Life, Pensions & General

PAIN WITH A PROSPECT OF GAIN FOR EUROPEAN INSURERS

European insurers seem to be trapped in a pincer movement between regulatory change and the potential impact from sovereign debt defaults and recession-driven declines on the asset values supporting insurers' liabilities on the equity market. Low interest rates continue to impact financial resilience as life companies struggle to maintain margins and limit the impact on capital and reserves. We have already seen some insurers trying to increase product prices, some of it under the cover of changes in distribution regulation, but limited by weak consumer demand.

In this tough environment, we can see some of the key responses from the main players:

- Focusing on customer growth opportunities in a low-growth region and trying to adapt to the increased regulatory focus on consumer outcomes;
- Developing new propositions and channels, especially in the digital space, re-engineering the business model for both revenue growth and cost reduction;
- Cautiously allocating capital and maintaining adequacy levels;
- Finalizing the testing and integration of Solvency II systems and looking to tax changes that are ahead.

In 2013, European insurers will increasingly focus on improving business retention and growth. Regulatory changes aimed at improving customer transparency about products and costs will sharpen this focus, guiding insurers to re-evaluate their business models and selling propositions. This is already seeing many insurers to alter their distribution, products and services — for example, shifting away from offering investment-linked options and emphasizing protection and customer service.

In the UK, the implementation of the Retail Distribution Review has already been felt - leaving a significant regulated advice gap but a wave of new execution-only investment platforms. At the same time, Solvency II will pressure insurers to develop and market more products that shift risk to the insured and away from themselves and regulators have started to fear some consumer outcomes.

For self-directed consumers, the internet has furthered their ability to compare products and prices and obtain independent opinions before purchasing, even if they use an advisor to complete the purchase. But time-poor and cash-poor consumers see the life insurance industry as lagging other sectors, especially with regard to service delivery and rewarding loyalty. Most life firms have been slow to react to social-media challenges and to harness consumer analytics as consumer data often resides in disparate product administration systems and formats or is constrained by intermediary relationships.

So in 2013, European regulations will continue to have an important strategic and operational impact on insurers -MIFID II, PRIPs and the IMD proposals will all be on the agenda of the European Parliament this year. Although many details remain to be finalised and the necessary operational changes will vary by country, they will challenge existing distribution methods while creating opportunities to develop new models. In the meantime, firms look to cash flow control and product margin to get through the troubled times.