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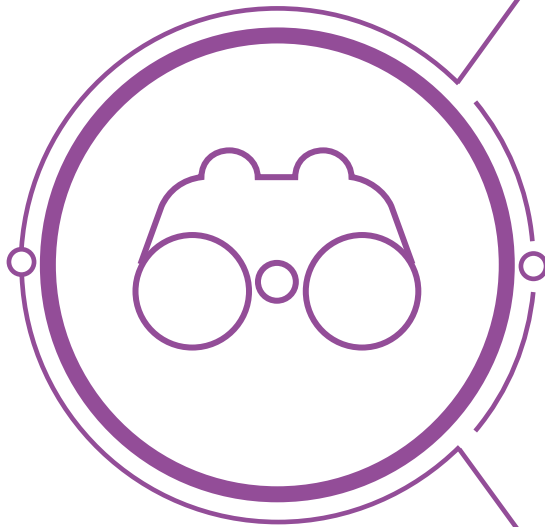
**CLIFFORD CHANCE INSURANCE INSIGHTS 2024**

SESSION 1 – GLOBAL TRENDS IN GENERAL  
INSURANCE: OPPORTUNITIES, CHALLENGES, AND  
THE IMPACT OF AI

OCTOBER 2024

## GLOBAL TRENDS IN GENERAL INSURANCE

### OPPORTUNITIES, CHALLENGES, AND THE IMPACT OF AI



The session featured a panel discussion chaired by James Cashier, a partner in the Financial Institutions Group at Clifford Chance. The panellists included Katherine Coates, a Non-Executive Director at Great Lakes Insurance, Talbot, and Phoenix Re; Emma Eaton, a senior associate at Clifford Chance; and Kumar Iyer, Clifford Chance's Senior Economic and Strategy Adviser. The panel explored the landscape of the global General Insurance (GI) market, focusing on macroeconomic challenges and opportunities, and the transformative role and future of Artificial Intelligence (AI).

## NAVIGATING MACRO TRENDS CHALLENGES AND OPPORTUNITIES AHEAD



**The GI sector faces significant challenges and opportunities. These include the impact of climate change, technological advancements through AI, social and political change and a fluctuating economic environment.**

As a result, insurers must adapt to emerging risks which will require adjustments to their pricing models and policy scopes. They must develop expertise in underwriting these novel risks while exploring innovative product opportunities to remain competitive. In addition, solvency concerns are heightened in an inflationary environment, where rising claims costs and new regulatory requirements, such as the UK's Financial Conduct Authority's (FCA) Consumer Duty, require a balance between sound underwriting and fair value for consumers.

In the commercial insurance sector, the shift from a harder to a softer market presents both challenges and opportunities. Insurers are concentrating on cost savings and productivity while broadening their reach through diverse broker channels and innovative products. However, the softer market environment heightens the risk of inadequate pricing, which could jeopardise long-term profitability. This expansion requires precise pricing to avoid underestimating risks in a competitive landscape.

Emerging risks stemming from new business models, technologies, and regulatory shifts add further complexity, and will require insurers to remain nimble and responsive to these evolving challenges. As the market continues to evolve, the need to balance innovation with risk management is crucial.

Addressing the protection gap is still a critical issue, particularly in areas like natural disasters, cyber risks, and emerging technologies, where underinsurance is widespread. Insurers need to innovate and collaborate to create products that better meet the needs of businesses and individuals, ensuring resilience against catastrophic losses. The protection gap could not only threaten market stability, but also leave communities vulnerable to significant financial losses when major incidents occur. The volatility in cyber insurance pricing and the integration of technology and AI also present challenges, requiring a nuanced approach to risk management and regulatory compliance in a rapidly changing environment. Successfully tackling these issues will be essential for maintaining consumer trust and achieving sustainable growth in the industry.

## RISKIER WORLD OR A MORE SOPHISTICATED INSURANCE MARKET?



**We find ourselves at a crossroads, unsure whether the world has become inherently riskier or if our risk management capabilities have simply evolved to identify more threats.**

The reality appears to be a combination of both. As the insurance industry grows more sophisticated, so too do the risks, particularly in the domains of cyber, politics, and natural disasters. The balance of power is shifting internationally, with less global cooperation and a decline in Western/US dominance, contributing to an increased sense of risk. Geopolitical tensions, such as the trade dispute between the US and China or the ongoing conflicts in the Middle East and Ukraine, have created uncertainties that impact global markets and insurance risk assessments. Certain threats, like climate change and cyber-attacks, are less well understood, exacerbating the feeling of vulnerability. The increasing frequency and severity of natural disasters, such as the recent wildfires in Greece or the hurricanes in the Caribbean, illustrate the growing impact of climate change on the insurance sector. Similarly, high-profile cyber-attacks, like the ransomware attack on Colonial Pipeline in the US, highlight the evolving nature of cyber risks.

There is a growing recognition that insurance plays a crucial role in managing and spreading risks, enabling more collectively optimal decisions. For example, parametric insurance products, which pay out based on predefined triggers, are becoming more popular as they provide quicker payouts and reduce administrative burdens.

There is also a greater recognition of the pooling benefits of insurance, which also allows individuals and businesses to better manage and mitigate risks by pooling resources and distributing the potential financial impact of unforeseen events across a larger group. This collective approach often leads to more optimal outcomes for all involved, providing a safety net that allows for greater resilience and stability in the face of adversity. For instance, insurance pools for natural disasters, such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), allow countries to share the financial burden of catastrophic events, thereby enhancing regional resilience.

The insurance industry is obviously heavily influenced by regulatory policies and economic conditions and will remain so. Changes in regulations, such as those related to pricing, underwriting, or capital requirements, can significantly impact the dynamics of the market and the industry must remain alert to this. For instance, the recent adjustments to the Ogden rate in the UK, which affects personal injury compensation calculations, have had considerable implications for motor insurers. Furthermore, economic factors, including interest rates, inflation, and GDP growth, will continue to influence the demand for insurance products and the profitability of insurance companies. The low-interest-rate environment in recent years has put pressure on insurers' investment returns, leading to a shift towards more innovative and diversified investment strategies. Navigating these regulatory and economic shifts requires agility and innovation, as insurers strive to maintain stability and foster resilience in an ever-changing environment.

## AI UNLOCKING OPPORTUNITIES



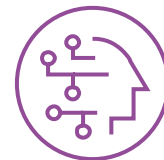
### **The integration of AI into the UK insurance industry has sparked an ongoing debate about whether it represents a revolutionary leap or just an incremental advancement.**

While some view AI as a transformative force that could reshape the industry, others argue that it is often confused with existing technologies like rule-based analytics and machine learning, which, despite their sophistication, do not fundamentally alter the industry's landscape. Distinguishing true AI from these established tools is crucial to avoid the overhype that plagued previous innovations like blockchain, ensuring that expectations for AI's impact are realistic and well-grounded.

The adoption of AI within the insurance sector is far from uniform, as evidenced by insights from the European Insurance and Occupational Pensions Authority (EIOPA) and various consultancy surveys. In the UK and across Europe, insurers display a wide range of attitudes toward AI, with digitisation advancing at different rates. For instance, while some sectors have embraced AI-driven solutions, traditional sales channels still dominate in areas like life insurance, where telephone and face-to-face interactions are prevalent. However, the growing use of chatbots and automated customer service tools signals a potential shift towards more digital and AI-enhanced interactions, suggesting that change may be on the horizon.

AI presents significant opportunities for improving operational efficiency and enhancing fraud prevention within the insurance industry. Automation of back-office roles through AI can drive cost reductions and service improvements, meeting the demands of UK insurer boardrooms focused on the bottom line and aligning with the Prudential Regulation Authority's (PRA) emphasis on operational resilience. AI also plays a crucial role in fraud detection, using advanced analytics to identify patterns indicative of fraudulent activity, allowing insurers to prevent fraud before it occurs. Moreover, AI is enabling innovation in product design, such as telematics-based car insurance and data-driven health policies, and supporting regulatory compliance, particularly in navigating complex anti-money laundering (AML) requirements. This integration of AI is steering the industry toward a more proactive, customer-focused model with benefits of both efficiency and consumer satisfaction.

## AI CHALLENGES AND FUTURE DIRECTION



**The integration of AI into the insurance industry is progressing rapidly, but it also presents significant challenges, particularly regarding national security and the convergence with cyber threats.**

Implementing AI strategies requires substantial investments of time and financial resources, highlighting the need for a long-term industry commitment. Additionally, there is a pronounced skills gap, emphasising the critical need to attract and develop professionals who can effectively lead these technological initiatives within the insurance sector.

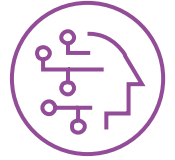
Navigating AI governance is complex, as firms must carefully assess and manage the intricate risks associated with AI deployment, ensuring they fully understand both the potential benefits and the unintended consequences.

Despite AI's advancements, human intervention remains crucial, particularly for complex insurance products where the ultimate responsibility lies with skilled professionals. AI enhances data-driven underwriting, but the future will likely see a blend of underwriters, lawyers, and tech-savvy professionals guiding the industry. This integration ensures that AI's capabilities are maximised while maintaining ethical and legal standards. However, as AI drives hyper-segmentation, it risks increasing prices for high-risk customers or excluding them from the market, threatening traditional risk pooling. This could prompt governments to expand their role as insurers of last resort, especially as the industry develops independent solutions for challenges like flood risk, potentially leading to higher premiums.

Emerging technological threats, such as the malicious use of deep fakes, present new risks that could potentially reverse the gains AI has made in areas like fraud prevention. These deep fakes can create sophisticated, hard-to-detect fraudulent schemes that challenge existing security measures. Furthermore, the phenomenon of "AI washing"—where companies overstate the capabilities of their AI technologies—introduces significant reputational and regulatory risks. This issue is compounded by outdated legislation, which creates ambiguities and opens vulnerabilities that malicious actors could exploit. The insurance sector must remain vigilant in adapting to these evolving threats, ensuring that its use of AI is both ethical and effective.

Regulatory approaches to AI differ significantly across jurisdictions, adding another layer of complexity to its integration into the insurance sector. The EU's AI Act provides a detailed and stringent regulatory framework, aiming to ensure safe and transparent AI use, while the UK follows a more flexible, principles-based approach. Other regions, such as Japan, Colorado, and California, are crafting their own AI regulations, each tailored to local needs and concerns. The UK's new Labour Government has signalled its intention to legislate against the riskiest aspects of AI, likely through comprehensive cross-sectoral legislation. This evolving regulatory landscape will require insurers to stay agile, continuously adapting their strategies to comply with diverse and potentially conflicting regulations worldwide.

## AI CHALLENGES AND FUTURE DIRECTION (CONTINUED)



Rigorous monitoring of AI applications, especially in algorithmic underwriting, is essential to ensure fairness, accuracy, and compliance with broader legislation like the Equalities Act. The UK's regulatory approach to AI, possibly influenced by the EU's framework, may evolve under the Labour government in the UK, with potential for sector-specific regulation. The recent UK AI Regulation Bill indicates a move toward formalising AI governance, contrasting with the US's more relaxed stance and the EU's proactive measures. As the insurance sector continues to harness AI, it must carefully balance technological advancement with robust governance, ethical considerations, and regulatory compliance to ensure AI remains an asset rather than a liability.

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### KEY CONTACTS

We would be delighted to discuss these topics further with you.



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