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Global Insurance Report 2023: Closing the personal P&C protection gap

Despite overall growth, personal P&C lines are losing market relevance and facing a growing protection gap, with a clear dichotomy between local winners and losers. What's next?

This report is a collaborative effort by Selma Belghiti, Ana Brito, Kia Javanmardian, José Miguel Novo, Sirus Ramezani, and Ashish Srivastava, representing views from McKinsey's Insurance Practice.

March 2023

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Introduction

Despite a slowdown during the height of the pandemic, personal property and casualty (P&C) insurance has seen annual growth of 3 percent since 2019. Personal lines still represent more than half of global P&C gross written premiums (GWP), but a growing protection gap in both developed and developing countries indicates that insurers struggle to design products fit for the evolving and emerging risks that modern personal-lines consumers demand.

The protection gap has a number of direct and indirect causes. In developed economies, customers' personal P&C insurance needs are changing significantly and rapidly—particularly when it comes to motor insurance, given that connected cars and the sharing economy are transforming pricing models and risk profiles. Extreme weather events are wreaking havoc, with increased flooding, tropical storms, wildfires, and droughts challenging traditional risk assessment and underwriting models in property insurance. Cybersecurity risk is on the rise, and many insurers are struggling to properly quantify risk exposure, adjust terms and conditions, and consequently win the conviction of reinsurance capacity. And e-commerce is becoming indispensable,[1] bringing a heightened risk of online fraud and theft.

Developing economies' populations also remain underinsured, with premiums largely for nonmandatory products such as homeowners' insurance still representing a small portion of people's income—mostly driven by limited purchasing power and a lack of awareness about the benefits of personal P&C protection. In Latin America, personal property insurance as a portion of income is just 0.12 percent of GDP, compared with 0.32 percent for Western Europe.[2]

The industry is growing overall, but a more granular assessment shows that locally focused scale largely defines a given personal P&C insurer's competitive stance. Regional winners are likely to continue to retain market share, benefiting from the capabilities they employed to achieve their current leadership position and from their investment capacity going forward. More globally, personal P&C insurance will join all industries in contending with inflation in the near term, putting additional pressure on margins. Inflation will also have clear implications for traditional operating models—specifically by requiring faster feedback loops between the claims, actuarial, and pricing functions. Insurers must recalibrate their products, distribution, and technical models for a customer base and an employee pool with higher standards than ever.

This is the third and final chapter of McKinsey's Global Insurance Report 2023.[3]

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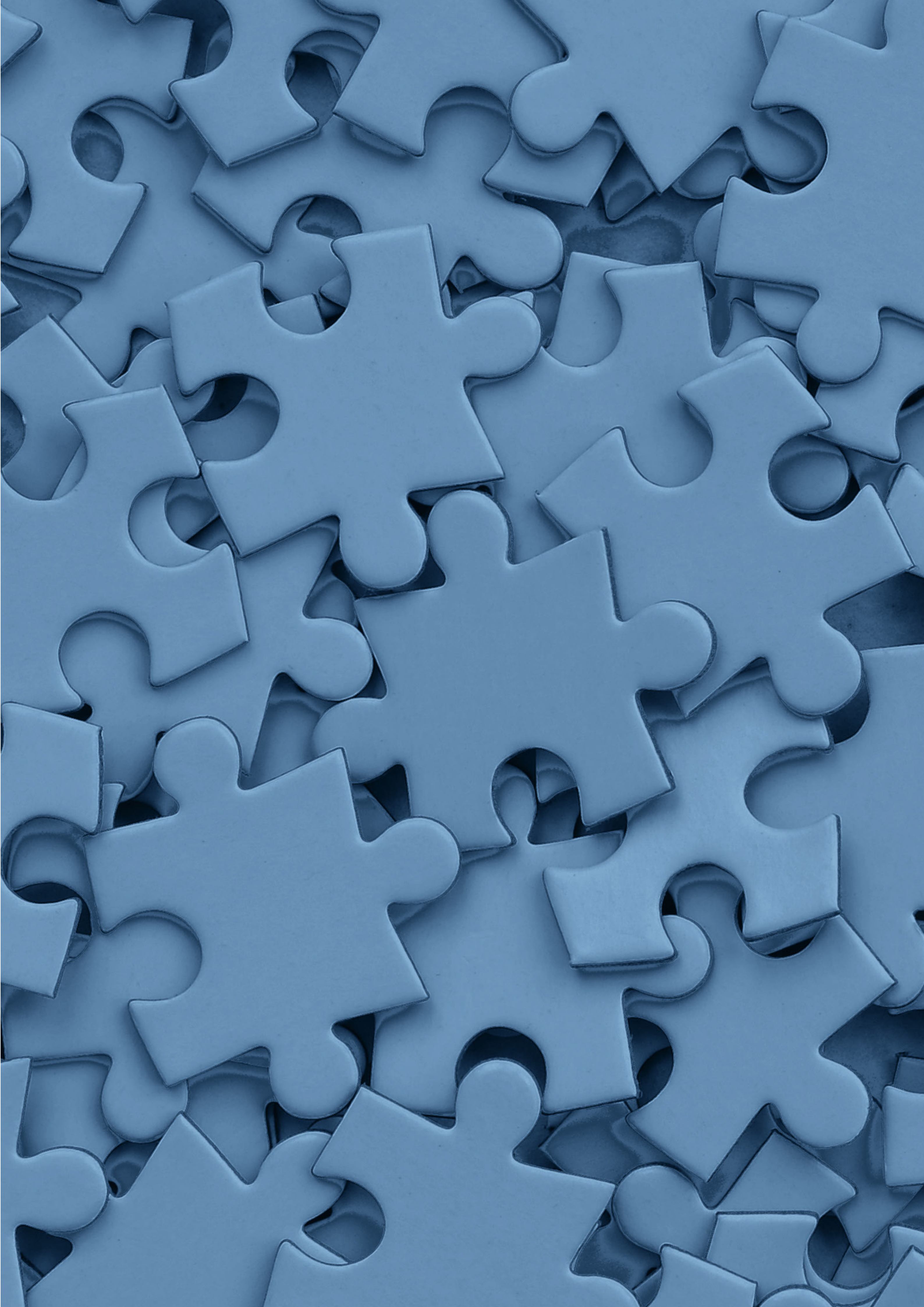
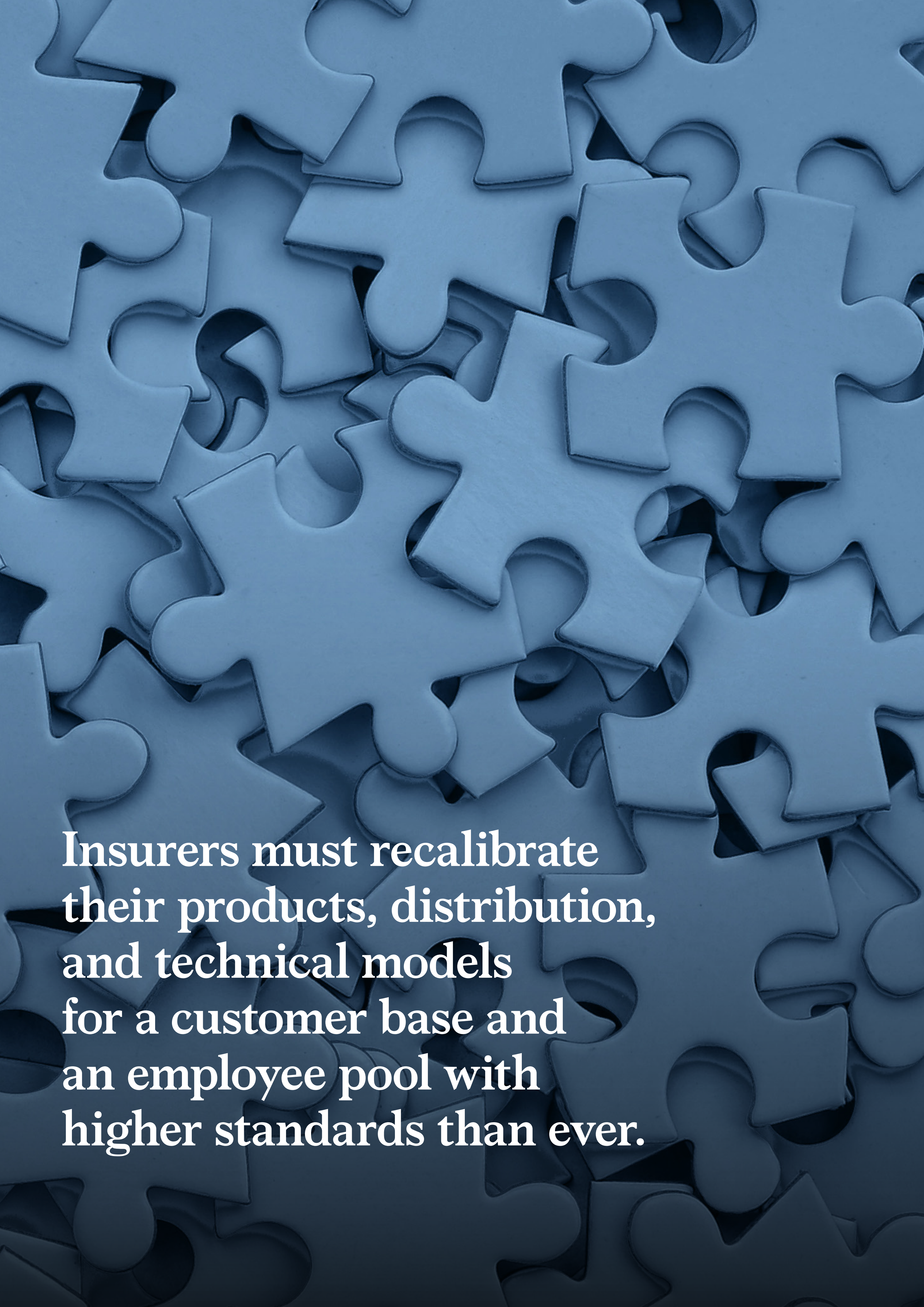
1 "Becoming indispensable: Moving past e-commerce to NeXT commerce," McKinsey, November 15, 2022.
2 McKinsey Global Insurance Pools.
3 To read the first two chapters on life insurance and P&C commercial insurance, see "Global Insurance Report 2023: Reimagining life insurance," McKinsey, November 16, 2020; and "Global Insurance Report 2023: Expanding commercial P&C's market relevance," McKinsey, February 16, 2023.





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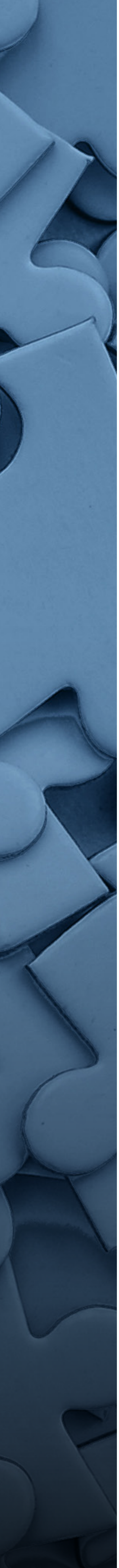


1

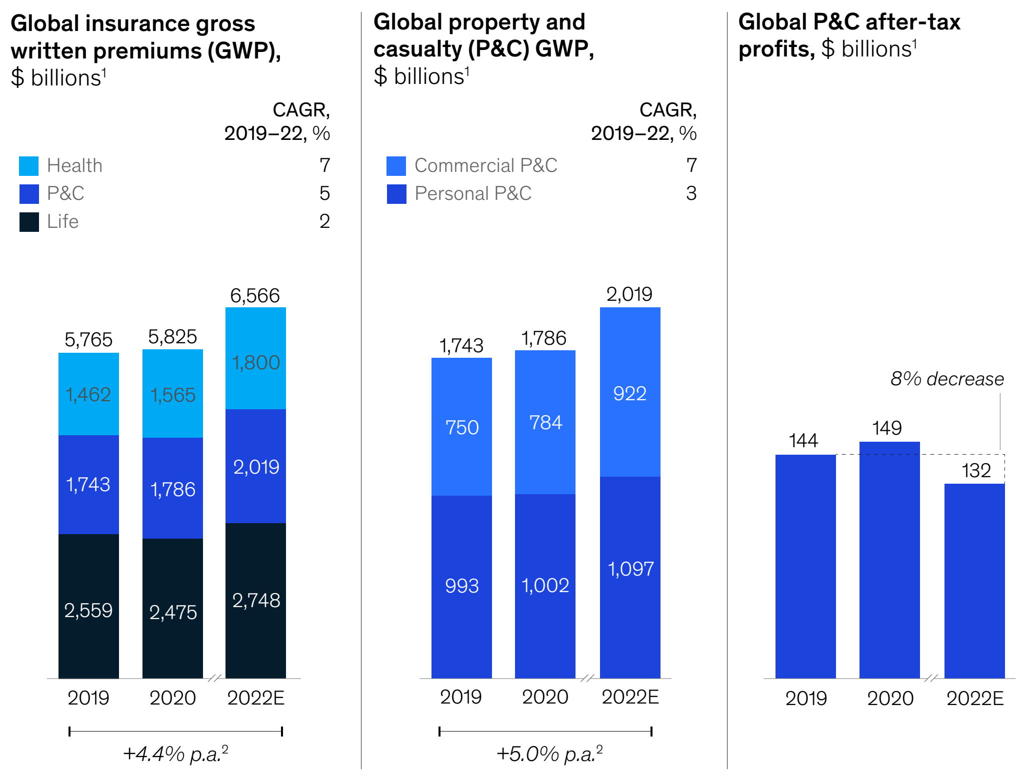
Personal P&C industry landscape

In 2022, the insurance industry surpassed $6.5 trillion in GWP, with P&C representing almost one-third of total revenues. The premium volumes of both the global insurance industry and P&C have recovered from the pandemic (Exhibit 1); however, global insurance profits still have yet to surpass prepandemic levels, and 2022 P&C profits lagged 2019 levels by about 10 percent, suffering from acute inflation.

Personal P&C insurance saw an average three-year CAGR of 3 percent from 2019 to 2022, compared with 1 percent during the height of the

Exhibit 1

The overall industry has been growing, but the growth of personal property and casualty lines has lagged behind that of commercial lines.



Note: 2022 is an estimate. Figures may not sum, because of rounding.
[1]2021 average fixed exchange rate used.
[2]Per annum.
Source: McKinsey Global Insurance Pools

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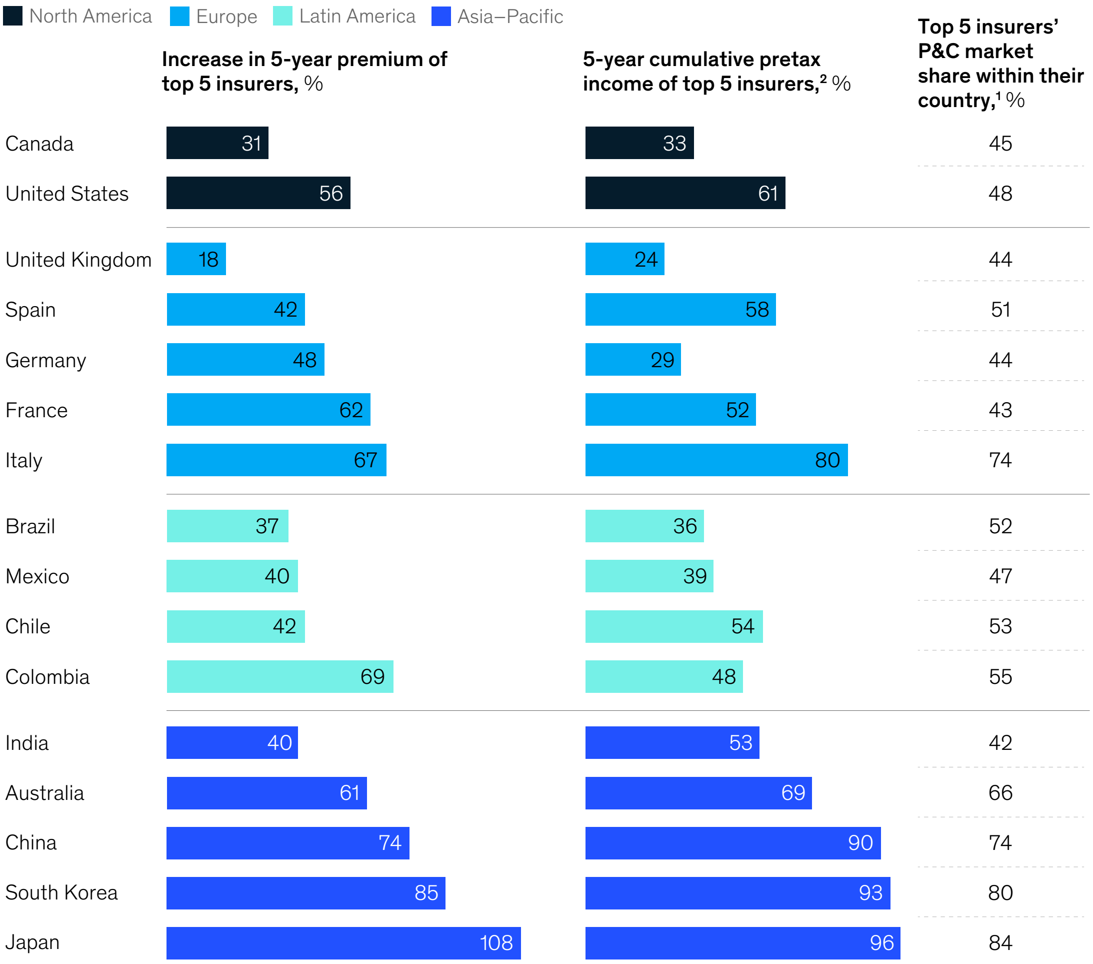
pandemic—better, but lagging P&C commercial's growth of 7 percent since 2019, fueled by rate increases.[4] Personal lines represent more than half of GWP in global P&C, but current growth and profitability headwinds constitute a clear call to change the course and regain relevance in an increasingly complex near future.

A closer look at P&C market nuances shows that personal P&C insurance remains a local game and requires insurers to have a strong presence within their specific region. In the United States, the top five insurers earn a disproportionate share of the P&C insurance growth and profitability, claiming 56 percent and 61 percent of five-year growth and pretax income,[5] respectively—outpacing their 2021 market share of 48 percent and thereby signaling an intensifying market concentration. This phenomenon is replicated across most of Europe and Asia–Pacific, with the top five insurers claiming as much as 96 percent of the past five years' profit, as is the case in Japan (Exhibit 2). Such concentration is less prevalent across Latin America and in the United Kingdom; in the United Kingdom, aggregators play a more relevant role compared with other geographies. In most places, once the next five insurers are accounted for, the remaining insurers have very little left to serve (see sidebar, "Choosing which markets to engage and invest in").

4 "Expanding commercial P&C's market relevance," February 16, 2023.
5 Total P&C insurance income in the United States, including underwriting, investments, and income from other sources, net of reinsurance.

Exhibit 2

Across most geographies, the top five property and casualty insurers capture a higher share of growth, income, or both.



Note: Based on average from 2016 to the latest year available (ie, 2020 or 2021); for the United Kingdom, data starts in 2017.
[1]Defined as the top 5 insurance carriers by gross direct domestic premiums written (GDDPW) in the latest year.
[2]Definition varies by country. For Australia, pretax income refers to 2021 pretax income only.
Source: Australia—Australian Prudential Regulation Authority (APRA); Brazil—Susep; Canada—MSA Researcher; Chile, Colombia, Mexico—SNL; China—China Insurance Yearbook; France—McKinsey Global Insurance Pools; Germany—German Insurance Association (GDV), McKinsey Insurance Database Germany; India—annual reports; Italy—Infobila; Japan—General Insurance Association of Japan, Insurance Statistics; South Korea—FSS Korea; Spain—Dirección General de Seguros y Fondos de Pensiones (Directorate-General for Insurance and Pension Funds) (DGSFP); UK—A.M. Best, McKinsey Global Insurance Pools; US—S&P Global

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Choosing which markets to engage and invest in

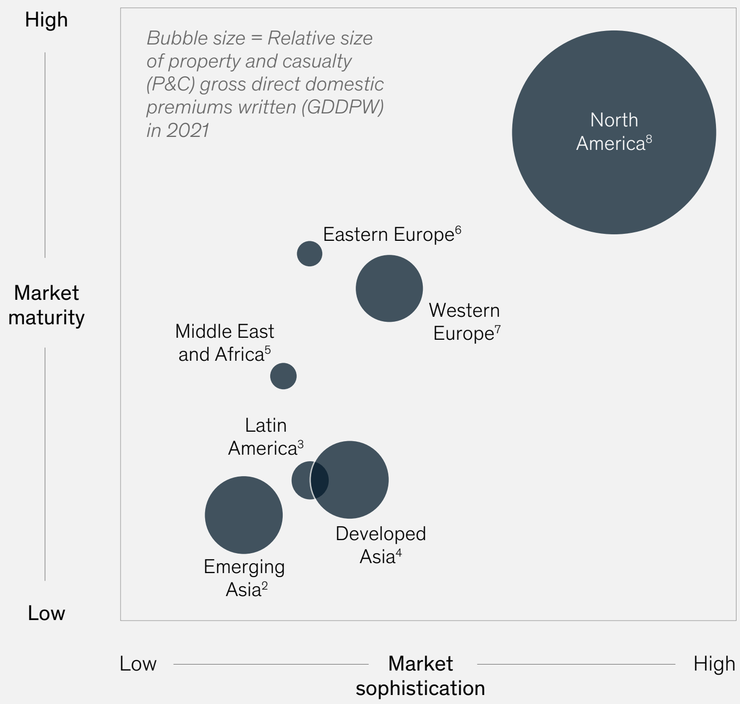
As personal property and casualty (P&C) carriers evaluate where to compete, being cognizant of the maturity and sophistication of each potential market will allow company leaders to be intentional about making geographical-footprint decisions and tailoring local strategies. According to our analysis, market maturity—defined by dividing premiums by GDP (that is, insurance penetration)—is closely correlated with market sophistication, estimated based on P&C admin ratios (that is, level of operational sophistication), level of competition, and proportion of digital sales.

What does this mean for personal P&C insurers' prospects in regional markets? To start, mature markets are typically economically developed and have lower premium growth compared with less mature markets, whose growth rates benefit from lower baselines of insurance penetration (exhibit). As an example, Latin America's insurance penetration is below that of developed Asia, Western Europe, and North America, yet the region has sustained above-average GDP growth in some relevant personal lines—namely fire and property and liability. Of course, market maturity comes with product line nuances. For example, in Asia, where overall P&C market maturity is relatively average and motor lines' penetration is parallel with global levels, nonmotor lines have yet to gain relevance, with a penetration of personal property premiums in GDP of approximately 0.07 percent (versus 0.30 percent globally).[1] By contrast, less sophisticated markets are not as operationally efficient (higher admin ratios), have less market competition, and have lower digital sales. Based on the sophistication of a specific market, the level and scope of investment required to win varies—for example, less sophisticated markets could potentially realize a more significant upside from more-traditional technical-excellence initiatives.

Exhibit

Market maturity and sophistication are highly correlated.

Market assessment[1]



[1]Only includes countries with data on market maturity and market sophistication score. [2]Includes China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam. [3]Includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. [4]Includes Australia, Hong Kong SAR, Japan, Singapore, South Korea, and Taiwan China. [5]Includes Egypt, Kenya, Morocco, Saudi Arabia, South Africa, Tunisia, Türkiye, and the United Arab Emirates. [6]Includes Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Ukraine. [7]Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. [8]Includes Canada and the United States.
Source: McKinsey Global Institute; McKinsey Global Insurance Pools

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[1] McKinsey Global Insurance Pools.

As we explore growth through the lens of product lines, it is clear that personal P&C fortunes are still led by the performance of the motor, fire, and property lines of business. Even taking into account slower overall GDP growth over the past two years, the personal P&C industry still lags behind the GDP growth rate, denoting a declining market relevance that can be seen across most regions and products (Exhibit 3). Structurally, the industry faces pricing pressures driven by high fee transparency and a large number of lower-cost options, including digital attackers. Meanwhile, organic demand for personal P&C insurance products is growing slowly in mature markets, driven largely by price increases rather than new risk-protection products or new customers—another sign of the protection gap that is threatening markets.

Exhibit 3

Personal insurance carriers are experiencing declining relevance across lines and regions relative to GDP.

Global revenues by personal property and casualty (P&C) insurance product and region, 2022E, gross direct domestic premiums written (GDDPW), $ billions[1]

2022 GDDPW — X — *Difference between premiums and GDP growth (2016–22) in percentage points (p.p.)*

Growth rates, 2016–22, p.p.: < 0 | < 1 | 1–8 | >8

	North America[3]	Western Europe[4]	Emerging Asia[5]	Developed Asia[6]	Latin America[7]	Middle East and Africa[8]	Eastern Europe[9]	**Total**
Motor	302 / *−0.5*	127 / *−1.6*	127 / *−5.0*	72 / *−1.0*	16 / *−4.9*	10 / *−11.6*	16 / *−3.2*	680 / *−2.6*
Fire and property	153 / *2.0*	68 / *−0.4*	5 / *0.4*	21 / *1.0*	6 / *1.6*	5 / *−7.7*	4 / *−1.1*	262 / *−0.4*
Liability[2]	N/A	6 / *−6.9*	2 / *2.8*	1 / *−0.6*	1 / *4.0*	1 / *−7.0*	0 / *−2.7*	10 / *−5.7*
Accident	2 / *−0.5*	28 / *−1.4*	10 / *−5.5*	42 / *2.2*	2 / *−2.6*	3 / *−8.7*	4 / *8.3*	92 / *−2.0*
Other P&C[2]	N/A	33 / *0.1*	5 / *−6.1*	11 / *−8.3*	1 / *−2.9*	2 / *−12.4*	1 / *−2.2*	52 / *−5.0*
Total	457 / *0.3*	262 / *−1.2*	147 / *−4.9*	148 / *−0.6*	26 / *−3.1*	30 / *−10.6*	26 / *−1.5*	1,097 / *−2.2*

Note: Figures may not sum, because of rounding.
[1]Average fixed exchange rate used. [2]Both Canada and the United States are 100% commercial in liability and other P&C. [3]Includes Canada and the United States. [4]Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. [5]Includes China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam. [6]Includes Australia, Hong Kong SAR, Japan, Singapore, South Korea, and Taiwan China. [7]Includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. [8]Includes Egypt, Kenya, Morocco, Saudi Arabia, South Africa, Tunisia, Türkiye, and the United Arab Emirates. [9]Includes Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine.
Source: McKinsey Global Institute; McKinsey Global Insurance Pools

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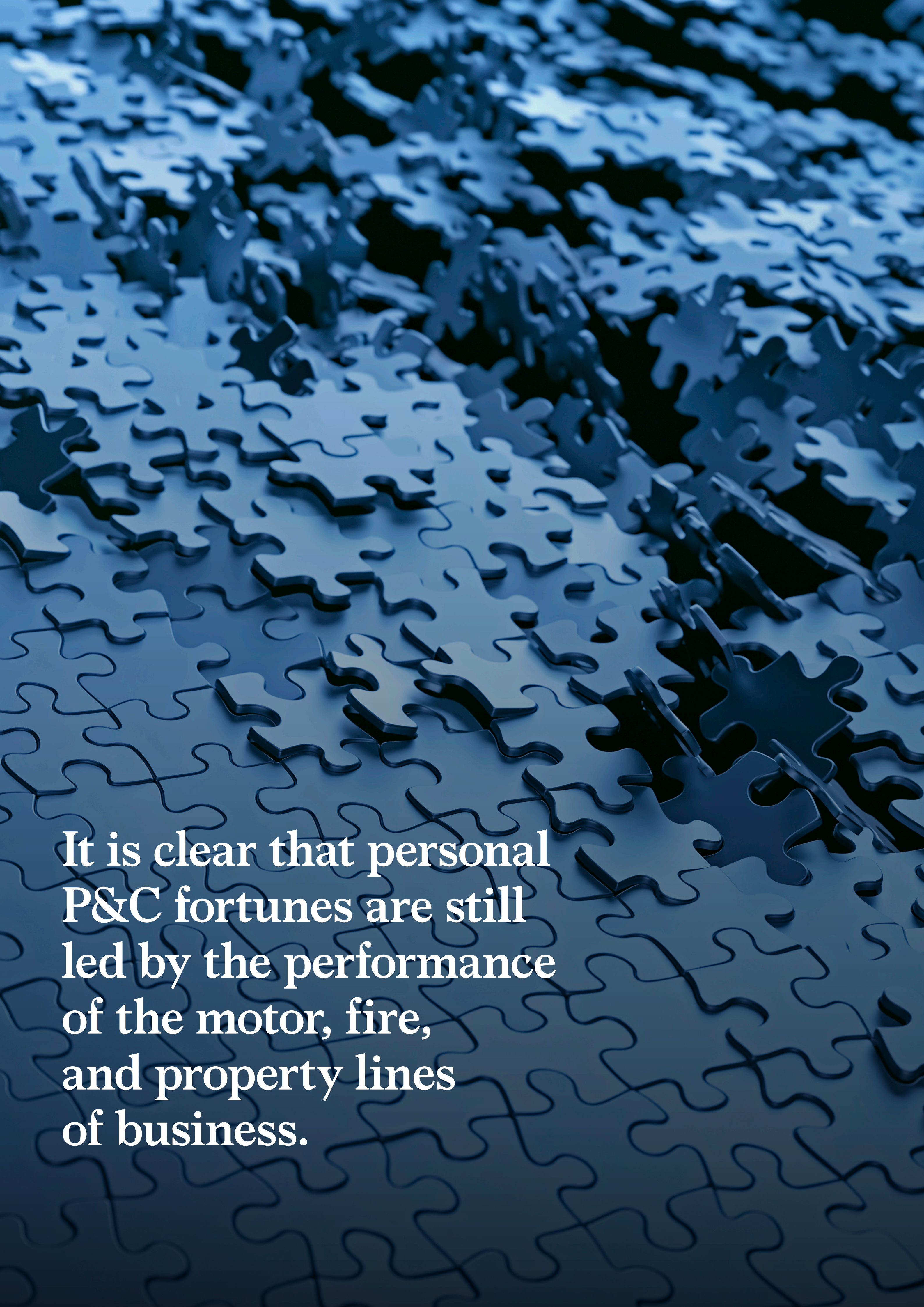


It is clear that personal P&C fortunes are still led by the performance of the motor, fire, and property lines of business.

2

Challenges facing personal P&C insurance

Despite the segment's historically strong performance and resilience after the pandemic, half of P&C insurers are not earning their cost of equity, raising questions about the long-term economic sustainability of their business models. Unsurprisingly, public markets have taken note, with more than half of listed insurance companies trading below book value over the past year.[6]

Among others, we see five main forces driving challenges for the personal P&C insurance industry—inflation, new entrants, business model and distribution innovation, mobility disruption, and an explosion of data—which should also be looked at as opportunities.

Margin pressure driven by record-high inflation

Historically, personal P&C carriers have benefited from a stable inflation environment that provided them with a longer lead time when reacting to market changes. That is no longer the case. The rapid rise in inflation—a six-percentage-point

[6] "Creating value, finding focus: Global Insurance Report 2022," McKinsey, February 15, 2022.

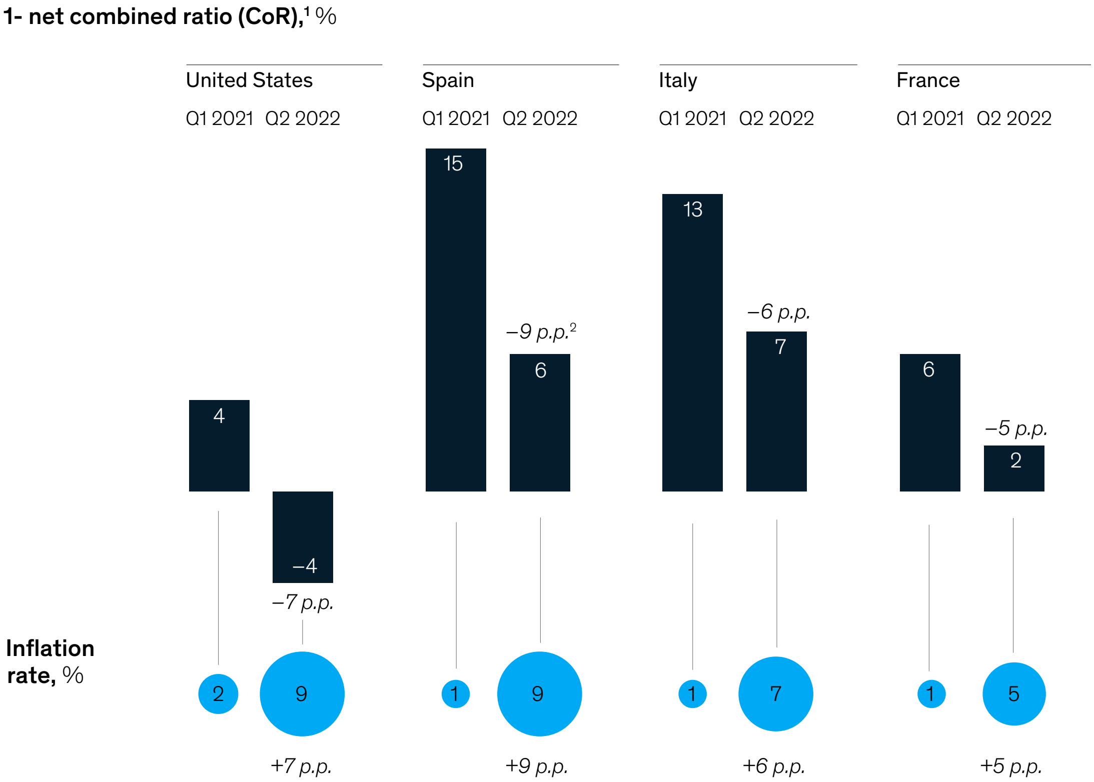
increase on average inflation across regions worldwide between 2020 and 2022[7]—is putting pressure on insurers' margins, resulting in contracting or even negative underwriting results across the industry, including for some market-leading insurers.

In the United States, the incremental impact of inflation on personal motor and property lines is estimated at $21.8 billion.[8] In Germany, P&C costs per claim have largely been in line with the consumer price index for the past 20 years, though there has been a steeper increase in claims costs recently. The adverse effect of inflation has been further compounded by insurers' inability to improve their expense ratios. From 2016 to 2021, personal P&C carriers saw a 5 percent improvement in their operating expenses. However, this improvement was offset by a 7 percent increase in IT spending during the same time, driven mainly by digitalization efforts and tech system modernization.[9] It is safe to say that insurance carriers are being hit from all directions, with increased pressure on both their loss and expense ratios.

Some insurance carriers responded to increased margin pressure in 2022 by raising premiums, but this move has not been enough to protect profitability. In several top European markets and in the United States, P&C net combined ratios increased from the first quarter of 2021 to the second quarter of 2022, as did inflation (Exhibit 4).

Exhibit 4

Inflation hikes have affected insurance carriers' productivity.



Note: Figures may not sum, because of rounding.
[1]Country-level nonlife insurance.
[2]Percentage points.
Source: European Insurance and Occupational Pensions Authority (EIOPA); OECD

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[7] "World Economic Outlook database: October 2022," International Monetary Fund, accessed February 16, 2023.
[8] Kia Javanmardian, Sebastian Kohls, Gavin McPhail, and Fritz Nauck, "Countering inflation: How US P&C insurers can build resilience," McKinsey, August 25, 2022.
[9] McKinsey 360° Insurance benchmark; McKinsey Global Insurance Pools.

Retailers, technology companies, and all sorts of industry leaders are emerging as new contenders in traditional personal P&C distribution.

While all insurers are feeling the margin pressure, not all are equally positioned to thrive. The limited number of insurance carriers that have done relatively better have stepped up not just in improving their operational performance but also in reducing latency between exposure and detection and response to weeks rather than months. The increased agility across functions (claims, actuarial, pricing, and so on) requires rapid data access and processing to enable the synthesis of multiple trends and loss indicators. Unfortunately, this is not a natural muscle for insurers given that most have historically operated in silos.

New entrants capturing the embedded insurance opportunity

Retailers, technology companies, and all sorts of industry leaders are emerging as new contenders in traditional personal P&C distribution. These competitors are partnering with insurance carriers or developing in-house insurance solutions, seeking to further monetize their customer access and relationships.

For example, retailers are increasingly embedding insurance in the sales process—and even postsale services—of electronics products; some are even building their own insurance or brokerage companies to further expand their insurance business beyond the initial embedded insurance sale. The disruption is particularly relevant in embedded car insurance because OEMs evolve by broadening their service offerings for customers and wielding their natural advantages: a network of connected vehicles and a vast trove of data, which can enable OEMs to offer "no quote" products embedded in the car sale.

Business model and distribution innovation

Some incumbents and insurtechs are driving business model innovation by treating new industry entrants as a business growth opportunity. Indeed, a number of insurtechs around the world are developing tailored value propositions to become the preferred provider for noninsurers seeking to offer insurance (that is, B2B2B propositions). Leaders in this model provide businesses with integrated solutions that can include a range of distribution channels, sales platforms, optimized services, and customer-servicing portals. These solutions also benefit from a quick and effective product development cycle, creating white-labeled products that can be marketed and sold under the partner's own brand, supported by the insurer's advanced underwriting capabilities and automated claims processes.

Simultaneously, ecosystems continue to grow in relevance as a distribution channel, even if broad adoption is still to be proven globally. We estimate that more than 30 percent of global personal lines' P&C premiums will be distributed via ecosystems by 2030.[10] As such, some players (namely in Asia) are making significant technology investments to offer customers and industries a complete set of functionalities within a digital ecosystem,

[10] Sylvain Johansson, Andy Luo, Erwann Michel-Kerjan, and Leda Zaharieva, "State of property and casualty insurance 2020," McKinsey, April 22, 2020.

which in turn provides insurers access to granular data that, with the help of AI, can enable greater personalization of product offerings, advice, and pricing.

Significant mobility disruption

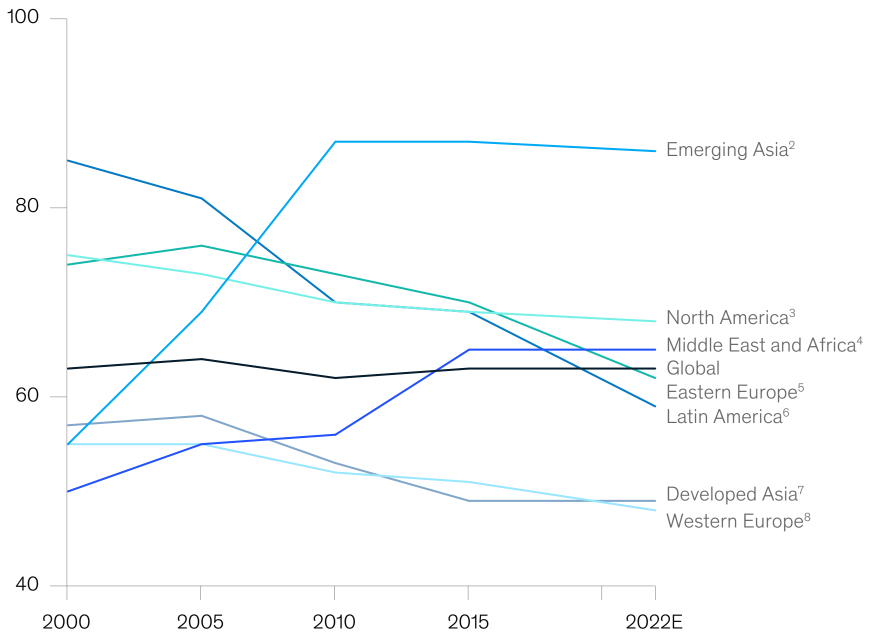
Despite significant efforts by personal P&C carriers to diversify from motor insurance, it still represents more than 60 percent of the market and is the most relevant line of business for most P&C carriers. Personal P&C carriers are eyeing mobility trends that the McKinsey Center for Future Mobility estimates could affect 25 to 30 percent of motor premium volumes.

Over the past 20 years, the share of motor insurance has been stable globally, thanks to significant growth in developing Asia, as well as in the Middle East and Africa (Exhibit 5). The growth of Asia's economies, particularly China, has contributed to a burgeoning middle class that pushed car sale growth up by a CAGR of 4 percent from 2010 to 2021.[11] Meanwhile, Latin America saw the most significant decline, driven by a drop in personal vehicle use in Brazil, as demonstrated by a decline in new-car registrations by a CAGR of 5 percent over the same period.[12] In general, personal carriers in developing economies still have an easier road to growth in the third-party liability products

Exhibit 5

Motor's share of personal property and casualty has been relatively stable globally but varies by regional maturity.

Share of motor in total personal P&C,[1] %



Note: Metrics consist of reported and estimated data.
[1]Property and casualty. [2]Includes China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam. [3]Includes Canada and the United States. [4]Includes Egypt, Kenya, Morocco, Saudi Arabia, South Africa, Tunisia, Türkiye, and the United Arab Emirates. [5]Includes Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Ukraine. [6]Includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. [7]Includes Australia, Hong Kong SAR, Japan, Singapore, South Korea, and Taiwan China. [8]Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.
Source: McKinsey Global Insurance Pools

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[11] "Passenger and commercial vehicle sales in China from 2010 to 2021," Statista, February 3, 2023.
[12] *Brazilian automotive industry yearbook 2022*, Brazilian Association of Automotive Vehicle Manufacturers (ANFAVEA), 2022.

that are compulsory in these markets and also in more complex combinations of casualty and collision (CASCO) insurance, particularly as GDP per capita continues to grow.

Mature markets and urban areas face the highest risk of seeing motor insurance lose relevance. For example, in the United States, two-thirds of consumers expect to increase their use of shared mobility over the next two years. In addition, autonomous vehicles have seen an eightfold increase in annual investments since 2017 in the United States.[13] Personal P&C carriers will need to reflect on their response, especially in terms of product innovation and competitive pricing, as well as distribution partnerships—all while also contending with new entrants such as OEMs' direct-to-consumer strategies.

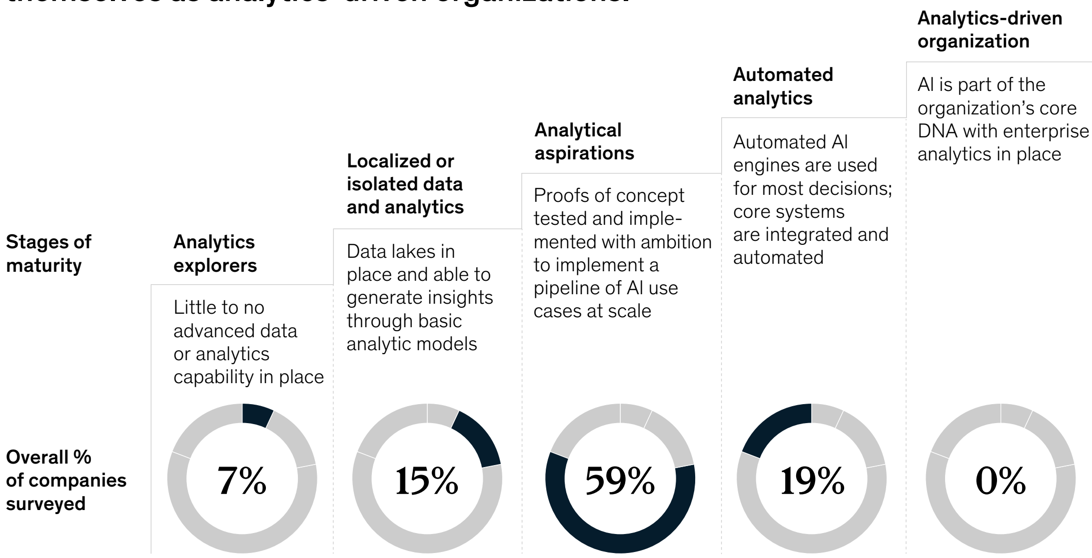
Unprecedented availability of data

Data is permeating nearly all aspects of our lives and work. By 2025, smart workflows and seamless interactions among humans and machines will likely be as standard as the corporate balance sheet, and most employees will use data to optimize nearly every aspect of their work.[14] The industry's embrace of digitalization and shift toward ecosystem distribution will provide new data for insurers to factor into their pricing and underwriting—creating an opportunity for insurers to generate value through improved pricing, more tailored distribution, and improved productivity. For example, a recent McKinsey survey of 59 insurers in Europe, the Middle East, and Africa (EMEA) found that the application of advanced analytics resulted in a 10 to 25 percent increase in the operating profit of the region's top performers in 2021.[15]

Most insurers, despite being businesses built on underwriting and pricing data, are still in the early stages of capturing the full potential of modern analytics and ubiquitous data. The survey of EMEA insurers found that only 19 percent of respondents report having moved beyond proof of concepts and toward core analytical and automated systems—and none consider themselves analytics-driven organizations (Exhibit 6).

Exhibit 6

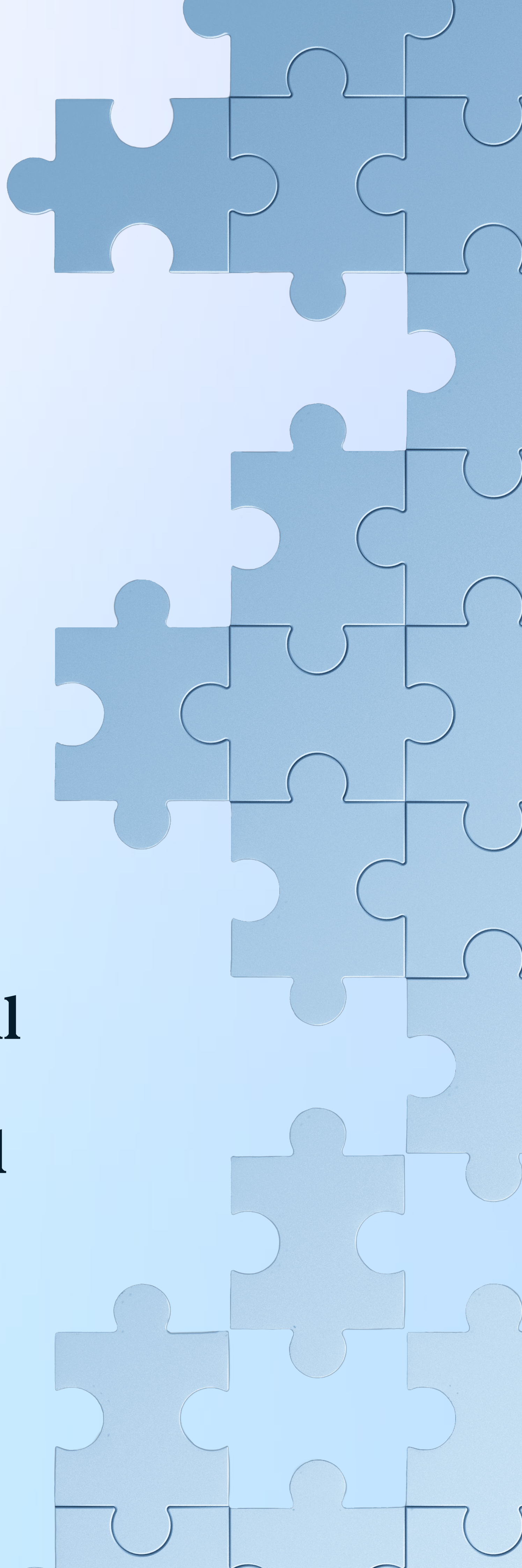
No surveyed insurers from Europe, the Middle East, and Africa described themselves as analytics-driven organizations.



Source: QuantumBlack, AI by McKinsey

McKinsey & Company

[13] Michael Chui, Roger Roberts, and Lareina Yee, "McKinsey Technology Trends Outlook 2022: Future of mobility," McKinsey, August 24, 2022.
[14] Neil Assur and Kayvaun Rowshankish, "The data-driven enterprise of 2025," McKinsey, January 28, 2022.
[15] "On the brink: Realizing the value of analytics in insurance," McKinsey, February 22, 2023.



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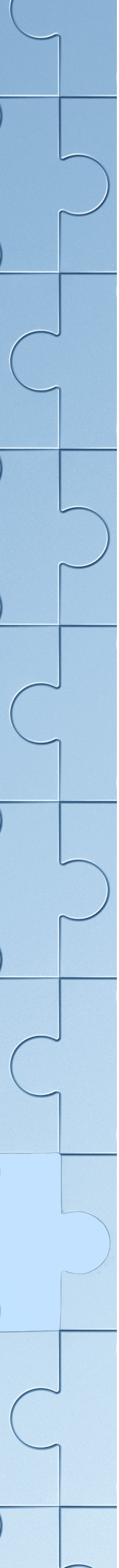

3

Road map for personal P&C in 2023 and beyond

Going forward, insurance carriers can reignite growth by reclaiming their crucial role in society, covering risk where they are most needed, and enlarging the addressable market. The path to doing so will vary: in developing economies, protection gaps tend to be driven by consumers' limited purchasing power and a lack of awareness about the benefits of traditional personal P&C products (particularly nonmotor ones); in developed economies, current risk frameworks are lagging the proliferation of new and evolving risks, from cyber and natural catastrophes (NatCats) to shifting mobility habits.

As demand for personal P&C insurance grows, insurers are even shying away from addressing the most critical protection needs. Indeed, insurance carriers are crucial to the communities and businesses in regions experiencing more severe climate events, but they are becoming increasingly uninsurable and, in some instances, have required government intervention—for example, in California due to wildfires and storms and in Florida and Texas due to hurricanes. Insurers are already pulling back from the NatCat segment in certain geographies: personal property direct premiums written (DPW) in Florida decreased by 2.0 percentage points from 2007 to 2021 and by 0.5 percentage points in California over the same period.[16]

To regain relevance and fuel growth, personal P&C carriers need to focus on capturing market tailwinds—namely new or new-product innovations—as well as on addressing four key success factors of distinctive capabilities: perfecting capabilities within specific distribution channels; enabling cross-functional collaboration and faster feedback loops between claims, actuarial and pricing; modernizing claims through advanced analytics and automation; and innovating to address an evolving risk landscape and to fully monetize customer relationships.

Perfecting capabilities within specific distribution channels

Many insurers are contending with legacy portfolios that are the result of a series of acquisitions and investment decisions made without a consistent channel, product, or segment focus. Now more than ever, insurers need to be strategic about their distribution models to become customers' preferred insurance providers in a specific channel, especially as competitors from other categories—including retailers—are encroaching on the customer relationship.

When it comes to distribution models, we identified five main archetypes across most markets, spanning both traditional and newer channels as well as newer formats: bancassurance specialists, direct players, ecosystem builders, agent distributors, and white-label specialists (Exhibit 7). Winning within each archetype requires perfecting different capabilities, which in turn demands business focus and, consequently, trade-offs; aiming to become an expert of all trades will most likely lead to mediocrity.

Bancassurance specialist. There seems to be very little middle ground in bancassurance; companies either thrive or survive. Based on market research in Europe, we estimate that best-in-class players achieve about three times higher penetration in banks' customer base than average players. These outperformers adhere to several common characteristics of success, such as tailored and easy-to-sell products and superior customer experience. But a close collaboration and shared ambition between partners (bank and insurer) is likely to be the most relevant characteristic—potentially enabling superior data capabilities, a more effective sales force, and an improved (and shared) investment deployment, as well as offering insurance executives a voice in front of banks' top governing bodies.

Those with the best performance are rapidly evolving to embrace digital technologies as banks continue to shift to remote channels. Life and P&C digital-insurance sales surpassed 20 percent of total bancassurance sales in 2021.[17] Insurers can take advantage of banks' higher customer-interaction frequency and the shift to digital channels to personalize engagement with customers and boost effectiveness.

Direct player. Effective direct players focus on building smooth online journeys and providing competitive and transparent pricing, built upon granular risk segmentation to avoid adverse selection. For example, one American insurer has focused on developing the functionality of its website to enable online price comparisons, and its app-induced experience addresses customers' needs to define their willingness to pay while also finding the right coverage for them.

Players in this archetype differentiate themselves through distinctive marketing and sales capabilities to optimize cost per acquisition. They have highly efficient operations (honed by optimizing online distribution, claims, and servicing processes) that enable them to achieve market-leading expense ratios.

The use of telematics is growing in insurance and could play a crucial role in helping direct players design competitive pricing. Long-distance data

[16] Based on data from S&P Global.
[17] Finalta Bancassurance Benchmark 2021, July 2020–July 2021; n = 200 banks from approximately 50 markets.

Exhibit 7

Five winning personal property and casualty distribution archetypes are applicable across global markets.

Required areas of distinctiveness, by archetype

	Bancassurance specialists *Privileged access to distributors and tailored product development, as well as underwriting capabilities*	**Direct players** *Focus on direct distribution and a view to provide a tailored customer experience and products*	**Ecosystem builders** *Strong partnerships to enable ecosystem play*	**Agent distributors** *Distinctive across the value chain; strong brand recognition; have an agent network and focus on service*	**White-label specialists** *Large personal-lines distribution network; strong tech platform with integrated solutions for partners*
Sales and distribution	Focused salesforce with the right incentives and support	Scale and acquisition efficiency with clear segment targets	Platform-enabled customer acquisition	Agent-centric strategy with extensive and loyal network	Strong partnership with leading consumer brands
Product development	Tailored products and bundles	Strong product focus and specialization (eg, motor)			Short time to market for new products for white-labeling by partners
Pricing, underwriting, and risk assessment	Leveraging banking data; prequotation and one-click sales	Superior technical, commercial, and competitive pricing (eg, advanced-analytics machine learning)			
Claims management			AI and advanced-analytics-optimized claims management	Tech support to help agents' post-sales servicing	
Agent and customer experience	Superior service level	Focus on customer satisfaction score through digital and online distribution and onboarding	Frequent customer touchpoints on related services	Focus on agent experience (eg, clerical tasks or sales support)	Empower partners to manage end-to-end insurance journeys
Operational excellence		Highly efficient and effective tech-enabled operating model		Leveraging scale and tailored to elevate agent performance	
Digital, analytics, and tech	Integrated in bank's digital assets	Digital and self-servicing model	Big-data approach across whole ecosystem		Integrate with retailer's systems (eg, sales channels and customer servicing portals)
M&A for scale or distinctive value			Proactive identification of relevant ecosystem investments	M&A for market consolidation and new entries	
Partnerships		New partnerships to expand product offering (eg, car dealers)	Focused partnership across prioritized verticals		

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communication can improve risk assessment and pricing models—for example, by providing enough insight to reward accident-free drivers with lower premiums.[18] Enabled by tech and analytics, our analysis found that one German player's use of telematics has made its pricing more sophisticated, offering customers up to 30 percent cheaper car insurance premiums. However, even if growing, the adoption of telematics has yet to reach a significant scale; in Europe, just 4 percent of registered vehicles have a telematic policy in force.

Ecosystem builder. The best-in-class ecosystem builder is adept in capturing rich customer data and migrating customers across diverse services in the ecosystem. One China-based giant insurer invested in a substantial data team focused on mining customer insights. With analytics, the cross-selling and upselling of higher-value products could be targeted at customers with higher sales propensity. Ecosystem players are well positioned to own the customer relationship.

To expand the ecosystem, it is key to develop M&A expertise and build partnerships. One way to ensure that M&A activities accrete value is to build a separately governed investment arm focused on promoting ecosystem investments and nurturing tech talents. Partnerships need to be centered on key value chain steps across prioritized verticals. For instance, a major US motor insurer partnered with a leading provider of information on auto repair and maintenance to deliver support services to customers during both the initial sale (for example, assistance with loan applications) and throughout ownership (for example, ongoing maintenance).

Agent distributor. Strong players in this archetype have an agent-centric distribution strategy, with support systems built with a focus on elevating agent performance. Key use cases of such support include end-to-end funnel tracking and digital tools to ensure high degrees of lead conversion, as well as tech-enabled claims processes to improve customer experience and agent visibility. These players provide outstanding sales support to their agents by removing clerical tasks and sharing effective leads.

White-label specialist. White-label specialists typically have an exclusive relationship with leading consumer brands, offering them tailored products and solutions. For example, insurtechs that provide a one-stop-shop, white-label solution for retailers are becoming widespread across geographies; they offer customized products that fit retailers' brand and customer needs, as well as data-enabled sales platforms and turnkey servicing solutions. This allows retailers to easily offer own-branded insurance, enriching the customer experience and unlocking a new revenue stream.

One way to ensure that M&A activities accrete value is to build a separately governed investment arm focused on promoting ecosystem investments and nurturing tech talents.

[18] Martin Svegander, "Insurance telematics in Europe and North America," Berg Insights, 2021.

Enabling cross-functional collaboration and faster feedback loops

In addition to investing in distinctive capabilities within their specific distribution channels, insurance carriers must respond to current market conditions by enabling cross-functional collaboration between and within the product, claims, actuarial, and pricing functions. This is crucial to preserve profitability given the interplay of market conditions, including changing customer needs, expectations of faster product innovation, a changing channel landscape, and evolving claims and inflation trends.

Most insurers lack a structured feedback loop across relevant departments to ensure that actions are informed by the most recent activity and external factors. Even if the different areas interact, product, claims, actuarial, and pricing teams often speak different "languages" and, due to most insurers' functional structures, have different incentives. This creates silos and makes it easier for functions to be inwardly focused. As such, cross-functional collaboration is not a trivial issue to solve.

Leading insurers achieve such collaboration by employing new ways of working; moving away from siloed structures and toward agile squads; providing faster responses through fully connected core functions via digital feedback mechanisms; upskilling teams with new tech and data and analytics profiles; and coordinating communication to adapt to changing trends in the market. As part of a holistic pricing program, one leading European direct insurer set up an agile squad, integrating multiple profiles such as pricing, technology, data, and claims. As a result, the insurer reduced its pricing update turnaround from 18 months to three months; after 18 months, its loss ratio had improved by more than three percentage points.

Beyond the direct positive impact on profitability from reshaping current working methods, these insurers also increase the pace at which they can adapt to market changes, which can mitigate the effects of negative economic shocks. A prominent example of the effect of an agile operating model was demonstrated by a leading US carrier in its rapid response to inflation in 2021 and 2022. Partially thanks to quick decision making and implementation, the carrier's average net combined ratio increased between the second and third quarters of 2021 by four percentage points, while the US P&C market overall witnessed an average increase of seven percentage points, according to McKinsey analysis. Furthermore, the carrier was able to quickly rebound its margin by the end of 2021 for a positive technical result and kept it relatively stable throughout the first half of 2022. This was not the case for most US insurers: the overall P&C market showed an average net combined ratio of 100 percent in the fourth quarter of 2021 and of more than 100 percent by the second quarter of 2022.

Modernizing claims through advanced analytics and automation

Claims processing is being disrupted to an extent that was hard to imagine a few years ago. Rapidly rising inflation, coupled with a tight labor market, imposes the need to revisit the claims operating model. Yet amid challenges, the personal P&C industry also has the opportunity to recast its role from an entity that arrives when times are tough to a resource for preventing life-altering experiences through claims prevention. But to do so, insurers must explore the potential of advanced analytics and automation.

The technology revolution is reshaping every job in claims organizations. McKinsey research estimates that by 2030, more than half of current claims activities could be replaced by automation[19]: some existing roles will be eliminated, new digital roles will be created, and people in remaining roles will need to handle new responsibilities and build new skills. Furthermore, new generations of customers—millennials and Gen Zers—are necessitating the ubiquity of seamless, omnichannel, and real-time interactions.

The most sophisticated insurers use advanced analytics, such as digital cognitive agents, in routine claims—which is estimated to account for about 60 percent of global claims volume.[20] The successful deployment of such advanced-analytics initiatives and the automation of low-value-added tasks can help redirect valuable employee attention to complex interactions that need true empathy to build an improved experience and connection with customers.

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[19] Andy Fong, Kristen Ganjani, Elixabete Larrea, and José Miguel Novo Sánchez, "Claims 2030: A talent strategy for the future of insurance claims," McKinsey, December 10, 2020.
[20] Deniz Cultu, Kristen Ganjani, Elixabete Larrea, and Michael Müssig, "Claims 2030: Dream or reality?," McKinsey, May 2, 2022.

Personal P&C carriers will need to accelerate the development of products, improve distribution, and expand partnerships to fully serve modern customers' needs.

The advanced-analytics enhancement of claims can also help personal carriers meet customers in a seamless way and mitigate the hassle of overseeing claims processing. For example, a motor insurance customer may receive a steady stream of automated repair-status updates delivered in their preferred channel, or a property customer may visit their insurance company's online claim hub to see photos and videos of their roof repair and communicate directly with emergency mitigation services.

Finally, insurers can reduce pressure on margins driven by rising claims costs—for example, on car spare parts—by dedicating more attention to claim prevention, powered by telematics capabilities. As examples, sensors in buildings can alert owners and insurers when temperatures get low enough to freeze pipes and can automatically trigger integrated smart thermostats, or smart homes can automatically deploy hurricane shutters based on weather notifications. In doing so, customers and insurers will become partners in loss prevention and build a relationship that goes beyond accidents and negative events.

Innovating to address an evolving risk landscape and fully monetize customer relationships

Insurers are well aware of the benefits of building deep customer relationships that increase insurers' average product density per customer.[21] Given that neither the industry's risk landscape nor today's customers look anything like they did five years ago, personal P&C carriers will need to accelerate the development of products, improve distribution, and expand partnerships to fully serve modern customers' comprehensive needs—thus making the most of insurers' existing customer base.[22]

To start, the industry's current protection gap is clear evidence that traditional personal P&C products available today are not meeting consumers' full spectrum of needs. In some cases, customers may not see sufficient value in the available products; in others, insurers are shying away from addressing areas that need protection (for example, NatCat); and sometimes both are true. At a time when insurers are seeking to diversify portfolios into less-volatile lines or to open new pockets of growth beyond the traditional home and motor products, product innovation features as a win–win: a win for a society needing protection and a win for insurers seeking to take full advantage of current customer bases. As such, insurers could leverage booming digital economies and the rapid expansion of the metaverse,[23] which will require the development of more-sophisticated digital-crime protection and cybersecurity to grow. Personal P&C carriers can also think about driving more resilience in their property book of business to face NatCat risks, playing a bigger role than just transferring risk, and actually redesigning terms and conditions (for example, limits and deductibles). Product innovation will also be instrumental in achieving environmental, social, and governance (ESG) commitments related to climate change and equality—providing solutions for areas exposed to natural disasters and addressing the needs of

[21] For more, see "Unlocking the potential of deeper customer-agent-insurer relationships," McKinsey, November 29, 2021.
[22] For more on the needs of commercial P&C customers, see "Expanding commercial P&C's market relevance," February 16, 2023.
[23] The metaverse is expected to generate up to $5 trillion in value by 2030. For more, see *Value creation in the metaverse: The real business of the virtual world*, McKinsey, June 2022.

underserved segments or focusing on prevention. Finally, the boom in the sharing economy can offer the opportunity to add ride-hailing insurance to existing personal motor policies.

Innovative products will need to be accompanied by a diversification of the means insurers use to reach customers. Personal P&C carriers can reinforce investments in ecosystems to expand their customer reach as well as the size of the role they play in customers' lives.[24] They can also facilitate ecosystem partners' monetization of their own customer bases with white-label insurance solutions and can serve as a broker partner to other players in segments that are not aligned with their value proposition to provide better risk-adjusted returns without taking any balance sheet risk. Within the US pet insurance segment, for example, our analysis found that eight of the top ten personal-lines insurers rely on pet insurance factory partners to grow and expand in the segment.

Addressing the protection gap caused by quasi-uninsurable risks (for example, NatCat) may also involve collaborating with other institutions outside of traditional industry partnerships, such as public entities (that is, public–private partnerships). An example could include liaising with the relevant jurisdictions of high-risk areas to raise building code standards to improve communities' resilience to climate events.

Achieving the scale necessary to compete

In the global personal P&C industry, the data suggest that scale remains a critical competitive factor to further hone capabilities within a specific distribution channel and to spread fixed costs and investments.

As an example, leading direct players that have reached scale but remain focused on direct as a core channel ("meaningful scale") make significant investments in traffic generation (for example, TV ads)—thereby creating a large barrier to entry for smaller players that must work with aggregators—and in developing cutting-edge support tools for price comparison. If they were not to invest meaningfully in their cell, investment capacity would have to be divided between several channels, diluting its value.

Additionally, the scale also becomes a critical element to spread fixed costs, gaining a financial-performance edge: more agents (or products) means less fixed costs per agent (or product). This

Personal P&C carriers can reinforce investments in ecosystems to expand their customer reach as well as the size of the role they play in customers' lives.

[24] For more on ecosystems, see Violet Chung, Miklós Dietz, Istvan Rab, and Zac Townsend, "Ecosystem 2.0: Climbing to the next level," *McKinsey Quarterly*, September 11, 2020; and "Ecosystems and platforms: How insurers can turn vision into reality," McKinsey, March 12, 2020.

ability to wield scale to amortize the investment is pivotal in an industry that strives to achieve high volume by being competitive on price. When looking across geographies, top insurers typically have a loss ratio that is slightly worse than their peers', but all have a better expense ratio, which enables them to be more competitive and protect margins through more efficient, scaled operations (Exhibit 8).[25]

Scale also enables insurers to invest more in talent and the development of capabilities such as digital and analytics. Leading insurers develop programs to recruit and train analytics talent (for example, data scientists and workflow engineers) and enable talent to assimilate their new skills and profiles into the current operating model. Insurance carriers also consider potential changes in frontline roles as new analytical tools are embedded in the processes, and they invest accordingly in capability building and upskilling to drive a better cost structure in the long term.

Beyond organic efforts, M&A can play an important role in building scale. In the past, personal carriers have tended to use M&A to diversify across geographies, even at the risk of entering markets with subscale operations. Given the unassailable importance of local scale, insurers have been rebalancing their portfolios by making bold decisions on whether they need to double down on or exit a specific market or segment to achieve scale and obtain efficiencies. For example, AXA sold its operations in Central and Eastern Europe in 2020, and Aviva made similar exits from France, Italy, and Poland in 2021. On the other hand, Generali focused on acquisitions to enhance its position and scale: in its home market, it consolidated its leading position with the acquisition of Cattolica, and in Portugal, it acquired Tranquilidade to become a leading player from a subscale position.

Exhibit 8

In most countries, the expense ratios of the top five personal property and casualty insurers consistently outperform the rest of the market.

Profitability ratios of top 5 personal property and casualty carriers vs rest of the market (average of 2016–21)

Top 5 performance comparison ● Better (lower ratio) ● Poorer (higher ratio)

	Net combined ratio, %			**Claims ratio,** %			**Net expense ratio,** %		
	Top 5	Rest of market		Top 5	Rest of market		Top 5	Rest of market	
Spain	92	94	Better	68	64	Poorer	24	31	Better
Italy	89	91	Better	62	60	Poorer	28	31	Better
United States	99	102	Better	76	74	Poorer	23	28	Better
China	98	106	Better	61	60	Poorer	37	46	Better
Japan	96	95	Poorer	63	61	Poorer	32	33	Better
Brazil	94	88	Poorer	56	49	Poorer	37	39	Better
Colombia	103	103	—	58	57	Poorer	45	46	Better

Source: Brazil—Susep; China—China Insurance Yearbook; Colombia—Colombia Insurance Regulator; Italy—Infobila; Japan—Statistics of Nonlife Insurance Business in Japan; Spain—Dirección General de Seguros y Fondos de Pensiones (Directorate-General for Insurance and Pension Funds) (DGSFP), Inese; US—S&P Global

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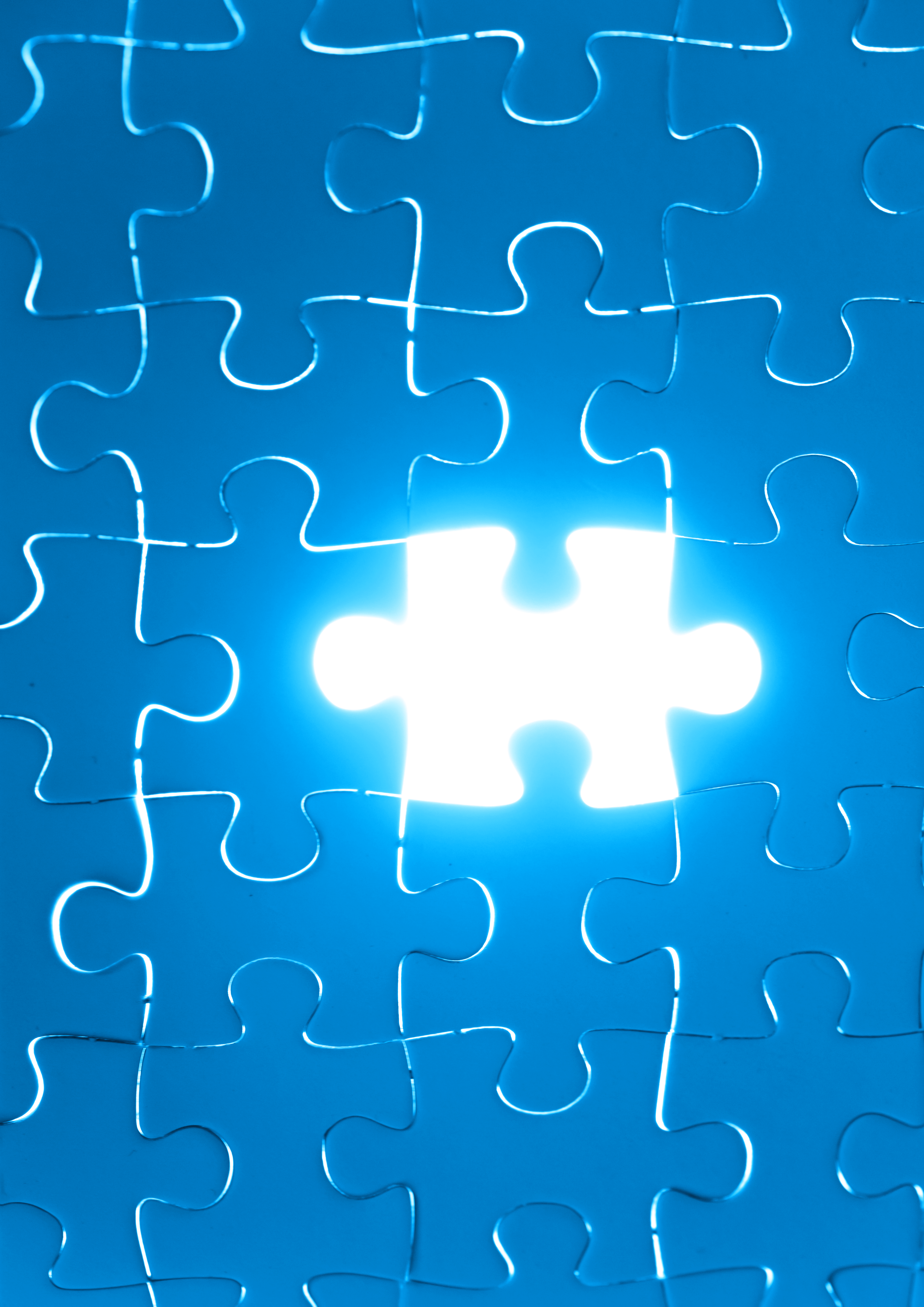
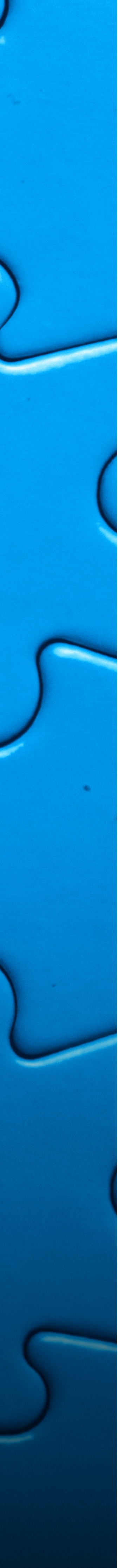
[25] In Brazil, the top five players have become more exposed to the motor insurance market compared to the rest (that is, ranging from 53 to 72 percent versus 28 to 47 percent from 2017 to 2021), which have been showing higher expense ratios; in Japan, the top five insurance carriers represent nearly 90 percent of the major lines of business, highly exposing them across lines—in particular, fire insurance, which covers damage caused by natural disasters (for example, typhoons, heavy rain, floods, and fires).



Scale enables insurers to invest more in talent and the development of capabilities such as digital and analytics.



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Getting started

As personal P&C carriers further develop and refine their approaches to address current industry trends and define their market position, several key considerations form central they must make.

Decide where to play—geographically, by distribution channel, and by business line. Considering the clear importance of local scale to personal P&C market share and growth, many insurers will want to be mindful about investment decisions so that they create meaningful scale in their distribution or product strength. This might entail consolidating their largest domestic market positions in a core channel or even reassessing their readiness to exit the markets and segments without a path for scale. They'll also need to determine what distinctive business areas they can use as leverage in each market to deepen their competitive advantage.

Increase speed and accuracy of insights by reimagining underwriting, pricing, and claims. Rapid change and the need for integrated solutions—from embedded distribution to usagebased insurance pricing and claims integration—will require a new level of collaboration. An effective feedback loop is critical to reacting faster than the competition, as is a plan for overcoming the traditional and well-known roadblocks to boosting organizational collaboration: siloed operating models, lack of data availability, sluggish technology systems, and so forth.

Focus on fully serving customers and society. Evolving customer needs and a more complex environment will require reinventing personal P&C value propositions to tackle the next frontier of risks and the new challenges our world is facing (for instance, NatCats, cybersecurity, and digital crime). Too many insurance carriers are doing the exact opposite, allowing their wariness of risk to widen the protection gap. Also, in developing economies, nonmotor-lines penetration in GDP is still lagging that of motor, pushing insurers in those regions to prioritize the diversification of personal lines. Going forward, the leaders in personal P&C will be those that embrace the industry's role in society and ensure coverage is provided where it's needed most, both in traditional core personal lines, such as motor and property, and in adjacencies, such as electronic warranties.

Determine your ecosystem role. As the global economy increasingly concentrates services and products into ecosystems, traditional distribution channels are being displaced by one-stop-shop solutions built around the customer and their convenience and preferences. Insurers can't afford to sit on the sidelines of these ecosystems—but they also don't necessarily need to construct an ecosystem or expanded capabilities from scratch. Insurers will need to start by considering what options are available, given existing customer relationships, and by defining the role they want to play: Are they aiming to become the preferred insurance provider of those better positioned to own such customer relationships? What capabilities do they need in any given scenario?

All told, personal-lines P&C carriers will continue to face numerous strategic market challenges and considerations in the 2020s—and establishing market relevance remains the most effective means of securing stability and growth. There is no right or wrong strategy. In fact, success may be defined more by how adeptly personal P&C carriers can envision their desired end state and adapt along the journey to reach it.

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