy Catlin** is a senior partner in the Boston office, **Ulrike Deetjen** is a partner in the Stuttgart office, and **Johannes-Tobias Lorenz** is a senior partner in the Düsseldorf office.

Designed by McKinsey Global Publishing  
Copyright © 2022 McKinsey & Company. All rights reserved.

**Contact**

**João Bueno**  
Senior partner, São Paolo  
Joao\_Bueno@McKinsey.com

**Tanguy Catlin**  
Senior partner, Boston  
Tanguy\_Catlin@McKinsey.com

**Ulrike Deetjen**  
Partner, Stuttgart  
Ulrike\_Deetjen@McKinsey.com

**Johannes-Tobias Lorenz**  
Senior partner, Düsseldorf  
Johannes-Tobias\_Lorenz@McKinsey.com