

AUGUST 2023

Why a Thriving Insurance Industry Is Critical to Economic Development

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Insurers must overcome upcoming challenges and leverage opportunities to perform their high-impact role.

The volatile global economy—influenced by geopolitical conflicts and rising interest rates—has exposed the financial vulnerability and wariness of companies and consumers in recent years. While the long-anticipated recession remains out of sight, [Deloitte](#) predicts a substantial slowdown will continue shaking up the business landscape over the latter half of 2023.

In these uncertain times, the role of insurance in economic development becomes particularly pronounced. Insurers drive growth by reducing the impact of economic threats, giving people and businesses a greater chance to prosper. But in order for insurance firms to step up to the plate and serve their essential role, leaders must [prepare for challenges](#) and opportunities that lie ahead.

What Is the Role of Insurance in Economic Development?

When analyzing how insurance shapes the economy, it's clear that providers serve four critical functions:

- Protecting against financial loss
- Promoting economic growth
- Providing capital
- Stabilizing the economy in crisis

Understanding each of these roles allows us to see why the health of the insurance industry is critical to long-term economic development.

Protecting Against Financial Loss

Insurance, by definition, serves as a form of protection. For companies, it safeguards against many of the significant risks that come with operating a business, from data breaches and natural disasters to injuries and supply chain disruptions. With a policy in place, companies have a buffer against the financial consequences of potentially door-shuttering events—including those that might otherwise cause millions of dollars in losses.

On the consumer side, insurance acts as a shield against unexpected personal expenses,

alleviating the costs of medical care, property damage, and beyond. As a result, consumers can maintain their buying power and stimulate the economy with purchases in both trying and thriving times.

Promoting Economic Growth

The catalytic effect of insurance on the economy cannot be understated. While policies are often viewed like life jackets, keeping organizations afloat in emergencies, they also propel businesses forward by giving leaders the courage to innovate. Insurance policies derisk the trial-and-error process behind research and development.

Furthermore, insurance equips companies with the *means* to innovate by attracting investors and lenders with greater stability and protection. This is particularly true at a global level. For global exporters, the [International Trade Administration](#) reports lenders are significantly more willing to offer higher credit lines and better borrowing terms when foreign accounts receivable are insured.

However, insurance doesn't just attract lenders—insurance companies themselves are essential capital providers, as well.

Providing Capital

The investment strategies of insurance companies can significantly shape the state of the economy. In a [survey](#) of 370 global insurers—which have nearly \$28 trillion in assets under management—the majority reported plans to make investment decisions based on environmental, social, and corporate governance (ESG) objectives. This change in priorities may promote the long-term economic growth of companies with sustainability initiatives.

Additionally, 87% of insurers plan to allocate more capital toward private investments, showing a desire to diversify and a willingness to take on risk that could benefit new markets and aid in post-COVID recovery.

Stabilizing the Economy During Crisis

The protective characteristic of insurance becomes highly valuable during economic crises. Insurers provide a safety net, mitigating losses in economic downturns and inflationary periods. When consumers lose buying power, insurance prevents widespread social inequality by preventing further losses in assets. Some forms of insurance, like life insurance, can also

be particularly attractive due to inflation-protection features that continue to maximize returns.

After crises occur, the power of collaboration between insurers and governance may be key to disaster recovery and revitalizing economies. According to [World Economic Forum](#), insurers can provide stability by sharing their expertise in risk management and making investment decisions with positive, long-term outcomes.

Challenges and Opportunities for the Insurance Industry

Despite their role in shaping the economy, insurers are equally influenced by the state of the world. As technology evolves, one of the next big challenges for insurance companies will be transforming their digital infrastructure and adapting to the high-efficiency world. [McKinsey](#) reports applied AI will have the greatest impact across the insurance industry, streamlining processes like underwriting and claims.

This automation will enable insurers to focus on high-value touchpoints that improve the customer experience. Additionally, it could allow more time for the development of strong investment strategies that positively shape the long-term state of the global economy.

Insurance firms must also take action to enhance the affordability and accessibility of insurance, in an effort to prevent [widening racial and financial gaps](#) in the industry. Partnerships with government agencies and local organizations could not only lead to policies that are inclusive of underserved communities but also widen insurers' customer base.

Climate change will prove to be a rising challenge on multiple fronts. As natural disasters grow more frequent and severe, [underwriting losses](#) are rising and pressure to implement more ESG investment initiatives is heating up. To combat the unavoidable losses, insurers can consider developing products that protect consumers from climate-related risks, which will grow increasingly attractive in the coming years. Insurance leaders must also reassess their portfolios to identify assets that are most threatened by climate change.

Additionally, Deloitte's [2023 Insurance Regulatory Outlook](#) anticipates lawmakers will increasingly implement standards to protect consumers. Insurers not only need to focus on accurate record-keeping but also determine how to balance profitability goals and consumer interest.

Securing strategic leadership fast—particularly as the [insurance talent crisis](#) grows—will be

critical for navigating the increasing complexity in the insurance industry. As innovative, collaborative decision-makers secure the health of insurance companies, insurers can fully step up to their role in enhancing the economy overall.

How will your team prepare for the challenges and opportunities of the future?