National Insurance Alliance Limited

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The Insurance Industry: 2025 and Beyond

In our previous article, NIACE shared our thoughts on the outlook and trends for digital asset insurance in 2025 which will be sparked mainly by the increased participation in digital assets by both institutional and retail investors. Although the wider insurance industry tends not to have a strong correlation with digital assets, 2025 looks to be a promising year mainly due to global geopolitical instability and uncertainty. Additionally, changing consumer preference and an uncertain global economic outlook could prove to be a positive year for the insurance industry as insurers could look to benefit from geopolitical developments globally. In this article, NIACE will be providing a 2025 outlook for the insurance industry, breaking down the sectorial headwinds and tailwinds.

Wider Geopolitical Instability and Disorder: Heightened Risks for War Outbreaks

The new United States President Donald Trump could pressure Ukraine to broker a deal with Russia and "lend" a helping hand to Israel in its involvement in the conflict with Gaza and Lebanon. The United States' new foreign policy under the Trump administration's more transactional stance coupled with skepticism of foreign entanglements would inadvertently encourage involvement by other states like China, Russia, Iran and North Korea which have traditionally been viewed as the "quartet of chaos" or opposers of the US. Additionally, increased involvement in regional conflicts by other regional powers as seen in crisis-hit Sudan could further divide an already fragmented global geopolitical scene. Moreover, it remains to be seen if the US locks horns with China in the South China Sea or the increasingly contentious territory of Chinese Taipei. However, what remains clear is that an increasingly unstable geopolitical landscape naturally entails higher risks of war outbreaks which could ultimately benefit the defense industry and insurance industry. Regional outbreaks of war would see an uptick in war risk insurance premiums and coverage policies purchased which would ultimately drive-up revenues for insurance underwriters.

Capitalise on Technological Trends to Drive Profitability and Productivity

Underwriting, actuarial activities, claims adjustment, and other crucial areas are experiencing a skills shortage as a result of the insurance industry's aging and retiring staff. Insurers are hopeful that emerging technologies, especially Artificial Intelligence (AI), could enhance efficiency in addition to helping close this gap. AI is predicted to improve the industry's productivity and slash operating expenses by approximately 40%. Additionally, according to a recent KPMG survey. 71% of businesses intend to deploy their first generative AI solution within the next two years, with an anticipated 21% increase in profitability as a result of the implementation of said technology(s). Despite ongoing productivity gains due to digitization, many insurers continue to use expensive legacy technologies that reduce workflow efficiency. Insurers who have access to more detailed data and can act more quickly are better positioned for expansion in the current economic environment. Adopting digital services and transformation will be essential in 2025 if insurers intend to remain profitable, productive, and competitive.

Changing Consumer Preferences: The Emergence of Embedded Insurance as a "Must Have"

There is a growing trend among consumers that prefer to buy health, travel, auto, and house insurance at the point of sale, as and when they need it. This change is fueling the embedded insurance market's explosive expansion and opening up new avenues for distributors and insurance companies. According to a recent research study, premiums for embedded insurance may reach over $70 billion by 2030. This trend could hold true as 81% of financial executives who make decisions about insurance products think embedded insurance would change from being a "nice-to-have" to a "must-have," per a 2023 Chubb Insurance survey.

Furthermore, about 75% of executives in the financial technology and banking industries concur that providing embedded insurance promotes consumer trust. This would have a profound impact on insurance underwriters as these companies would look to introduce new product offerings to gain market share aggressively.

Ethical and Responsible Use of AI Crucial for Insurers in Next Phase of Expansion

Even while AI has long been used in the insurance sector, its applications today go much beyond chatbots and customer support. The use of AI in underwriting, fraud detection, claims automation, and regulatory compliance is growing. By using AI and machine learning, insurers can provide more individualized insurance solutions and perform risk evaluations that are more accurate. The increasing use of AI could be one of the reasons why the worldwide insurance industry, which was estimated to be worth USD $4.59 billion in 2022, is expected to expand to USD $79.86 billion by 2032. Increased legislation pertaining to AI, ESG compliance, and ethical usage must be navigated by insurers when they adopt AI to automate business operations, control risk, or improve the customer experience. As an example, the European Union's "AI Act" establishes more stringent guidelines and labels a number of AI applications as "high-risk." This Act is starting to serve as a template for other nations looking to better govern AI. ESG goals may be adversely affected by AI's substantial carbon footprint and the possibility of algorithmic bias, which might produce discriminating results. Insurance companies need to strike a balance between using AI for automation and predictive advantages and making sure it is used responsibly and ethically to satisfy the demands of both clients and staff.

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