

Insurance Industry: Reflections on 2022, Predictions for 2023

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For many in the insurance industry, 2022 was a year of growth, a year dedicated to gaining traction after the residual effects of 2020. As we enter 2023, we reflect beyond the macro dynamics of other markets, in hopes of forecasting what is to come for the insurance industry. In this post, I will summarize some highlights and emerging topics in 2022, along with my 2023 predictions.

Reinsurance Access

The reinsurance market reported record lows, down 11% at mid-year 2022 as compared to 2021. This reduction in the market is primarily driven by investment losses. In comparison, in 2021, a majority of reinsurers reported profitable results despite the above-average natural catastrophic losses and ongoing pandemic-related losses from excess mortality. The increasing war in Ukraine also affected countries within the European Union that offer reinsurance.

As the market dipped, rate increases led to reduced access to affordable insurance for insurers. Inflation was also a major contributor in creating a challenging market for reinsurers (and insurers alike). Claims handling also posed a difficulty for insurers, mostly caused by goods and labor shortages and volatile prices. A recent [report by Bank of America Global Research](#) predicted that the themes seen in 2022 will continue and accelerate into 2023 – leading to supply-demand imbalances in the property catastrophe market.

Insurers will need to be proactive in calculating how, and if, elevated costs should be built into their pricing models when negotiating their reinsurance policy renewals.

There were more than 25 global weather-related disasters between January and September, 2022. At the third quarter, catastrophic events occurring in 2022 (including Hurricane Ian, which is projected to become the largest disaster in the U.S.) resulted in more than \$227 billion of projected losses to the industry worldwide, according to Aon's quarterly disaster report released in October¹. This includes severe weather events, floods, droughts, tropical cyclones, and a windstorm in Europe.

Domestically, property catastrophe pricing for Florida businesses rose by an average of 25% as of June 1, which is a cumulative increase of 90% in the last five years.

NAIC Adoptions of Note

The National Association of Insurance Commissioners, or NAIC, is a U.S. insurance standard-setting organization.

On the topic of increased consumer protections, at the 2022 Spring NAIC Meeting, the NAIC approved the Privacy Protections Working Group's request to draft a new model law to enhance consumer protections and specify the corresponding obligations of licensed entities.

Also in 2022, the NAIC made progress on revisions to Statements of Statutory Accounting Principles (SSAP). The Statutory Accounting Principles (SAP) Working Group continued its ongoing work on:

- a principle-based bond definition;
- adopting or considering changes to other SSAPs, including SSAP No. 4 — Assets and Non-admitted Assets (SSAP No. 4) and SSAP No. 5R — Liabilities, Contingencies, and Impairments of Assets (SSAP No. 5R) — to address new concepts included in the Financial Accounting Standards Board (FASB) revisions to the definition of an “asset” and a “liability.”

Both the NAIC Financial Condition (E) Committee and the Accounting Practices and Procedures (E) Task Force also adopted changes to SSAP No. 25 — Affiliates and Other Related Parties (SSAP No. 25) and SSAP No. 43R to clarify related party reporting requirements that the SAP Working Group recently adopted.

Related to NAIC model laws, the Texas Department of Insurance (TDI) adopted a new group capital calculation filing requirement. The new rule is based on the NAIC model regulation that requires an insurer's ultimate control person in an insurance holding company system to file a group capital calculation concurrently with the insurer's annual registration statement (Form B).

InsureTech

InsureTech refers to technological innovations created and implemented to improve the industry's efficiency in underwriting, processing claims, and managing assets. InsureTech powers the creation, distribution, and administration of insurance-related business.

In 2022, InsureTech capital investments were largely focused on big data, Artificial Intelligence (AI), and IoT (Internet of Things) devices. For example, we've seen the rise of parametric insurance or “smart insurance,” which utilizes parametric measures, or a statistical variable of determinable situations (such as rainfall amount or wind speed), as an alternative risk solution provided by insurance and reinsurance companies to enable organizations to finance or to transfer risk in a non-traditional way. This offers speed-to-market where claims are paid automatically without claims adjusting. The parametric solutions revolve around a measurable index and are based on predefined triggers or payout mechanisms – without necessarily requiring evidence of physical damage.

Prediction for 2023: Walking into 2023, I believe we will see more examples of parametric insurance in flooding, flight delay, hurricane, or wind damage coverages.

Decentralized Insurance, NFTs, and Blockchain

Decentralized insurance may refer to either blockchain-based insurance as a replacement for traditional insurance, or to insurance that covers decentralized related activity. Decentralized insurance is not yet regulated

in the admitted market of insurance companies, which places this insurance in the surplus lines or non-admitted market.

In 2022, we saw the emergence of some tech companies offering crypto or blockchain risk-pool arrangement services. Some of these companies go so far as to create an internal type of mutual risk pool, whereby the company proposes to pool together the risk of consumers who are receiving the services or products from this tech company. These tech companies do not appear to be licensed as a mutual insurance company or as any kind of risk-bearing entity, but are using community voting to determine whether claims should be paid. Even further, some claim to have expert investigators that will determine whether claims should be paid.

Further in 2022, we saw the rise and fall of NFTs or (non-fungible tokens). NFTs, which gained popularity in 2021, are non-tangible unique crypto-graphics that exist in a blockchain and represent artwork or other digital assets. However, owners of NFTs, from celebrities to members of the general public, faced issues with preserving and insuring their NFTs' value. The market for high-value NFTs plummeted.

Prediction for 2023: We will see an emergence of regulatory investigations into non-authorized business of insurance. While those in tech wish for globally decentralized insurance protocols, I do not believe we will see any such permissions in this new year. I predict a nationwide trend in the insurance industry to provide insurance coverage for decentralized activities or even blockchain. While there decentralized risks already exist, state regulators will likely not be able to create laws this year to keep up with innovators in this area.

Emerging Markets

Reciprocal insurance exchanges are a form of insurance organization in which individuals and businesses exchange insurance contracts and distribute the risks associated with those contracts. Policyholders of a reciprocal insurance exchange are referred to as subscribers and they operate individually through an attorney-in-fact (AIF), who acts on behalf of the subscribers of an exchange by issuing reciprocal or interinsurance contracts.

While reciprocal exchanges are by no means a new type of risk-bearing entity, we will see more of them in the next few years.

Prediction for 2023: I believe we will see an emergence of new reciprocal insurance exchanges.

It is certainly an exciting and transformative time in the insurance industry's life cycle. Disruptive technologies and increased natural disasters will continue to revolutionize the industry. I look forward to seeing where 2023 takes the insurance market, and will report as the year progresses on new developments.

1. Q3 Global Catastrophe Recap – October 2022.

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