

P & C Insurance Industry in America – an Overview

White Paper

By

Sharpedge Solutions, Inc.
2728 Forgue DR, STE 106
Naperville, IL 60564
630 792 9639 (W)
630 792 9636 (F)



Executive Summary:

The top 25 insurers control more than 75% of the market share, and have been showing consistent growth. This paper explores the current and upcoming challenges and opportunities that the P&C industry faces and makes suggestions for imbuing strengths and capabilities to meet them. It also discusses the impact of latest technology on the industry’s strategic operations and opportunities. There are however several challenges that are emerging in the form of economic and political instabilities, environmental challenges, changing consumer behavior, technological advancements, and regulatory and financial reporting requirements. The P&C industry also faces an immense challenge from a burgeoning shared economy, which it can no longer afford to overlook. The future trends in the industry included growth in insurance tech investments, increased assimilation of technology like cloud delivery systems, Artificial Intelligence, Internet of Things, and enhanced focus on shared economy opportunities.

Industry Overview:

According to the data from National Association of Insurance Commissioners, the top 25 insurance companies (property/casualty) own over two-third of the market (Caitlin, 2016). The top 25 companies have consistently shown an increase in their individual market shares as well. These same companies have shown a growth of 3.4% in their premiums from the year 2015, which comes around \$588 billion. Among these is State Farm is the biggest, with \$59.4 billion

in premiums, and a market share of 10.09%. The next largest company is Allstate, which has written \$30.1 billion in premiums, and a market share of 5.13%. Table 1 summarizes the market share and direct premiums of these 25 companies.

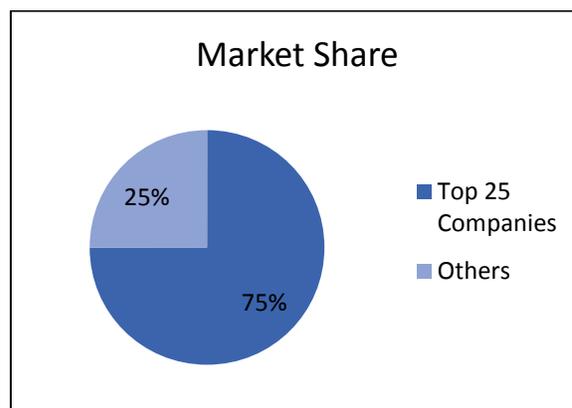


Figure 1: Market Share of Top 25 Insurers

Table 1: Table below gives all 25 companies market share by percentage.

Insurer	Market Share (%)	Direct Premium Written (Billions)
State Farm	10.09	\$59.361
Allstate	5.13	\$30.18
Berkshire Hathaway	5.09	\$29.967
Liberty Mutual	5.07	\$29.848
Travelers	3.94	\$23.2
Progressive	3.63	\$21.346
Nationwide	3.33	\$19.577
Farmers	3.24	\$19.05
AIG	3.23	\$18.997
USAA	2.85	\$16.744
Zurich	2.01	\$11.822
Hartford	1.89	\$11.135

Chubb Inc.	1.78	\$10.468
Chubb Ltd	1.72	\$10.142
CAN	1.65	\$9.696
American Family	1.23	\$7.242
Amtrust	1.21	\$7.137
Tokio Marine	1.04	\$6.121
Auto Owners Group	1.02	\$5.981
Erie Insurance	1.01	\$5.914
American Financial	0.92	\$5.417
W.R. Berkley	0.91	\$5.376
Assurant	0.85	\$4.974
QBE	0.80	\$4.7
Cincinnati Financial	0.76	\$4.464

with emerging markets showing promising growth in terms of their GDP growths, infrastructure investments as well as business activities. There has been a tepid growth in the US and Europe, as well as a relative slowdown in growth in China, impacting on the prospects of P&C companies in these areas (Hartwig, 2016). The rise of the middle class, development of real estate and construction businesses, and a booming younger population across the emerging countries makes insurance a sought-after need. However, P & C companies need to align their international business strategies with their core competencies, and have to prepare to survive the regulatory and legal environment of the target countries.

Industry Challenges: The insurance industry faces several challenges, due to external environmental changes.



Figure 1: Industry Challenges

Economic Challenges: There is a steady shift in growth patterns across the world,



Figure 2: Economy Related Challenges

Political Challenges: There is a shift toward harmonization, standardization, and globalization of the insurance sector at a global level, which could lead to greater opportunities for taking advantage of economies of scale by P & C companies. However, there is a continued resistance from the emerging nations to allow for such standardization, and they continue to operate within their respective regulations – causing

P& C companies some difficulties in aligning their products and services in each market. In addition, liquidation can be expected of the social security and welfare programs to fund the growing number of senior dependents (in developed nations as well as China), leading to investors looking for new opportunities for insuring themselves. This creates urgency among insuring companies to come up with products and services that can match the needs of these customers (Yoder, Rao and Bajowala, 2012).

There is a rise in geo-political instability, especially due to the situations created in the Middle East, as well as the penetration of terrorism across the globe, bring additional challenges to insurers to keep pace with products that can serve the new needs of protection and cover (Yoder, Rao and Bajowala, 2012). In addition, there is additional political instability created by the intermittent stand-offs between the US and Russia (Hartwig, 2016), Brexit, refugee crisis, the growth of jingoist nationalism in the US as well as emerging countries like India, and currency

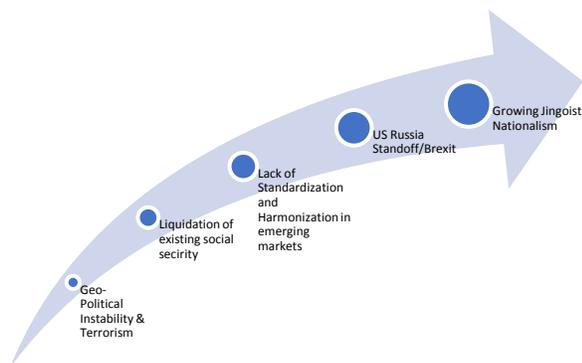


Figure 3: Political Challenges

Environmental Challenges: While environmental disasters continue, it is now

possible to conduct more accurate risk assessment for severity and frequency for such catastrophes using sophisticated technology, which makes it possible for customers to know and decide their insurance requirements. There is however a recorded rise in activity related to environmental disasters, and corresponding rise in business interruption losses. In addition, man-made pollution and environmental degradation warrant a rethink of risk assessments by the insurers (US Energy Information Administration, 2010).



Figure 4: Environment Related Challenges

Changing Consumer Needs: There are many changes in consumer needs and will be dealt here separately.

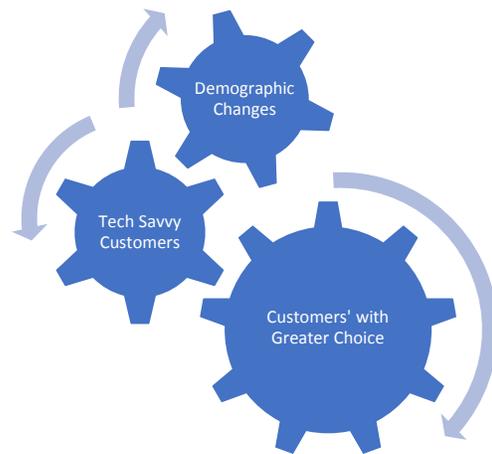


Figure 5: Consumer Driven Challenges

Demographic Changes: There is a change in the customers’ expectation due to changing demographics as more middle-aged people are at a lifecycle stage where they should care for aging parents as well as

their own growing children; there is also a shift toward the middle class's growing affluence, which makes it possible for them to own property and other fixed assets, enhancing their need for insurance products.

Shrewd Customers: Market research has revealed that businesses and 74% people tend to use insurer websites or aggregators for getting information, while 50% request quotes and 25% make online purchases. Only half of the people who intend to purchase insurance use an agent nowadays, and less than even a quarter of them use a company's call center. This makes a strong case for companies to update and properly man their websites. P & C companies are required to incorporate latest technology innovations like AI for insurance and Cloud based delivery to reach out to customers (Serowitz, 2016).

Customers Bargaining Power: Customers now have access to Internet and own computing devices according to the US Census of 2014 (Serowitz, 2016). This translates into consumers having more information available at their disposal; being aware of their choices and having the ability to compare insurance products on price and benefits. The changing demographics of consumers, with many millennials make it more likely that people reach out to the Internet, and social networking sites to obtain suggestions and clarifications on complex insurance products (Serowitz, 2016). Consumers are no longer dependent on location specific agents for obtaining information or making their purchases; this shift in consumer behavior and bargaining power places a challenge on the P & C companies to modify their approach to reaching out to customers, as well as to become more competitive.

Technology related Challenges: There is a digital transformation in almost all

industries, and the insurance industry too is facing the drift of changes brought about by latest technology and analytics. The importance of need to innovate is cited as their main concern by 67% of CEOs surveyed by PwC in 2017 (2017 Insurance CEO Survey Insurance Report, 2017). Digital technologies, Big Data analytics, and personal analytics, and sensory data, nanotechnology are now available that can drive growth, bring about a revolution in customer relationship management, and improve operational efficiencies – by bringing about a transformation in their core systems from being reactive to preventive and proactive. For this to happen insurance companies must be vigilant about Cloud Computing opportunities and Greenfield delivery scenarios, as well as the scope of deploying Artificial Intelligence (AI) to drive product innovations (Rao, Ramette and Klutts, 2017). Innovation Centers, or corporate level structures, are needed that liaison with external technology innovators and amalgamate innovations internally. However, assimilation of technology within operations also warrants threats related to cyber-attacks, consumer privacy issues and safety concerns (Hartwig, 2016).

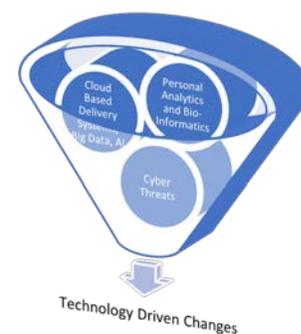


Figure 6: Technology Related Challenges

Regulatory Challenges: The new regulatory package from the Department of Labor (DOL), has set a new standard for fiduciary investment advice, and done away with the multiple standards that the advisors

earlier conformed to on suitability (instead of fiduciary) criterion. This is expected to lead to multiple level challenges for insurers, who need to safeguard against conflict of interests by remodeling their distribution channels, realign their agent's trainings in keeping with the new regulation, and be prepared to deal with future conflicts arising from the changed regulatory environment (Walsh et al, 2017).

Financial Reporting Challenges: The new guidance by FASB related to requirements of enhanced disclosures with respect to short-term contracts were issued in 2015; while the changes required in accounting for long term contracts were ushered in in 2016. The impact of these changes on P and C companies will translate to not only accounting improvements, but will also challenge them to streamline and align their HR, Operations and Risk Management Systems (Cutrone et al, 2017).

Challenges from Shared Economy: Sharing economy that increases collaborative consumption (is in the case of shared car rides, shared hospitality services and other shared resources), poses a risk to the insurance industry since they bring in new forms of business models and business risks in operations – things that the P&C companies are as yet not prepared to cater to. The challenges include developing products for covering personal properties that are deployed for commercial purposes for part time and enlisted for personal use at other times; the enhanced frequency of transactions related to the consumption of shared resources; the dynamic nature of costing and pricing that is practiced in the sharing economy; low amounts related to each transactions and the requirement to underwrite each transaction separately for low premiums; and great variance in the way the resources are utilized per transaction leading to further loss of control over assets

(Cognizant, 2016). P&C companies have also to rely on external data for assessing claims, prices, developing underwriting. The challenges related to shared economy need to be combated steadily and urgently by P&C companies, especially as the industry is currently valued at \$26 billion (2013 data) and is expected to grow to \$335 billion by 2025. Instead of shying away from shared economy assets and business risks, P&C companies need to embrace the challenge and take advantages of growing economy.

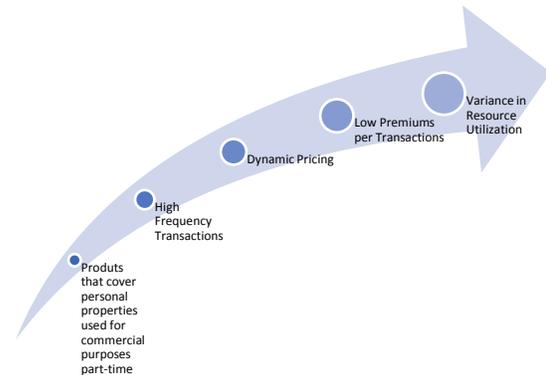


Figure 7: Shared Economy Challenges for P&C Companies

Future Trends:

- P&C companies will have to imbibe a more rapid pace for assimilation of technological innovation like InsurTech, artificial intelligence and cloud computing to improve their operational efficiencies, customer reach and reduce costs.
- The Internet-of-Things is expected to disrupt the value chain of insurance industry as data ownership, data analytics, and distribution of information and products will become more complex.
- Migration and refugee crisis can lead to further shift in demographics, and related economic and political risks leading to novel challenges for P&C companies.

- Shared economy will rapidly disrupt the insurance industry as more regulations are developed to get the intricate business models of shared economy under regulatory and insurance purview
- P&C industry will see an increase investment in insurance technology, with focus on non-health related insurance.

Bibliography:

Caitlin, B. (2016). Top 25 Property/Casualty insurance companies in the US. *Insurance Business America*. Retrieved from: <http://www.insurancebusinessmag.com/us/news/breaking-news/these-are-the-top-25-propertycasualty-insurance-companies-in-the-us-32630.aspx>

Cognizant (2016). The Sharing Economy – Implications for Property and Casualty Insurers. Retrieved from: <file:///C:/Users/Ghazala/Downloads/The-Sharing-Economy-Implications-for-Property-and-Casualty-Insurers-codex1820.pdf>

Hartwig, R. P. (2016). Future Shock: 2020 and Beyond Insurance Industry Trends , Challenges and Opportunities. Insurance Information Institute. Retrieved from: <file:///C:/Users/Ghazala/Downloads/csu-050916.pdf>

Rao, A., Ramette, F. and Klutts, K. (2017). Top Issues - Beyond straight through processing: Leveraging AI in commercial insurance. PwC. Retrieved from: [https://www.pwc-2017-insurance-top-issues-ai-commercial-insurance%20\(1\).pdf](https://www.pwc-2017-insurance-top-issues-ai-commercial-insurance%20(1).pdf)

Serowitz, A. (2016). Demographics and P & C Insurance. ITL. Retrieved from:

<http://insurancethoughtleadership.com/demographics-and-pc-insurance/>

US Energy Information Administration, 2010. Press Release May 2010. In PwC Insurance 2020: Turning change into opportunity, January 2012.

Walsh, E., Joline, C., Kaduson, J. and Belknap, J. (2017). Top Issues - DOL Fiduciary Rule – Anything but just a compliance exercise. PwC. Pdf. Retrieved <https://www.infosysbpo.com/offerings/industries/insurance/white-papers/>

Yoder, J., Rao, A., and Bajowala, M. (2012). PwC Insurance 2020: Turning change into opportunity. PwC. Retrieved from: <file:///C:/Users/Ghazala/Downloads/insurance-2020-turning-change-into-opportunity.pdf>