GLOBAL TRENDS IN THE BROKERAGE INDUSTRY 2022

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FOREWORD

2021 was an unprecedented year. COVID-19 left no business or community unaffected. The impact of the pandemic along with the ongoing climate crisis was far-reaching. The world faced severe, sudden, and epic disruptions that damaged societies and economies. It led to job losses, eroded social interactions, widened the digital gap, created abrupt shifts in the market, and challenged and deconstructed global relations and democracy. Despite all these adverse effects, 2021 also saw organizations and societies build resilience. Out of this situation have emerged new trends in the post pandemic world, the most relevant of which are rapid digital transformation and the need to secure companies from emerging risks.

With resilience as the theme for the current year, brokerages across the globe continue to invest in digital and technological capabilities including M&A investments. They are on the path to enhancing their offerings and services, keeping in mind the dynamic regulatory environments that are shifting to respond to the slew of risks and crises faced by global organizations.

HOW ROLES ARE CHANGING WITH EMERGING RISKS

As businesses recover from the COVID-19 pandemic, they must confront a host of new risks in a cautious insurance market. Due to the disruption of the previous year, the market is undergoing upheavals arising from social, political, and geopolitical issues. While the insurance industry has demonstrated resilience amid dire straits, they are also battling new threats mainly around cyberattacks and the consequences of climate change. According to a 2021 report on global risks prepared by the World Economic Forum the most probable risks facing insurance in the next 10 years come from avenues related to changing weather patterns, failed climate programs, damage to the environment, poor cyber security, and others. To prepare for these scenarios, insurance companies are looking to create innovative insurance products and new value-generating processes.

Insurance brokers must up their ante and leverage digital disruption to become risk advisors and forge a more sustainable and resilient future.

TREND 1: CYBER THREATS AND SECURITY BREACHES

CYBERSECURITY IMPACT

£183.39M

British Airways fine by the Information Commissioner's Office (ICO) in July 2019 for infringements of the General Data Protection Regulation (GDPR)

500,000

Customers were compromised

$10M US

Fitness brand Garmen reportedly paid in ransom after a ransomware attack shut down many of its online products and services. The attack itself began on July 23 and took down Garmin's wearables, apps, website, and call centers for several days.

The global pandemic has accelerated the adoption of the fourth industrial revolution. With a growing number of companies and people relying on cloud computing, artificial intelligence, big data, and other technologies to sustain operations and work, digital transformation has grown by leaps and bounds seemingly overnight. Satya Nadella, CEO of Microsoft, says, "We've seen two years' worth of digital transformation in two months."

But, as dependencies on interconnectivity, technical infrastructure, and digital information technologies increase, companies are now more exposed to cyber threats than ever before. Even for companies that spend millions on cybersecurity solutions, the scale, frequency, and financial impact of cyber events – whether ransomware, supply chain attacks, or business interruptions – continue to grow.

- British Airways was fined £183.39 million by the Information Commissioner's Office (ICO) in July 2019 for infringements of the General Data Protection Regulation (GDPR) when user traffic to the British Airways website was diverted to a fraudulent site. Through this false site, the personal data of approximately 500,000 customers were compromised. It is believed that the attack began as early as June 2018.

- Fitness brand Garmin reportedly paid US $10 million in ransom after a ransomware attack shut down many of its online products and services. The attack itself began on July 23 and took down Garmin's wearables, apps, website, and call centers for several days.

- Australia's Channel Nine TV network was hit by hackers on March 28, 2021. The cyber-attack disrupted live broadcasts and numerous shows. The attack extended to the network's headquarters in Sydney, affecting some publishing devices and causing outages in the publishing network.

Brokers must take charge and learn lessons from these incidents. Currently, brokers help clients buy the right cyber policies by making sure they get adequate and specialized coverage based on individual needs. In the future, brokers should not only assess and quantify the client's risks but also prepare and guide clients on how to respond to cyberattacks. Some ways of doing this are by offering incident management services, advising on transferring risk, and building risk management solutions and resilience.

TREND 2: CLIMATE RISK

The US Federal Reserve recently identified climate change as a systemic risk to the economy due to its impact on economies as well as changes brought on by programs to promote low-carbon operations. All of this is expected to adversely impact financial markets, causing further economic decline.

Climate change is growing in severity, creating potential disruption with financial implications. California's largest utility, PG&E Corporation, declared bankruptcy in 2019. Termed as the first 'climate change bankruptcy', the company was overwhelmed with nearly US $30 billion in liabilities due to a prolonged drought that dried out large portions of the state and decimated forests, increasing the risk of intense wildfires.

Insurance companies and brokers must refocus their priorities from simply pricing and transferring risk to changing overall outcomes. Efforts should extend right from the front end (at the point of physical risk) to when adverse incidents happen by assessing how best to recover quickly and seamlessly. It is also not enough for brokers to be familiar with natural events and physical risk; they must also factor in the transition risk. This refers to the risk caused by changing strategies, policies, or investments to reduce reliance on carbon and shift from brown to green. Brokers must build capabilities that measure transition risk, identify its implications, and combat liabilities. Together, brokers and carriers can work with municipalities, regulators, and policymakers to create a sustainable model of risk mitigation.

Oliver Wyman, a subsidiary of Marsh & McLennan, assists clients in cutting through complex climate systems and enabling operational efficiencies. Oliver Wyman helps clients discover new business opportunities, create new pathways, and respond to climate risk in a way that is commercially compelling. It brings together expertise from across Oliver Wyman, Marsh McLennan, and external collaborators like S&P Global and the World Economic Forum to solve the cross-disciplinary challenge of climate change.

With their expertise in operations, risk, finance, analytics, and energy they build on the client's existing capabilities to support positive climate action.

VALUE-ADDED SERVICES USING EMERGING TECHNOLOGIES

One theme that stands out in how the insurance industry is dealing with the post-pandemic world is its greater reliance and insistence on technology.

Cloud technology and software as a service (SaaS) are already popular solutions in the insurance industry for internal operations. But, as the market becomes increasingly technology-driven, insurance must find ways to leverage technology for client-facing tasks.

Brokers will need to focus more on selling digital insurance products through the Internet while simultaneously performing other insurance-based tasks and services that were previously done offline. This includes submitting quotes, issuing insurance certificates online, handling claims virtually, and providing

expertise and guidance expected from an insurance broker even when physical or in-person contact is not possible.

As the nature of business evolves with technology, insurance brokers must continually evaluate how they define & manage their workflows and processes. Now more than ever, such skills are critical to combat slow growth projections.

TREND 3: THE NEW DIGITAL LANDSCAPE

Digital is helping insurance broking firms improve processes, optimize costs, and find smarter ways to reach customers.

Brokers are boosting investments in big data, automation, and artificial intelligence (AI). It is estimated that global spending on cognitive and AI technologies will grow 19.6% year over year in 2022 to $432.8 billion. The Internet of Things (IoT) also has a role to play. It gives stakeholders such as clients, brokers, and insurers access to data as well as insights, which can be used to create better risk management systems.

The convergence of data analytics and IoT can create new, cutting-edge solutions for the insurance broking industry. But insurers must also be prepared for the inherent risks in IoT before deploying such solutions. IoT can capture customer data to create value-added services. When used with data analytics, they can get insights on how to improve processes, equip sales teams with customer insights, and better segment the market for targeted programs. In the back-end, these technologies can assist with smarter underwriting and claims operations.

Several of Lloyd's innovative syndicates use AI and machine learning algorithms to automate underwriting. Lloyd's, in its Blueprint, talks about supporting the 'automatic placement' method "by providing connectivity from multiple markets to multiple retail brokers and wholesalers through an 'exchange of exchanges'". Lloyd's has also invested in Placing Platform Limited (PPL) to develop their next-generation placing platform, which will support the placement of complex risks for Lloyd's as well as the London market and the wider insurance industry through data-driven processes. As per Blueprint, the next-gen PPL is being designed to improve digital collaboration and negotiation on risk management. It will integrate with in-house systems of brokers, insurers, and other market players via APIs, enabling data to flow seamlessly from placement into downstream processing.

SPENDING RISE ON COGNITIVE/AI TECHNOLOGIES

48%

CAGR in global spend on cognitive/ AI technologies

$432.8 B

Estimated Global spending in 2022

TREND 4: HIGH-IMPACT CUSTOMER SERVICE PLATFORMS

Powered by cutting-edge technology, InsurTechs can provide more accurate personalization compared to experienced brokers. Moreover, with digital and automation, the market is cutting down on the need for intermediaries and their commissions and additional fees to be paid by customers.

To boost their value proposition, insurance brokers should use technology and evolve from experts to advisors that can predict and mitigate risk. New technologies make it possible to operate at speed with higher accuracy and convenience to users as well as customers. When combined with the expertise and insightfulness of brokers, this combination of people and technology makes brokers a critical link in the hybrid marketplace. In some cases, brokers are already backing technology trends such as the 'intelligent enterprise' and 'intelligent automation'. This will help them bolster their core strengths.

Big technology firms and non-traditional players are entering the insurance distribution space, making it more competitive. Brokers are under pressure to improve high-impact areas like customer experience. The biggest opportunity in the insurance brokerage market, according to World Insurtech Report, is the emergence of electronic trading platforms. Insurance agents and brokers must develop hybrid and niche customer service platforms that combine information from digital channels with personal advice from product and subject matter specialists.

Aon, in collaboration with France-based Chubb, has launched a digital platform for small and medium-sized businesses. The platform, powered by Aon's CoverWallet, simplifies the task of buying insurance by using data science, UX design, and analytics. It helps businesses receive quotes for multiple products, compare coverage details, pay with a credit card or bank account, instantly download their proof coverage, and speak with an insurance specialist anytime during the entire process.

CONSOLIDATION AND COMPLIANCE IN A DYNAMIC MARKETPLACE

THE GLOBAL MARKET GROWTH

$88-92B US

Expected grow of the global insurance brokerage market

7.7%

Expected CAGR in 2022

$113.99B

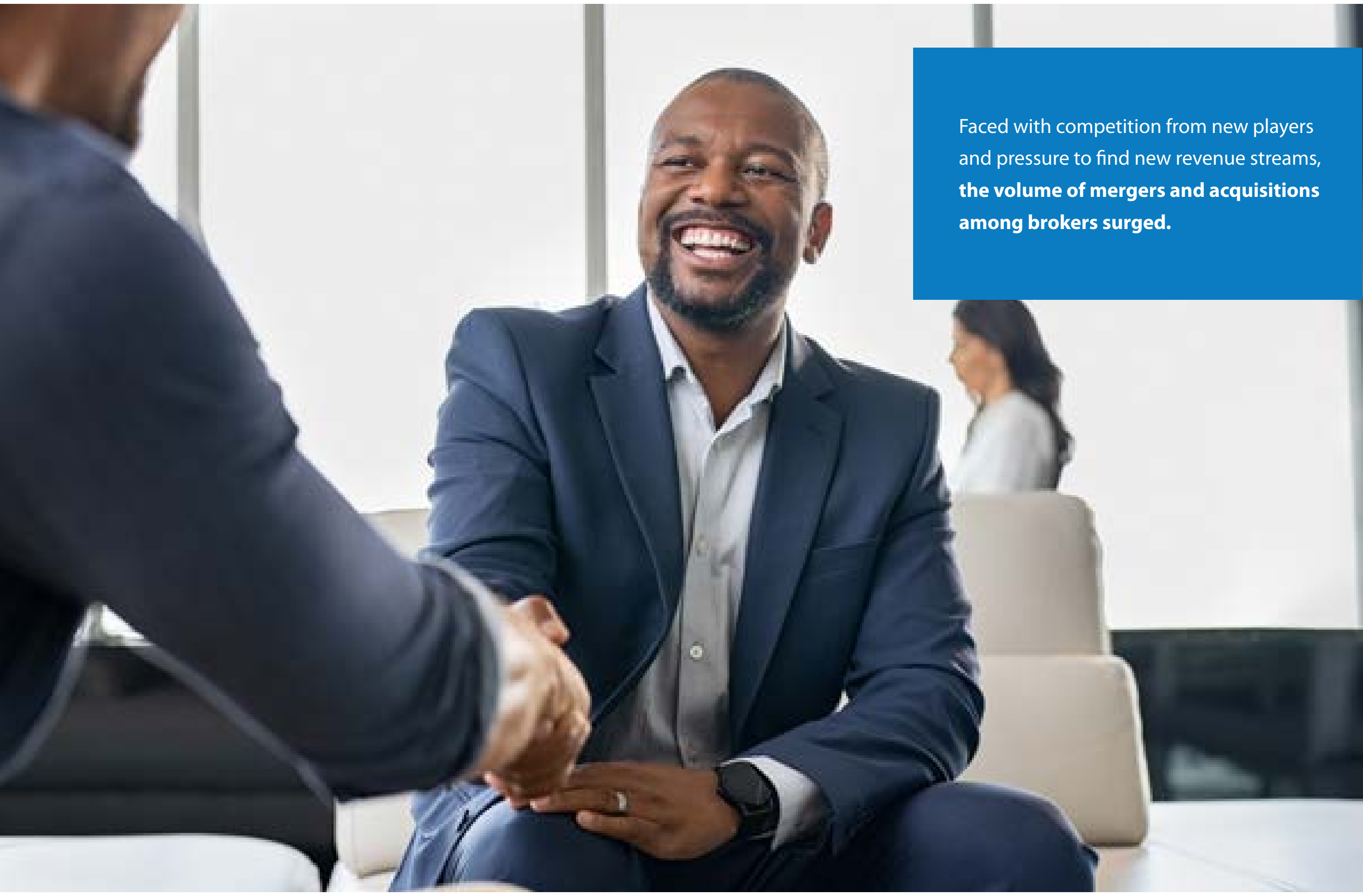
Expected reach of the market

5.4%

Expected CAGR in 2025

Some reports predict that the global insurance brokerage market will grow from $90.52 billion in 2021 to $97.46 billion in 2022 at a compound annual growth rate (CAGR) of 7.7%. Driven by companies rearranging operations and recovering from Covid-19. Predictions also state that the market will reach US $113.99 billion by 2025 at a CAGR of 5.4%. The brokerage industry, just like other businesses, was severely affected by the string of crises over the past few years, namely, the pandemic, economic decline, and natural (climatic) catastrophes. During the pandemic, the immediate response was to ensure business continuity and customer service. Immediate recovery efforts were to adopt digitalization and consolidation of mid-sized brokers. Now, as the industry heads towards longer-term recovery and growth, the strategy is to invest in operations and technology.

TREND 5: INCREASING MERGERS AND ACQUISITIONS



Faced with competition from new players and pressure to find new revenue streams, **the volume of mergers and acquisitions among brokers surged.**

The 'new normal' put significant pressure on brokers and agencies and forced them to digitalize their operations. Brokerages that could adapt quickly to the changing environment stayed competitive whereas those that lagged in technological progress faltered. Faced with competition from new players and pressure to find new revenue streams, the volume of mergers and acquisitions among brokers surged. In 2020, a total of 754 M&A deals were closed, up from 744 in 2019 according to S&P Global. The biggest brokerage sale in 2020 was Assurance Holdings Inc., bought in April 2020 by Marsh & McLennan Agency LLC, a unit of Marsh LLC. In the first five months of 2021, there were 215 announced M&A transactions, with US $24.6 billion in value. Megadeal announcements included Apollo Global Management Inc.'s acquisition of Athene Holding Ltd. for US $11 billion, Arthur J. Gallagher & Co.'s acquisition of WillisRe and other Willis Towers Watson assets (WTW) for US $3.7 billion, and MassMutual's acquisition of Great American Life Insurance Company for US $3.5 billion.

Through acquisitions, brokerages (particularly the pan-global middle market broker segment) hope to expand their talent pool, widen their geographic presence, extend service capabilities, and broaden the business mix. 2020 also saw many interesting partnerships between brokers and InsurTechs in the small-business space.

Technology provider, Bold Penguin, handles commercial exchange operations for major US brokerages and carriers in the admitted and excess and surplus (E&S) markets. In 2020, they partnered with Mylo, a digital brokering company, to develop a quoting interface for small business owners. The solution accelerates quotations for personalized insurance and improves the customer experience. The solution is accelerating Mylo's growth into a top US digital brokerage firm.

TREND 6: DYNAMIC REGULATIONS AND COMPLIANCE

Key trends in regulatory space include:

Strong data governance

Enforced resilience

Focus on climate risk

The insurance broking industry has undergone deep shifts with regard to data and privacy regulations. Some of the key disruptors are laws such as General Data Protection Regulation (GDPR) in addition to Brexit, Solvency II, rising fraud, and the need for external risk management solutions.

During the pandemic, regulators focused on areas like policy disputes arising from infectious disease-related coverage, business interruption protection gap, workers' compensation claims, and solvency claims to name a few. In the post-pandemic world, insurance broking firms must prepare to handle dynamic regulatory and compliance requirements against the backdrop of rising concerns of customer protection as the industry adopts advanced technologies.

Three major trends have emerged in the regulatory space:

- Stronger data governance – As insurance companies focus on securing and managing data, brokers should ensure governance protocols are established for data collection. They must review data classification policies, assess controls for data access, and schedule periodic data clean-up.

- Enforced resilience – Resilience is a key regulatory trend that arose from the economic crisis brought on by COVID-19. Today, regulators are working towards creating more financial resiliency tools that measure and provide insights into the impact of catastrophic risks like the pandemic. With 'tail events' having outsized consequences that become the norm, brokers and insurers should work together to understand and address impact. Brokers should play an increasing role in risk management.

- Focus on climate risk – The past year has seen more regulatory activities to prepare insurance companies to handle climate risks. The New York State Department of Financial Services (NYDFS) last year established certain expectations from businesses around climate change. All insurers under its supervision "should take a proportionate approach that reflects its exposure to the financial risks from climate change and the nature, scale, and complexity of its business." With data analytics and the expertise of agents and brokers, insurers will be better equipped to assess and manage climate-related financial risks.

Aon's PathWise® is being used to develop the world's first IFRS17 implementation project for Kyobo Life. PathWise® is a cloud-enabled, GPU-based, scalable, high-performance computing enterprise risk management solution. It gives insurance companies access to next-generation technology to rapidly solve dynamic regulatory challenges. It allows businesses to model assets, liabilities, and scenario generators at the same time, thereby providing a complete solution for the managing and reporting of complex financial and biometric risks. The platform has been adopted for IFRS 17 purposes by Kyobo Life Insurance Co., Ltd., one of the three largest life insurance companies in South Korea.

Conclusion

Disruption in the insurance industry looms large. While the change will not happen overnight, many shifts are underway and there is a clear advantage for first movers.

Insurance brokers will benefit from clearly defining and articulating their strategy and then adjusting their operating models accordingly. By laying the groundwork now, brokers can enjoy a strong competitive advantage and become future-ready.

Brokerage firms must maneuver through inherent challenges if they want to deliver value to customers. The path is clear: To prosper by 2028, broking firms must choose their business model, brokers need to embrace new learning, and insurers should adopt digital practices for client management.

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