

Navigating the Future

Five P&C Insurance Industry
Trends and Challenges

Overview

The property and casualty (P&C) insurance industry finds itself navigating a landscape fraught with complexities. Escalating loss frequencies, inflationary pressures, and a constricted reinsurance market have collectively ushered in an environment that demands strategic agility and more innovative responses.

In recent years, the industry has experienced a concerning increase in the frequency and severity of losses due to natural catastrophes. Climate change, declared a 'code red' emergency by the UN, threatens to further exacerbate these challenges. Yet, the hurdles don't end there. The auto insurance sector is also grappling with historically elevated loss ratios, reaching its highest combined ratio in nearly half a century. These trends stand as prime examples of the transformative shifts impacting the industry.

This report delves into today's critical imperatives confronting the insurance sector. It explores how the industry plans to address the challenges posed by the climate crisis and adapt to the changing dynamics of the auto insurance market. Additionally, it examines the strategies that may be employed to rebalance risk and extract maximum value from the wealth of data becoming available to insurers.

This report makes it clear that the insurance sector and individual insurers must innovate in these areas to drive greater efficiency and resilience.

1

Climate Change

“The ‘code red’ emergency of accelerating climate change demands immediate action from the insurance industry. Embracing technological innovation, like geospatial analytics and predictive analytics, is paramount to revolutionize risk assessment processes to proactively address the escalating threats posed by climate change and extreme weather events.”

— Laura Drabik

Increased strategic focus on mitigating climate change risks

BY LAURA DRABIK, Chief Evangelist, Guidewire

“The rate of climate change surged alarmingly” over the past decade, according to a [December 2023 report](#) from the World Meteorological Organization (WMO) – which, according to the UN Environment Programme, poses a ‘code red’ emergency for the world. It is also a code red for the insurance industry.

As concerns about the impacts of climate change intensify, insurers are increasingly prioritizing strategies to identify and mitigate related risks.

Insurers can start this journey by rethinking their risk assessment processes. A [report by the consulting firm McKinsey](#) recommends that insurers use their annual policy cycle and their understanding of evolving risks to reprice and rearrange portfolios to avoid long-term exposure to climate events.

To do so, insurers need a more current and accurate understanding of risk in order to price it profitably or avoid it altogether. [Geospatial analytics](#) is one technology that can help achieve that objective. When integrated with an insurance core system platform, solutions from companies like Betterview and Cape Analytics leverage

aerial imagery, computer vision, and predictive analytics to assess property risk instantly, on demand. Guidewire’s [HazardHub](#) can analyze and distill data from national sources to catalog risks that may damage or destroy property. It returns a risk score that insurers can use to determine whether they have an appetite for a given risk and under what conditions.

In confronting the ‘code red’ emergency of accelerating climate change, the insurance industry must embrace technological innovation, such as geospatial analytics and predictive analytics, to revolutionize risk assessment processes and proactively address escalating climate and extreme weather-related threats.

Dive deeper by reading [Placing a Strategic Focus on Mitigating Climate Change Risk](#)

\$122B

Total insured losses worldwide from weather-related natural catastrophes last year. (Swiss RE)

250%

Rise in economic losses over the past three decades due to climate change. (Capgemini)

60%

Percent of insurance risk managers that “fear climate change would make certain geographic areas uninsurable.” [\(AXA and The Council on Foreign Relations\)](#)

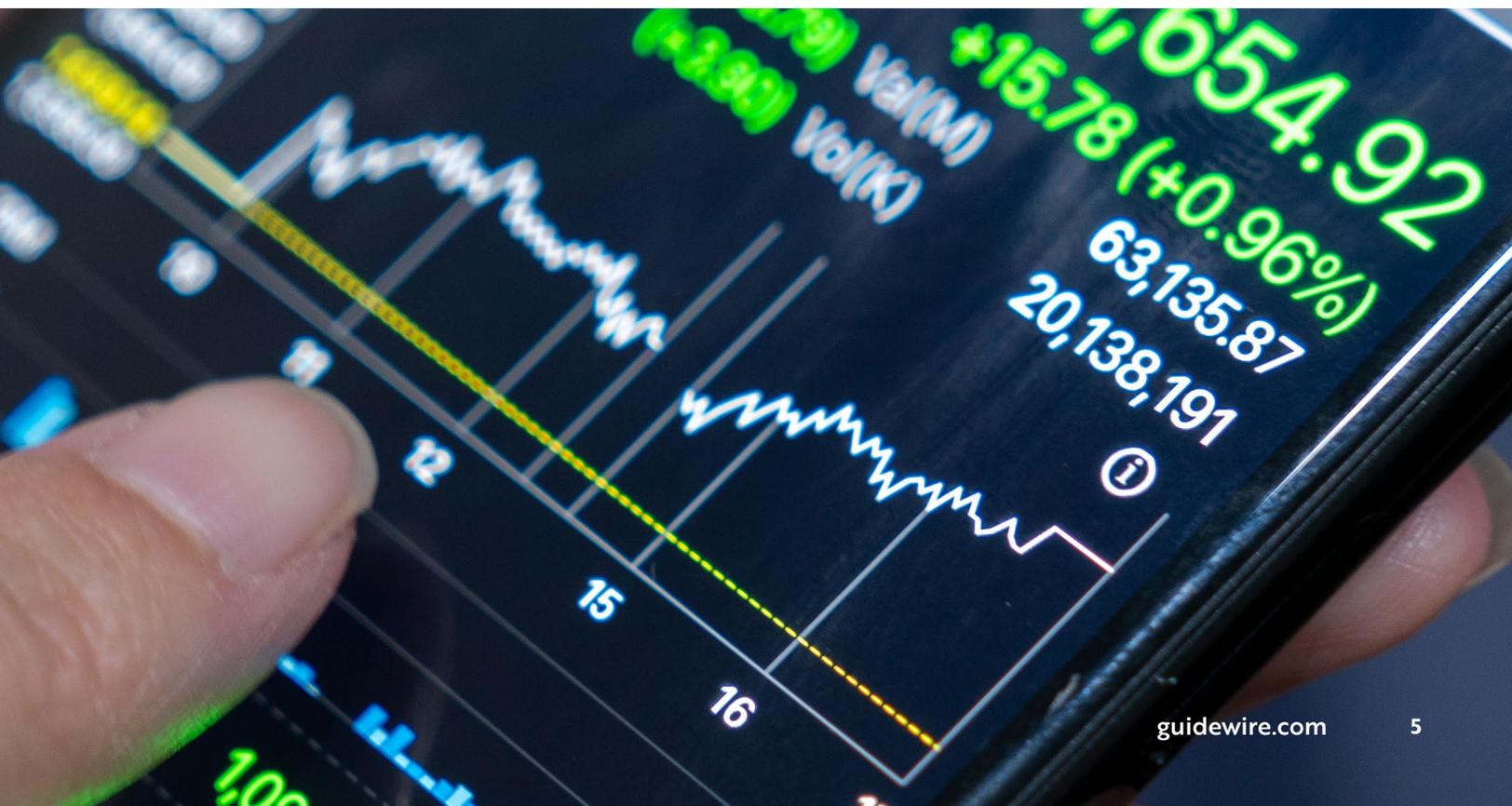


2

Rebalancing Risk

“In the face of the challenging operating environment marked by inflation, increased loss severity, and a constrained reinsurance market, the P&C insurance industry must urgently rebalance risk. The need for greater innovation in risk and portfolio management is clear; advanced analytics and cloud-based platforms are the key to navigating with agility and building greater resilience in this complex landscape.”

— John Mullen



Achieving a more sustainable insurance market

BY JOHN MULLEN, President and Chief Revenue Officer, Guidewire

The property and casualty insurance industry is grappling with a complex operating environment spurred by inflation, rising loss severity, and a constricted reinsurance market. This has led to pricing increases, greater volatility, and financial risk. Macroeconomic and investment performance challenges add further complexity to the landscape.

Consequently, some P&C insurers have withdrawn from key markets or restricted terms, underscoring the pressing need for the industry and individual insurers to take steps to rebalance risk. This issue transcends the P&C industry: policymakers, regulators, and insurers must work collaboratively to create an insurance market that is better equipped to serve consumers sustainably.

Insurers, individually and collectively, must embark on a journey to innovate and improve risk and portfolio management to meet the challenges of the current risk landscape.

Advanced analytics and modern portfolio management technologies can provide the adaptability and intelligence needed to navigate uncharted terrain and emerge with greater resilience.

\$120B

Losses from natural disasters covered by insurance last year. (Munich Re)

36%

Jump in homeowners insurance premiums since 2018. The average homeowner's premium has reached \$1,700 in 2023 reflecting a 10% increase over 2022.

100.8%

US P&C Insurance Market combined ratio for 2023. (S&P Global Market Intelligence)



3

Auto Insurance

“In the fast-evolving auto insurance landscape, rising repair costs and the influx of advanced vehicle technologies are reshaping the market. As the market evolves, adaptation and innovation become imperative. Insurers must embrace change swiftly and capitalize on new opportunities. Doing so will help them build more efficient underwriting and claims processes, personalize policies, and drive cost savings for them and their customers.”

— Michael Anderson



Racing to the Future of Auto Insurance

BY MICHAEL ANDERSON, Industry Advisory Lead, Guidewire

The auto insurance market is undergoing rapid evolution driven by technological, market, economic, and climate shifts. Insurers have seen dramatic increases in loss costs due to the technical complexity of today’s vehicles, increased part prices, supply chain issues that impact cycle times, as well as more frequent weather events.

These challenges are further compounded by emerging technological trends such as vehicle connectivity, telematics, and the increasing prevalence of electric and autonomous vehicles, presenting both opportunities and complexities for insurers. Notably, consumer pricing is a significant concern, with a steep 15% increase in auto insurance prices last year.

This surge necessitates reevaluating pricing models, pushing the market towards more personalized policies – and Usage-Based Insurance (UBI) and telematics to tailor premiums based on individual driving behavior, fostering more accurate pricing for consumers.

Moreover, the advent of autonomous vehicles introduces a paradigm shift in liability within the auto insurance landscape. As cars become more autonomous (Level 2 & 3), the responsibility for accidents may see some shifts from drivers to technology, hardware, or software providers. The evolving scenario prompts the need for clarity on liability assignment, the development of insurance products, and new claims processes specific to autonomous technology. Collaboration between automotive, insurance, and regulators is anticipated to increase to address these emerging concerns effectively.

Concurrently, the integration of Advanced Driver Assistance Systems (ADAS) into insurance models brings changes to the market and offers proactive approaches to reducing accident rates and related claims. As ADAS data becomes a standard part of insurance assessment, insurers are encouraged to adopt AI and predictive analytics to enhance risk evaluation, understanding the impact this technology has on claims frequency and repair costs. However, concerns over data ownership and privacy and ensuring system accuracy must be navigated.

In this dynamic environment, insurers must expedite their ability to adapt and innovate, incorporating strategies such as UBI, telematics, and vehicle data integration. Embracing these changes swiftly will help build more efficient underwriting and claims processes and facilitate the transition towards more personalized policies, cost savings for consumers, and increased competitiveness in the evolving auto insurance market.

Read more about [The Future of Auto Insurance](#)

17%

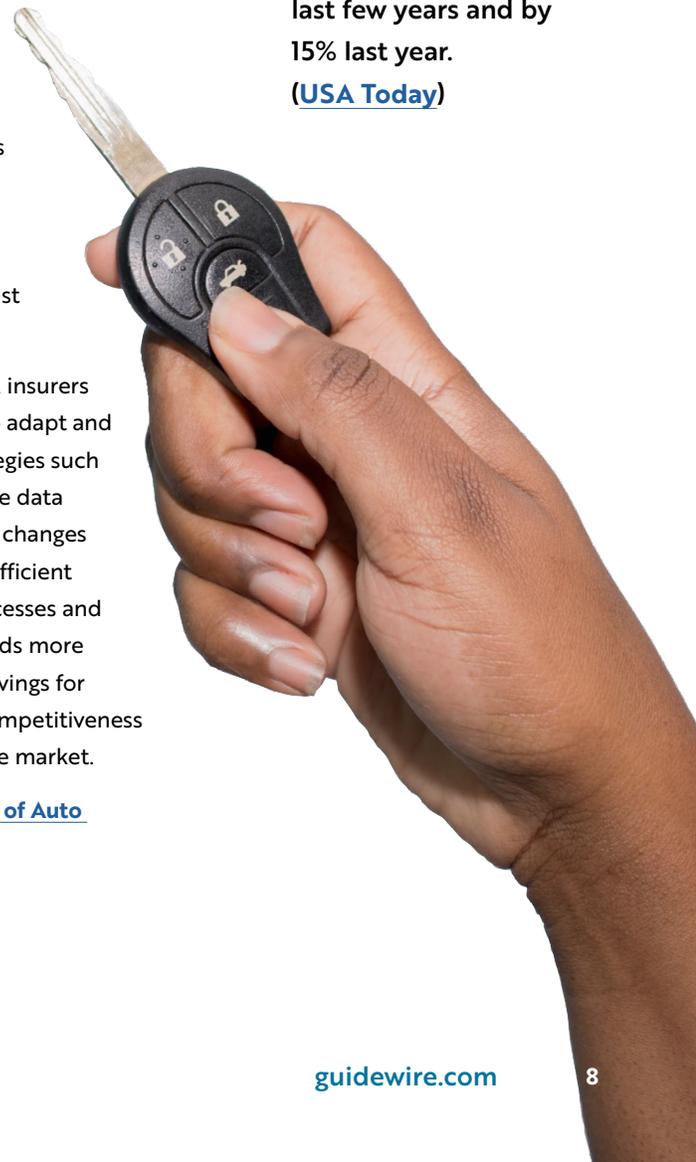
The cost of auto vehicle repairs rose 17% in 2023. (Federal Reserve Bank)

30+

Most new cars and trucks have more than 30+ sensors. (CBT News)

15%

Auto insurance prices have risen steadily the last few years and by 15% last year. (USA Today)



4

Data Wealth

“In the ever-evolving landscape of P&C insurance, the challenge of being data-rich yet information-poor persists. Insurers must revolutionize their approach to sourcing, interpreting, and standardizing market and risk data. Next-generation data and analytics, integrated and embedded into workflows, are essential to unlocking the full potential of data wealth.”

— Mike Quintal



Leveraging data wealth for customer and risk intelligence

BY MIKE QUINTAL, Director, Go to Market Strategies, Guidewire

P&C insurers are confronted with a paradox: despite being data-rich, they often face challenges accessing the right information at crucial points in the insurance lifecycle. The abundance of granular data available presents an opportunity to enhance risk assessment, but traditional data and analytics approaches are becoming outdated in the rapidly evolving landscape of technology and data availability.

In this context, best-in-class insurers excel in three vital aspects. Firstly, a robust data strategy focusing on acquisition, processing, and integration becomes paramount. Embracing diverse data sources, including IoT data for residential properties and telematics data for automobiles, ensures preparedness for evolving market dynamics. Cloud-based APIs emerge as a key enabler, allowing the seamless integration of new data into core workflows.

Secondly, the adoption of next-generation analytics is crucial for effective risk selection

and pricing. Insurers often grapple with data sourcing and risk model management challenges, unaware of available solutions to address these issues efficiently. Embedding analytics into workflows emerges as a critical success factor.

Embracing a comprehensive data strategy, leveraging advanced analytics, and seamlessly embedding insights into workflows are imperative for P&C insurers aiming to thrive in the dynamic market that lies ahead.

20x

Insurers who boldly innovate, create significantly more value than their peers. On average, these “market shapers,” create profits up to twenty times the industry average. (McKinsey)

60%

The percentage of P&C insurers reporting increased sales and profitability through analytics technologies. (Willis Tower Watson)

5-10%

The increase in retention rates in profitable segments made possible through modern data analytics capabilities. (McKinsey)



5

Interconnectivity

“It’s time to prioritize the seamless future of insurance. It’s time to embrace the full potential of our interconnected ecosystem.”

— Chris Cooksey



Towards a Seamless Future: Interconnectedness in the P&C Industry

BY **CHRIS COOKSEY**, Senior Director of Advanced Analytics, Guidewire
and **CHARLES CLARKE**, Group Vice President, Guidewire Analytics

Interconnectivity and interoperability are emerging as a crucial trend in the P&C insurance industry, driven by the industry's digital transformation. Despite heavy investments in digitization and analytics, the lack of enhanced inter-company systems interoperability poses a significant challenge. The insurance sector, effectively built on information and historical data, is uniquely positioned to benefit from seamless connectivity and data sharing among stakeholders. The industry operates as a vast interconnected network, moving risk exposure and capital globally through a complex web of insurers, reinsurers, and intermediaries.

Digitization promises increased efficiency, enhanced customer experiences, and growth opportunities. However, a comprehensive digital strategy must prioritize seamless communication among industry peers and partners. Systems interoperability, or the ability to efficiently exchange granular risk information, models, analytics, and insights among partner entities, is essential for overcoming this hurdle.

To prepare for the future, insurers must focus on five key elements: (1) consuming external and internal data effectively, (2) analyzing data for insights, (3) driving

decisions and changes in workflows, (4) modernizing customer interfaces, and (5) creating efficient inter-company communications.

Without interoperability, the industry's digital infrastructure will fall short of its potential. Insurers should prioritize interoperability in their digital strategies to unlock the full potential of digitization, foster collaboration, and address evolving customer needs in an interconnected insurance ecosystem.

Learn more by downloading the white paper: [**Do You Really Have a Digital Strategy?**](#)

80%

Of insurance companies report an interconnected or aligned insurance organization as a high-priority. (KPMG)

29% vs. 48%

Only 29% of 'mature' insurance firms are achieving success with their interconnectivity programs vs. 48% of 'mature' companies across all other industries. (KPMG)

Conclusion

The P&C insurance industry faces significant challenges but also significant opportunities. From rising loss frequencies to the climate crisis and auto insurance transformation, insurers will navigate a complex landscape. Guidewire executives will delve deeper into these topics throughout the year, engaging in discussions and producing insightful content. Stay tuned for our insights on these and other evolving issues, such as Digital Twins and Generative AI.

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