GALLAGHER BASSETT | CARRIER PRACTICE

THE CARRIER PERSPECTIVE:

2025 CLAIMS INSIGHTS

Market Pressures and Opportunities: Understanding Insurance Trends in the UK

This year marks the third edition of our annual whitepaper, a comprehensive exploration of insights from insurers across the globe. Each edition of this report reflects the collaborative effort of our survey respondents, whose unique perspectives have greatly enhanced our understanding of the industry. We extend our sincere gratitude to all participants for their contributions, which help illuminate the challenges and opportunities shaping the global insurance landscape.

The insurance sector is currently experiencing diverse and complex market pressures, with conditions varying significantly by region. In the UK, we're seeing a tightening market shaped by economic factors and competitive dynamics. More than 80% of survey respondents from the region reported increased costs of reinsurance, while over three-quarters believe that these challenges are also driving higher claims costs, which ultimately leads to increased premiums.

However, the increased cost of reinsurance and rising claims costs are only part of a larger puzzle. Additional drivers, such as social inflation, regulatory shifts, climate change and the frequency of natural disasters, have also contributed to premium increases in the market. While the driving factors are similar, regional nuances have shaped different outcomes across the globe.

The third quarter of 2024 saw the UK property insurance rates decrease while the casualty rates increased due to auto liability. There are several reasons for this increase in casualty rates: higher costs of care for those injured in automobile accidents, greater vehicle and replacement part costs and a rise in jury damages, including exorbitant court awards that greatly impact the insurers' loss ratios.

Current market conditions are leading insurers to actively optimise strategies to manage costs and maintain profitability. Efforts to enhance operational efficiency and embrace innovative solutions are at the forefront, helping mitigate the financial impact of rising claims.

In the UK, insurers are employing several key strategies, with premium adjustments being the most common approach by nearly two-thirds of respondents. Additionally, there is a strong focus on technology investment, enhanced claims management and the implementation of stricter underwriting guidelines. Many UK insurers are also closely monitoring credit rating agencies for potential downgrades or negative outlooks, which could influence market strategies and competitive positioning. With global credit reporting agencies anticipating that these challenges will persist in the reinsurance market, insurers may benefit from paying close attention to the effects on the entire supply chain.

While most survey participants foresee a moderate hardening of the UK insurance market, insurers continue to have opportunities to differentiate themselves. Looking ahead, advancements in data analytics, cyber security and artificial intelligence will enable insurers to stand out in a competitive market. However, capitalising on these will require significant investment.

Furthermore, the new Labour government's heightened scrutiny of insurers' pricing and customer fairness signals a challenging period ahead for UK insurers. As the spotlight shifts from motor insurance to household property lines, with other sectors soon to follow, we can expect the conditions to tighten in the wake of reduced suppliers as some insurers exit the market. Such a scenario presents both challenges and opportunities. With the Consumer Duty legislation already in place, insurers face added pressure to optimise operations and improve customer service to avoid the prospect of reputational damage or regulatory fines for poor service delivery. To enhance the return on investment, insurers may look to a trusted advisor with a deep understanding of the evolving nature of global challenges and technological innovations.

Gallagher Bassett (GB) can provide insurers with critical support, whether through streamlining processes, enhancing claims capabilities or providing guidance on optimising the workforce. Our dedicated Carrier practice model is designed to maximise our ability to partner with insurers by offering a cross-functional team entirely focused on achieving specific targets and goals, and supporting managing general agents, programme administrators, captives and alternative risk managers. Additionally, our expertise in AI and our commitment to advancing machine learning through our Waypoint product suite empower us — and our partners — to capitalise on the latest benefits of generative AI. As technological advancements reshape the industry, GB is well-placed to help insurers adapt quickly to whatever comes their way.

Our experienced professionals take a proactive approach to managing risks, resolving claims and optimising outcomes by focusing on resiliency and efficiency. This enables insurers to stay ahead of the competition now and in the years ahead.

TABLE OF CONTENTS

Charting new horizons — trends shaping insurers and insurance markets

Economic volatility, climate change, technological advancements and evolving customer expectations are transforming the insurance industry. Current market conditions have insurers facing a wide range of challenges, from managing the financial impact of rising claims costs to navigating new regulatory requirements. These pressures are reshaping the operational landscape, influencing everything from strategic decision-making to resource allocation.

In this dynamic environment, staying informed is essential for insurers striving to remain competitive. To this end, we conducted a comprehensive survey to gather valuable insights from 200 respondents across the United Kingdom (UK), North America, Australia and New Zealand. In addition to typical insurers, our survey participants included managing general agents (MGAs, 14%), and underwriting agencies (12%). This diverse representation offers a well-rounded view of the current landscape and provides insights into the challenges and opportunities shaping the global insurance industry.

KEY FINDINGS

- Premium affordability and insurability are the most cited business challenge by 49% of UK insurers.
- Nearly two-thirds of global and UK insurers anticipate the market will harden within the next 12 months.
- According to 77% of global and 73% of UK insurers, the accuracy of claim processing is the key quality metric to evaluate performance in claims management.
- 98% of insurers in the UK see reduced operational costs as the greatest value-add of generative AI adoption.

Key market challenges

Globally, three core challenges stood out in our survey responses: data and cyber security risks, premium affordability and insurability, and increasing market competition. In the UK specifically, the primary business challenges were premium affordability and insurability, adapting to rapid technology advancement and regulatory compliance and changes. These issues highlight a business environment where financial pressures, digital vulnerabilities and competitive dynamics are shaping industry priorities.

ORGANISATION'S TOP THREE RANKED CURRENT CHALLENGES FACING THEIR BUSINESS

% of business challenges selection over all three ranks

Furthermore, with the growing number of cyber incidents and their resulting impact on both operations and client trust, it is understandable why 44% of global and 33% of UK respondents regard data and cyber security as a significant risk.

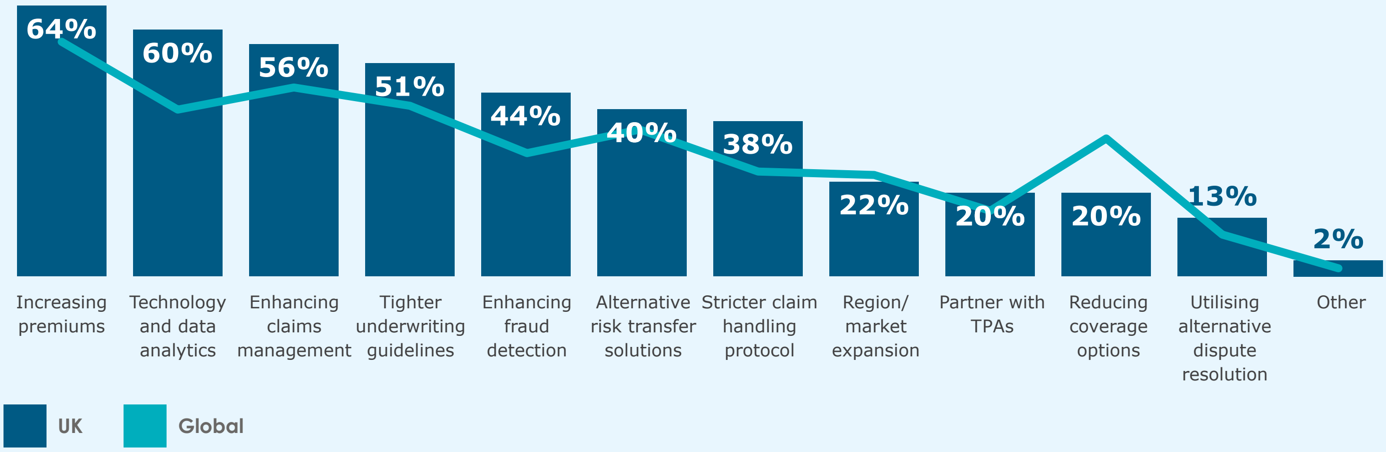
Emphasis on increasing premiums

Increasing premium rates is the primary approach respondents have adopted globally (57%) and in the UK (64%) to manage evolving market dynamics. The second-ranked choice in the UK was using technology and data analytics to navigate the challenges of the hard market. Additionally, 47% of global and 56% of UK insurers are focusing on strengthening their claims management processes to better handle the complexities of the market. Market conditions have led insurers to be more selective over their underwriting decisions, scrutinising applicants' risk profiles more rigorously and often setting stricter terms and higher premiums.

Globally, nearly two-thirds of survey participants identify rising claims costs as the primary driver of premium increases. In the UK, however, the leading factor is the increased cost of reinsurance, as voiced by 82% of the respondents. This sentiment may be due to the high reliance on the global reinsurance market, as well as factors such as inflation and climate change. It also highlights the critical need for effective claims management, advanced technologies to reduce claims leakage and proactive strategic planning to navigate the complexities of an evolving market.

STRATEGIES TO OVERCOME CHALLENGES OF THE HARD MARKET

% of strategies employed in response to the hard market



Adapting cost strategies to manage social inflation and legacy claims

KEY FINDINGS

- Globally, there is a 14-percentage point increase in insurers identifying legacy claims as a challenge to profitability and efficiency.
- To manage the impact of social inflation, 53% of UK insurers are planning to increase premium rates as part of their pricing and underwriting strategies.
- As part of their claims settlement strategies, 47% of UK insurers are increasingly employing alternative dispute resolution methods.

An uptick in the impact of legacy claims

Longtail exposures can have a substantial impact on an insurer's financial reserves, and in today's increasingly challenging market, this impact appears to be compounding[1]. This year, 76% of insurers across the globe reported that legacy claims posed a challenge to organisational profitability and efficiency. This is a 14-percentage point increase from the previous reporting year. UK insurers shared a similar sentiment, with 69% (up by 9 percentage points from 2024) reporting that legacy claims were a key challenge.

These concerns have made legacy claims a primary focus for insurers in the UK and worldwide. Many insurers are assessing the effectiveness of their current support and long-term strategies to manage legacy claims. The focus also extends to systems and processes that no longer align with modern technology and ways of working, which is a cost-intensive issue to address. Over time, the resources dedicated to handling these systems diminish, causing additional strain on business resources.

For organisations experiencing these challenges, working with a strategic partner is a cost-effective way to open the door to greater efficiency and enhanced technology. As legacy portfolios begin to close out, leveraging the value of a strategic partner and award-winning technologies becomes even more important to identify and unlock growth opportunities.

IMPACT OF LEGACY CLAIMS ON PROFITABILITY AND OPERATIONAL EFFICIENCY

% impact of legacy claims on organisations

The rise of claims and risk management partners in legacy claims handling

To manage the growing challenges of legacy claims alongside in-house teams, UK insurers are leveraging partnerships with third-party administrators to provide IT support, manage legacy claims and enhance data management efficiency. By utilising an external partner, insurers can accelerate legacy claims management and integrate systems more effectively. Insurers then have the capacity to focus on growing their core business and strategically invest resources while a partner addresses legacy files.

Balancing rising costs and litigation frameworks

According to our survey findings, 54% of global insurers report that litigated claims are settling at higher costs, reflecting the increasing complexity of disputes. In the UK, this figure is notably lower, with 36% of insurers citing higher settlement costs — a modest 3-percentage point increase compared to 2024.

This lower level of concern in the UK may be shaped by several mitigating factors within the UK's legislative landscape, including fixed tariff damages for low-value injury claims and the fixed costs regime for claims valued up to £100,000[2]. These frameworks help to contain some settlement costs, particularly in lower-value cases, even as other factors — such as rising repair costs and extended credit hire periods — contribute to inflationary pressures.

Advanced data analytics plays a crucial role in understanding the local legislative environment. By identifying trends in claims and enabling proactive decision-making, insurers can refine their risk profiles and reduce potential cost escalations. This approach underscores the importance of innovation in managing litigation effectively.

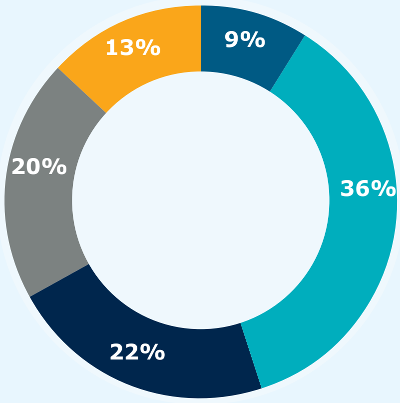
Streamlining claims settlement

In direct response to the impact of social inflation on the cost and complexity of claims, 51% of global and 47% of UK insurers are increasingly turning to alternative dispute resolution methods as part of their claims settlement strategies.

By adopting alternative dispute resolution methods, insurers can streamline the claims settlement process, reduce litigation costs and achieve more efficient and equitable outcomes. This approach helps manage the financial pressures associated with social inflation and enhances the overall claims experience for policyholders by providing faster and potentially less adversarial resolutions.

CHANGE IN LITIGATED CLAIM SETTLEMENT SPEED AND COST

% perceived change in litigated claim settlement trends



- YES, SETTLING FASTER
- YES, SETTLING AT INCREASED COST
- YES, SETTLING FASTER AND AT INCREASED COST
- NO CHANGE TO PREVIOUS YEARS
- UNSURE

Social inflation driving up premiums

Social inflation poses a growing challenge for insurers across all markets during times of economic volatility. This global trend, fuelled by rising jury awards, monetary devaluation and more lenient workers' compensation rulings, is driving insurance losses upward[3].

While controlling social inflation remains challenging, insurers are opting for various strategies to help navigate its effects. Across the UK, insurers are updating pricing for litigation costs, increasing premium rates and enhancing risk assessments as part of their strategies to manage pricing and underwriting in response to the impact of social inflation on coverage levels.

These adjustments further reflect a broader industry effort to balance the financial sustainability of insurance offerings with the evolving landscape of risk and coverage demands. As social inflation continues to influence the cost of claims and coverage, insurers are proactively adapting their approaches to ensure they can continue to provide comprehensive and effective insurance solutions.

Fostering strong relationships with legal experts and investing in comprehensive training for claims adjusters can help organisations effectively navigate the complexities of modern litigation. By building these relationships, companies can also gain access to valuable insights, expertise and guidance that help address nuanced legal challenges.

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[1]Smith, Ian, and Kenza Bryan. "The Uninsurable World: How the Insurance Industry Fell Behind on Climate Change," *Financial Times*, 02 Jun 2024.

[2]"Fixed Recoverable Costs," *The Law Society*, 03 Nov 2023.

[3]https://insurers.gallagherbassett.com/insights/six-strategies-for-managing-social-inflation/

From data breaches to business continuity: Evolving cyber security for insurers

KEY FINDINGS

- The vast majority of UK insurers (82%) have implemented enhanced cyber security measures to combat the increasing severity of cyber events.
- Nearly half of global and one-third of UK insurers identify data and cyber security risks as the most common challenge faced by businesses in the insurance landscape.
- Over 80% of UK insurers have strengthened data security and privacy protocols to prevent improper data loss.

Cyber security in business resilience

Global business operations rely heavily on digital technologies and interconnected systems, making robust cyber security measures essential to business continuity. As the volume of data stored in cloud environments continues to grow, many insurers are navigating how to harness these technologies effectively while ensuring sensitive information remains secure.

In the last 12 months, cyber security risks have become one of the most significant challenges facing businesses. Nearly half of global (44%) and one-third of UK insurers (33%) identified data and cyber security risks as their primary overall concern in GB's survey. This underscores the increasing urgency to address vulnerabilities that could result in operational disruptions, reputational damage or financial losses.

A global IT crisis

In July 2024, a cyber security incident involving a major technology company disrupted industries worldwide. A flawed security software update resulted in a massive IT outage, impacting business operations ranging from airlines to hospitals. Experts considered it 'the largest IT outage in history',[1] as businesses faced cascading operational challenges, from cancelled flights and delayed medical services to interrupted supply chains.

The incident underscored the critical importance of robust cyber security measures and the risks associated with deploying updates in mission-critical environments. For many, this incident served as a stark reminder of how business interruption caused by cyber events can amplify operational costs, erode customer trust and create legal liabilities.

Our survey findings reflect this heightened awareness, with 84% of global and 82% of UK insurers implementing enhanced cyber security measures to address the rising frequency and severity of cyber events. These proactive steps demonstrate an industry-wide focus on mitigating future risks.

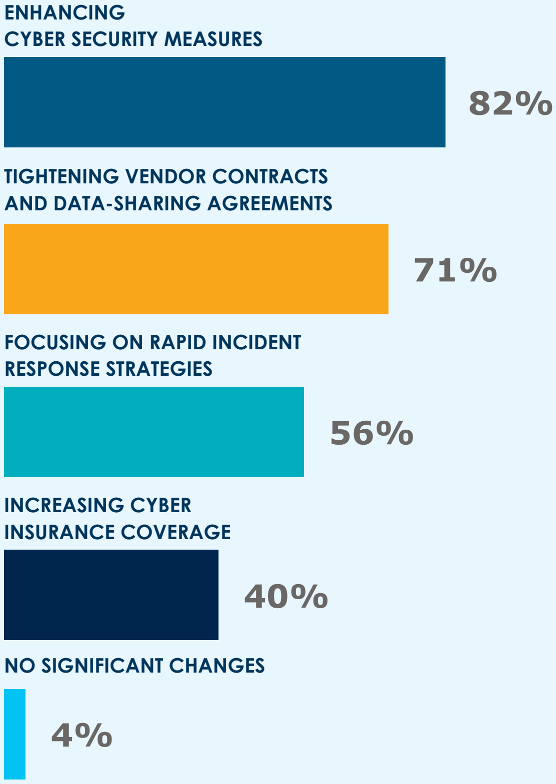
Strategic responses to evolving cyber threats

The implications of cyber security risks extend far beyond data breaches. From legal liabilities to prolonged business interruptions, the fallout of a cyber event can be severe. For insurers, who manage vast amounts of sensitive customer data, the stakes are particularly high. These challenges highlight a broader industry acknowledgement that building resilience against cyber threats demands a multifaceted approach.

Larger corporates are increasingly adopting robust protection measures and developing a deeper understanding of the risks and the need for adequate coverage. However, in the UK, the small and medium enterprises sector still lags in comprehending the full scope of cyber security risks and their potential impacts. This lack of awareness extends across policy coverage — for instance, while a cyber event may occur, businesses often lack the necessary coverage to recover from the financial losses incurred. Addressing this gap is serious, as the complexity of cyber risks requires customised solutions that align with the specific needs of different sectors.

ADAPTATIONS MADE TO ACCOUNT FOR INCREASED FREQUENCY AND SEVERITY OF CYBER EVENTS

% adaptations made to account for increased frequency and severity of cyber events



Consequently, 82% of UK insurers have introduced stricter data security and privacy protocols into their risk management strategies, aiming to protect against improper data release. Furthermore, 71% of UK insurers have implemented stricter data-sharing protocols in their strategies, ensuring that sensitive information is handled securely at every stage.

Managing risks through vendor relationships

Managing vendor relationships is a crucial component of safeguarding data and privacy. Globally, nearly two-thirds (61%) of surveyed insurers now focus on regular vendor audits and assessments in response to the prevalence of cyber events, while in the UK, over three-quarters (76%) of the respondents have also taken similar steps. This strategic shift signals a growing focus on securing the supply chain as an extension of internal operations.

By strengthening vendor relationships and enforcing higher security standards, insurers are reducing the potential for business disruptions originating from third-party partners. This holistic approach highlights the importance of a secure, well-managed ecosystem in maintaining operational continuity.

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[1] Kathleen Thorton, 'CrowdStrike Incident: What Happened and How Can We Learn from It?', *University of Maryland Global Campus*, 19 August 2024, URL

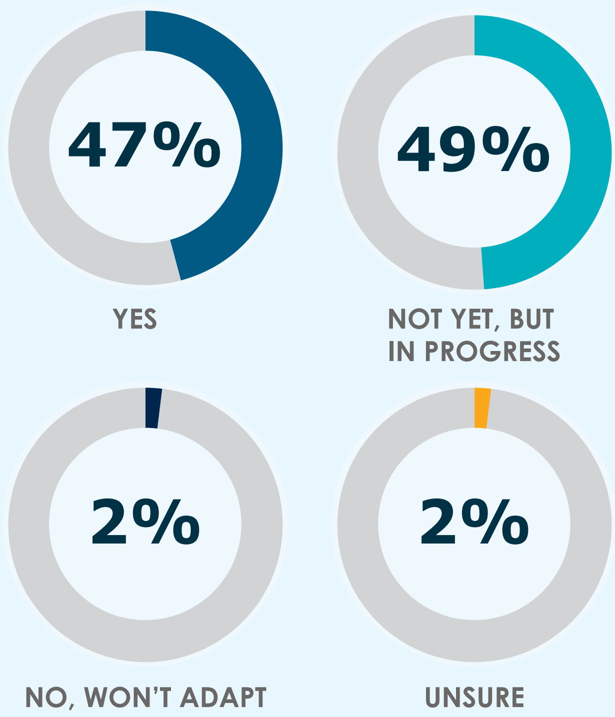
Streamlining claims with generative AI

KEY FINDINGS

- 58% of global and 67% of UK insurers have leveraged generative AI for fraud detection.
- Nearly half (47%) of UK insurers use generative AI for claims resolution, marking a 7-percentage point increase from 2024.
- 80% of UK and 72% of global insurers are using generative AI to automate routine tasks.

ADOPTION OF GENERATIVE AI FOR CLAIM RESOLUTION

Artificial Intelligence adoption %



Generative AI: Transforming insurance operations

Generative AI is rapidly redefining claims management in the insurance industry, offering transformative applications across the claims lifecycle. From data analysis and fraud detection to claim intake and triage, insurers are leveraging generative AI to improve accuracy, efficiency and customer satisfaction.

Our latest survey reveals that 47% of UK insurers now use generative AI for claims resolution — a 7-percentage point increase compared to last year. Data analysis and reporting stand out as the most frequently reported application of generative AI within the claims lifecycle, cited by 69% of respondents in the UK. Fraud detection follows closely, with 67% of UK and 58% of global insurers utilising generative AI to identify fraudulent activities. Globally, insurers are also emphasising generative AI's role in enhancing customer communication and support, ensuring timely and efficient resolution of claims.

By freeing up more time for our resolutions to focus on claim resolution (vs more routine tasks), we are enabling our claims managers to provide better service and better claims outcomes for our clients and claimants.

GB'S SUITE OF GENERATIVE AI TOOLS INCLUDES:

CLAIM SUMMARISER
to review claim information and provide a comprehensive summary report.

DOCUMENT INSIGHTS
to review documents, provide a detailed summary and enable users to ask further questions.

EMAIL SENTRY
to improve service by flagging time-sensitive emails, including classification and due date.

AI FOR TELEPHONY
to provide comprehensive insights into claimant interactions.

Optimising claims and workforce efficiency

Across regions, insurers are increasingly turning to generative AI to streamline operations and address resource challenges. Globally (82%) and in the UK (98%), insurers see reducing operational costs as the greatest value-add of generative AI. While faster claims processing ranks second worldwide, in the UK, streamlining routine admin tasks takes this spot, according to 69% of respondents. Though preferences over its usage may vary by region, our survey reveals that leveraging generative AI is helping insurers achieve greater productivity while maintaining high-quality outcomes.

The integration of generative AI is also reshaping workforce dynamics, enabling employees to focus on complex cases while routine tasks are handled more efficiently.[1] To improve workforce productivity, around three-quarters (72%) of globally surveyed insurers and 80% of UK insurers see automating routine tasks as the primary usage of generative AI. By adopting these technologies, insurers are positioning themselves to meet growing customer demands and maintain a competitive edge in a fast-paced market.

In the UK, talent shortages within the claims industry present a significant challenge. By leveraging AI to streamline processes such as triaging, insurers can ensure cases are directed to the right specialists early in the claims lifecycle. This reduces friction, allowing claims handlers and adjusters to focus on resolving core customer issues while ensuring the most qualified expert is assigned. The result is better outcomes for customers and improved operational efficiency for the business.

Future opportunities and collaboration for better outcomes

As generative AI continues to transform claims management, many insurers are finding value in partnerships with organisations that offer both innovative technology and a deep understanding of operational challenges. These collaborations can help streamline processes, integrate generative AI effectively and enhance the overall quality of claims outcomes — all while maintaining the human touch in customer interactions.

The future of claims management is set to be shaped by advancements in artificial intelligence, with generative AI leading the way.[2] As the technology evolves, its applications are expected to expand into predictive analytics, more sophisticated fraud prevention mechanisms and highly personalised customer experiences. These advancements may enable insurers to anticipate challenges, optimise decision-making and proactively adapt to evolving market demands. A forward-looking strategy that embraces innovation can help insurers stay competitive and deliver lasting value in an increasingly dynamic industry.

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[1] "How AI is Shaping the Workplace and Workforce Development," *HEC Paris*, 15 Nov 2024.

[2] Costa, Emanuele, and Nadine Moore. "GenAI Will Write the Future of Insurance Claims," *Boston Consulting Group*, 13 Dec 2023.

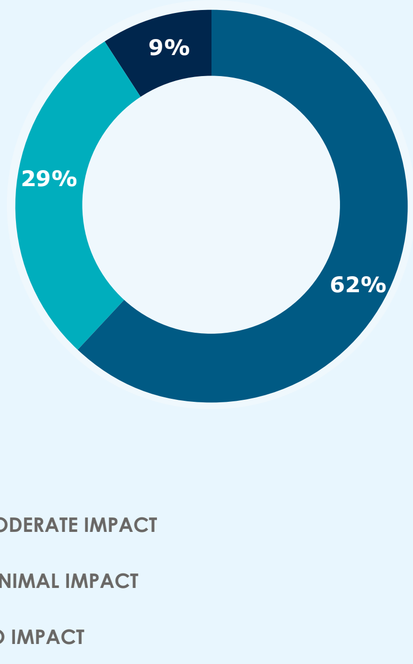
The evolving workforce: Prioritising flexibility, safety and proactive risk solutions

KEY FINDINGS

- 62% of UK insurers report a moderate impact from current labour market conditions on their organisation's ability to grow and manage claims efficiently.
- 76% of UK insurers identify flexible work arrangements as crucial to employee retention, followed by enhanced employee benefits (62%).
- Notably, in the UK, offering competitive salaries to retain employees has seen a 39-percentage point decrease since last year.

LABOUR MARKET'S IMPACT ON ORG. ABILITY TO GROW AND MANAGE CLAIMS EFFICIENTLY

% impact of labour market on organisation



Balancing growth and resilience amid ongoing workforce shifts

The UK labour market offers new opportunities and modern work practices, yet organisations continue to face challenges in expansion due to a constrained talent pool, cost-of-living crisis and economic and political uncertainty. Organisational transformations that are emerging with advancing technology, regulatory shifts and evolving customer preferences are leading to the rise of burnout and fatigue among workers. Furthermore, increased workloads and exposure to occupational hazards continue to contribute to a global trend of labour shortages.

GB's survey reveals that, due to current labour market conditions, 72% of global insurers reported a moderate to significant impact on their organisational ability to grow and manage claims efficiently. However, in the UK, although the concern about this topic is slightly lower than globally, it is still considerable. 62% of insurers indicate a moderate impact arising from the current challenges. This represents a potential opportunity for insurers to adapt and strengthen resilience in the face of ongoing pressures.

Flexibility and wellbeing take centre stage for employee retention

The shift to new work dynamics has prompted many individuals to reassess their careers. Each year, about three in ten UK employees leave their current roles for new opportunities, leading to an average turnover rate of 34%.[1] Today, workers increasingly seek positions that align better with their personal values or offer improved financial and personal stability. A noticeable increase in demand for benefits that provide enhanced security and job satisfaction has occurred in light of the ongoing cost-of-living crisis.

In response to changing employee expectations, particularly following the pandemic, UK organisations view employee retention as a matter of stability and an opportunity to cultivate loyalty, motivation and satisfaction within their teams.[2] Reflecting this, 76% of UK insurers have implemented flexible work arrangements as their top strategy for retaining employees, followed by enhanced employee benefits (62%) as the second most implemented strategy for attracting and keeping skilled talent. Globally, however, 60% of insurers are prioritising enhanced employee benefits, with flexible workplace arrangements coming in at a close second (58%) as primary strategies to address turnover in the current labour market.

Furthermore, offering competitive salaries is no longer sufficient to retain staff, as workers appear to now value approaches that support personal wellbeing and enhance productivity. This shift in focus also correlates with a notable 39-percentage point decrease in offering competitive salaries among UK organisations, demonstrating a commitment to meeting employee needs by offering work flexibility and fostering a culture of trust and adaptability.

Addressing workplace violence: A call for proactive risk management

Workplace violence remains a pressing issue with often overlooked impacts on productivity. In the UK, one in ten employees has reported experiencing bullying or harassment at work, with higher rates among women and individuals from lower socioeconomic backgrounds.[3] However, organisations in the present day are increasingly reflecting upon this as a critical business risk. There is increased awareness that harassment, bullying and discrimination pose ethical, legal and reputational risks, impacting productivity and hindering talent acquisition and retention.

Furthermore, there is a positive legal duty for employers to prevent sexual harassment from happening in the first place. As of 26 October 2024, the Worker Protection Act in the UK imposed a new ‘positive duty’ on employers to actively take reasonable steps to prevent sexual harassment within the workplace.[4] This has been brought in to ensure the proactive identification of potential risks and the implementation of measures to mitigate them effectively.

For insurers, this evolving landscape underscores the need to develop innovative risk management solutions that address the broader implications of workplace violence, including prevention and response strategies.

TOP STRATEGIES FOR RETAINING EMPLOYEES

% employment of strategies for retaining employees

The new Act adds an additional layer of accountability, creating opportunities for insurers to guide clients in navigating compliance challenges while fostering safer, more inclusive work environments.

[1]“Benchmarking employee turnover: What are the latest trends and insights?” *CIPD*, Published on 11 Jun 2024.

[2]“Why is Employee Retention Important?” *Knight Frank.*

[3] Gash, Vanessa, and Niels Blom. “VISION Policy Report — Violence in the workplace in the UK: Business and individual-level exposure,” *City, University of London*, Posted on 18 Oct 2024.

[4]Whiteley, Nicola. “Monthly Highlights – UK Employment Law – September 2024,” *Orrick*, Posted on 02 Oct 2024.

Innovating for climate resilience: Flexibility, technology and tailored solutions in focus

KEY FINDINGS

- 68% of global insurers and 64% of UK insurers are making moderate adjustments to their resource management strategies to handle extreme weather events.
- 69% of UK insurers prioritise technology investments to enhance operational efficiency during downtimes between CAT events.
- Despite rising temperatures, more than half of UK insurers have not observed an increase in heat-related claims.
- 58% of UK insurers expect climate trends to necessitate adjustments in insurance coverage and risk assessments.
- There is growing demand for climate-specific insurance products, according to 60% of UK insurers.

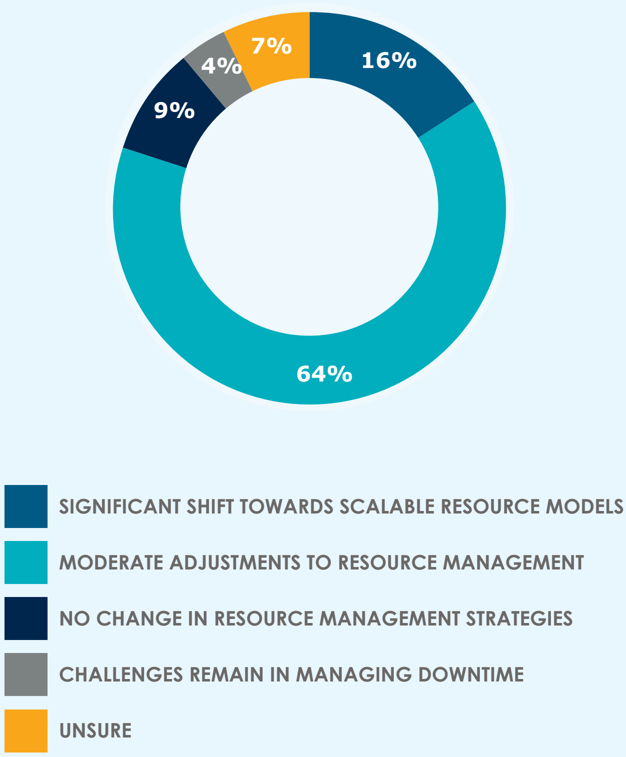
Stepping up with scalable solutions for growing climate challenges

The UK has experienced notable changes in weather patterns over recent years. Heavy rainfall events have become more frequent, often leading to flash floods, while rising sea levels and storm surges continue to pose threats to coastal areas. At the same time, heatwaves are growing in both frequency and intensity. Globally, major natural disasters have risen by 39% over the last three years.[1] These evolving conditions require organisations to develop robust strategies to address the associated challenges, including damage control and population displacement.

In response, 68% of global insurers are moderately adjusting their resource management strategies, particularly to enhance preparedness during downtimes between CAT events. UK insurers are aligned with this global trend, with 64% reporting the same. There is also a significant shift towards adopting flexible and scalable resource models, as responded to by 16% of UK insurers, surpassing the global response of 13%. A proactive stance is essential for effective management of the increasing demands created by extreme weather events while ensuring resilience and adaptability to safeguard long-term outcomes.

RESOURCE MANAGEMENT STRATEGIES TO HANDLE THE INCREASED FREQUENCY OF CAT EVENTS

% adaptation in resource management for increased frequency of CAT events



Advanced technologies and cross-training: Key strategies to navigate CAT events

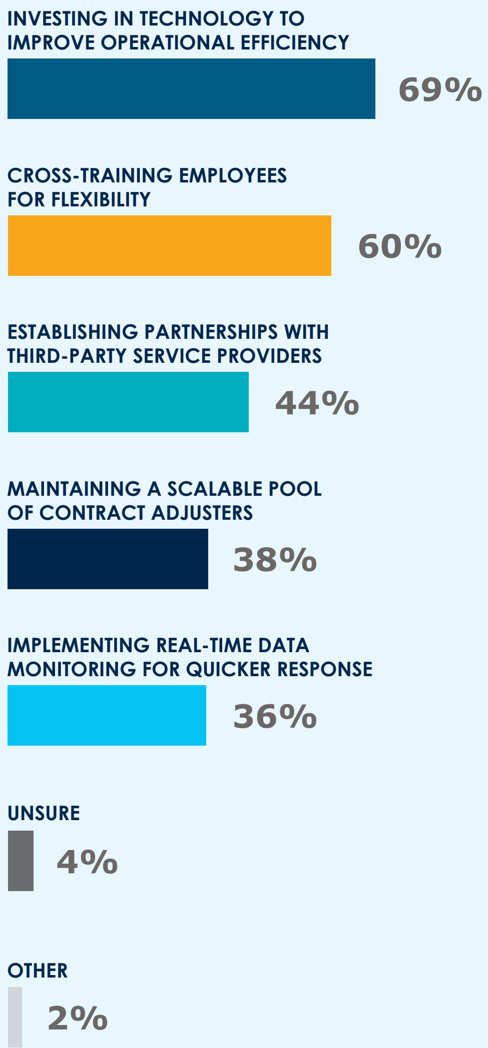
Downtimes between CAT events can significantly impact productivity and profitability. As such, many strategies are being employed to mitigate the effects. Our survey shows that 69% of UK and two-thirds of global insurers (66%) are prioritising investments in technology to enhance operational efficiency as their best practice during these periods. This indicates that insurers are increasingly recognising the value of leveraging advanced technologies such as AI-driven analytics and cloud-based systems to improve decision-making and response times, reducing operational disruption during and after CAT events.

In addition to technology, maintaining workforce flexibility is emerging as a key strategy. While over half of global insurers rely on contract adjusters to manage claims surges, UK insurers favour cross-training employees, with 60% of respondents adopting this approach. Cross-training enables insurers to optimise resources, minimise downtime and increase employee engagement, providing a cost-effective way to boost adaptability.

> **By investing in advanced technologies such as automation and data-driven insights, insurers can refine risk assessments, improve claims response — and build resilience — ultimately strengthening trust and customer loyalty.**

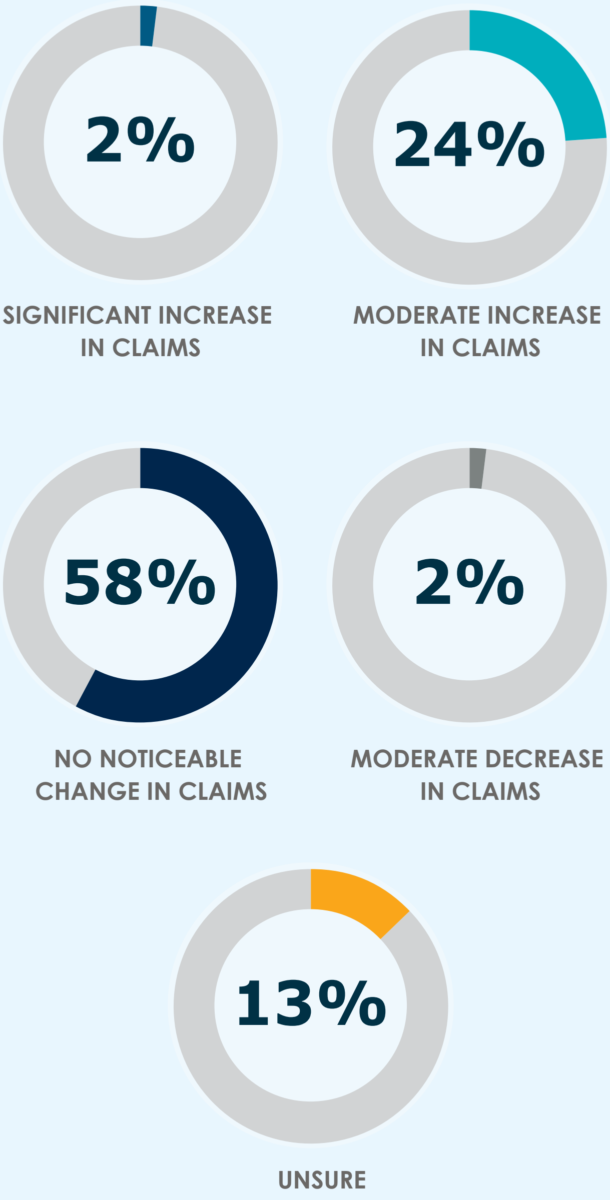
BEST PRACTICES USED TO MANAGE DOWNTIMES BETWEEN CAT EVENTS

% utilisation of downtime best practices between CAT events



HIGHER SUMMER TEMPERATURE'S IMPACT ON HEAT-RELATED CLAIM FREQUENCY

% change in heat-related claim frequency



Proactive risk management and the shift towards tailored insurance solutions

The evolving risks associated with extreme weather events are driving insurers to reassess their risk management strategies. In both the UK and globally, around 58% of insurers anticipate that climate trends will require adjustments to insurance coverage and risk assessments. Nearly half of UK respondents also highlighted the importance of collaborating with external experts to effectively address climate-related risks.

At the same time, investment in health and safety training programmes is emerging as another key strategy, with 42% of UK insurers adopting this approach. These efforts are complemented by broader resilience measures, including infrastructure upgrades, supply chain diversification and contingency planning.

In the UK, temperatures are climbing at an alarming rate. The record-breaking mean air temperature and marine temperatures in June 2023 resulted in marine heatwaves surrounding the UK during Spring and into June 2024.[2] Despite these trends, the majority of UK insurers (58%) have not observed a significant increase in heat-related claims.

Globally, however, 47% of insurers have report a moderate to significant rise in the frequency of such claims, while just over a quarter (26%) of UK insurers noted similar increases in claims linked to heat stress or heat-related illnesses. This disparity suggests that climate impacts remain highly localised, depending on regional and sector-specific factors. Moreover, it underscores the importance for insurers to continue monitoring climate patterns and their influence on claims to adapt and refine risk management strategies accordingly.

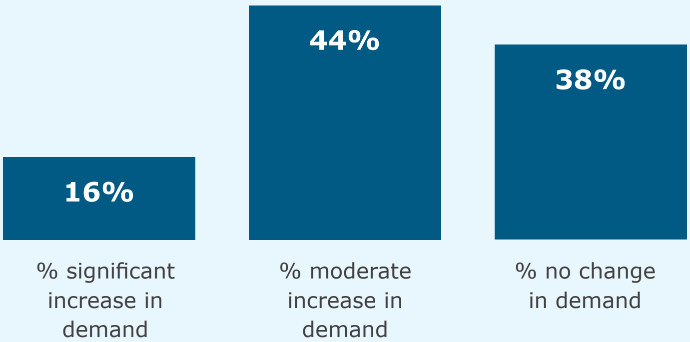
Demand for climate-specific insurance products is also rising. More than half (60%) of UK insurers report increased demand for such products, reflecting a 6-percentage point rise compared to last year. This trend highlights the growing importance of tailored coverage solutions to help clients manage the increasing risks posed by extreme weather events and long-term climate shifts.

Building resilience through innovation

The growing impact of climate-related events underscores the urgency for the insurance industry to adopt innovative and future-focused strategies. Enhancing resource flexibility, embracing technology-driven solutions and expanding climate-specific insurance products are key measures to address these challenges. By aligning with these priorities, insurers can better prepare for emerging risks, meet evolving customer demands and establish robust systems to protect people, property and communities.

TRENDS IN DEMAND FOR CLIMATE-SPECIFIC INSURANCE PRODUCTS OR COVERAGE OPTIONS

% demand for climate-specific insurance products



Note: 2% of respondents were unsure about changes in demand.

Partnering with experienced experts in claims and risk management is vital to effectively tackling these complexities. This collaborative effort not only strengthens the industry’s ability to respond to escalating climate challenges but also drives sustainable innovation and resilience for the future of insurance.

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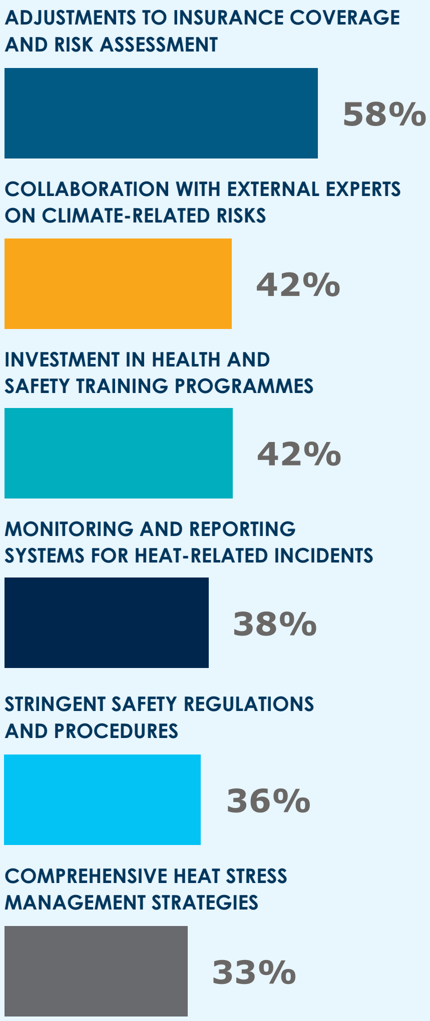
[1]Ukpanah, Inemesit. “Extreme Weather in the UK: In-Depth Analysis,” *Green Match*, Updated 30 Sep 2024.

[2]“The unbelievable May that had everyone talking,” *Met Office*, 17 Sep 2024

CLIMATE TREND’S IMPACT ON RISK MANAGEMENT STRATEGIES

Climate’s % impact on risk management strategies



Rising regulatory pressures: ESG and data privacy compliance take centre stage

KEY FINDINGS

- Environmental factors are expected to have the most significant impact on ESG strategies for 58% of UK insurers in the next three to five years.
- 67% of UK insurers anticipate data privacy and security compliance as a top regulatory challenge for 2025.
- 53% of global and UK insurers are struggling to keep pace with compliance and regulatory changes.
- There is a 22-percentage point increase in UK insurers engaging with claims management partners to support regulatory compliance compared to last year's results.

ESG criteria shape strategic planning; insurers take a cautious approach

In the face of mounting global challenges to achieving long-term business resilience, UK investors are placing greater emphasis on how companies address their environmental, social and governance (ESG) issues.[1] There is also growing consensus among UK investors that accountability for ESG should rest with the C-suite, implying that insurers and decision-makers need to align their strategies with ESG priorities to navigate this evolving landscape.

Our survey findings show that over half of UK insurers (58%) — and 53% globally — expect environmental factors to have the most significant influence on their ESG strategies over the next three to five years. In the UK, governance considerations rank second at 49%, likely driven by the government's latest consultation response and draft legislative proposals to regulate ESG rating providers.[2] By contrast, global insurers place greater emphasis on social elements (44%) as the next major driver of strategic change.

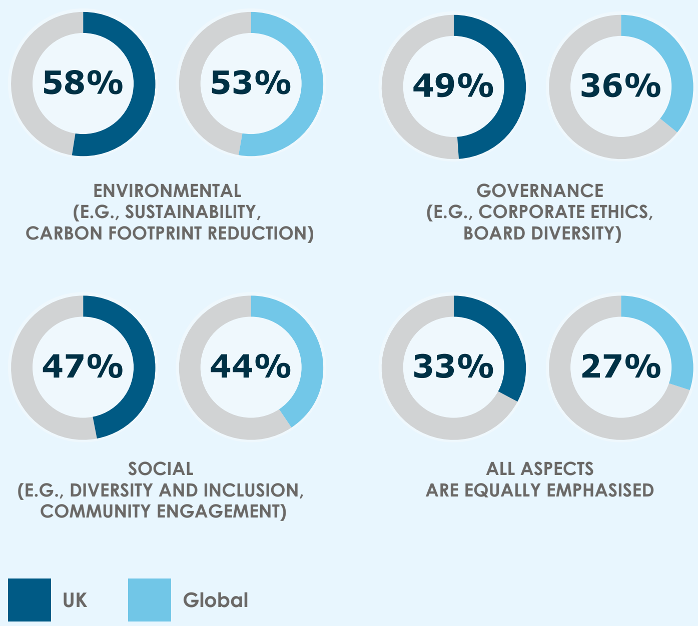
This variation highlights regional nuances in how ESG priorities are shaping corporate decision-making. As regulatory pressures and investor scrutiny intensify, insurers are adopting cautious, long-term approaches to integrating ESG considerations into their operations.

Shifting regulatory environment: Data privacy remains a key focus area

Organisations in the UK are increasingly driven by heightened scrutiny and new legislation, and data privacy and security compliance are emerging as top priorities for insurers worldwide. In the UK, 67% of insurers identify data privacy as their leading regulatory challenge for 2025, a trend mirrored globally (70%). This shift reflects the increasing complexity of managing sensitive customer data amid cyber threats and rising expectations for accountability and transparency.

ESG'S IMPACT ON ORGANISATIONAL STRATEGY OVER THE NEXT 3–5 YEARS

ESG's % areas of impact on organisational strategy



ADAPTION IN ORGANISATIONAL STRATEGY FROM ESG'S INCREASED IMPORTANCE

ESG's % adaption in organisational strategy

The UK General Data Protection Regulation continues to set a high compliance standard, requiring insurers to embed robust privacy-by-design principles into their data processes.[3] Maintaining accountability under these regulations is critical for insurers to mitigate risks and build trust among stakeholders.

> **The dynamic nature of these challenges demands continuous monitoring and a flexible, proactive approach to compliance.**

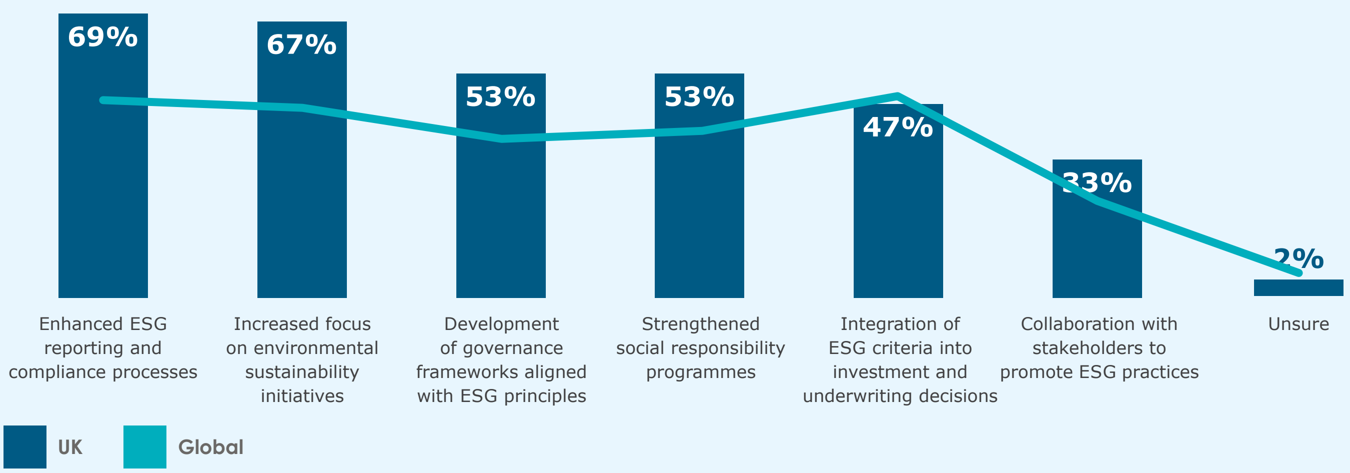
Adding to these pressures is the rapid pace of regulatory change. Over half (53%) of both global and UK insurers report struggling to keep up with shifting compliance requirements, particularly as they vary across jurisdictions and encompass areas such as ESG integration, data protection and emerging technology risks.

Prioritising external partnerships amid rising compliance demands

The increasingly complex regulatory environment has prompted insurers to collaborate with external specialists to effectively address regulatory challenges and streamline their compliance processes. Globally, 58% of insurers plan to collaborate with law firms or legal advisors to stay abreast of evolving regulations. In the UK, however, compliance consultants are taking centre stage, with 56% of surveyed insurers prioritising their engagement to stay compliant with changing customer-focused regulations.

ANTICIPATED COMPLIANCE AND REGULATORY CHALLENGES IN 2025

% anticipated compliance and regulatory challenges



EXTERNAL EXPERTISE ENGAGEMENT TO STAY COMPLIANT WITH CHANGING CUSTOMER-FOCUSED REGULATIONS

% anticipated compliance and regulatory challenges

There is also a notable trend towards insurers partnering with claims management partners to align with customer-centric regulations and streamline operations. Over the past year, this approach has gained traction, with a 22-percentage point increase among UK insurers — and a 13-percentage point globally — reporting plans to leverage such partnerships. These collaborations reflect the growing recognition that regulatory compliance is not just about meeting standards but also about enhancing efficiency, reducing risk and fostering stronger relationships with stakeholders.

As insurers continue to adapt to this evolving landscape, strategic partnerships will remain essential to navigating regulatory complexities while maintaining operational resilience and delivering value to customers.

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[1] "PwC's UK Investor Survey — The economic realities of ESG," *PwC*, PDF file, 2021.

[2] "Future regulatory regime for Environmental, Social and Governance (ESG) ratings providers," *HM Treasury*, PDF file, Nov 2024.

[3] "Data protection by design and default," *Information Commissioner's Office*, Updated 04 Sep 2024.

From claims to communication: Leveraging technology to deliver service excellence

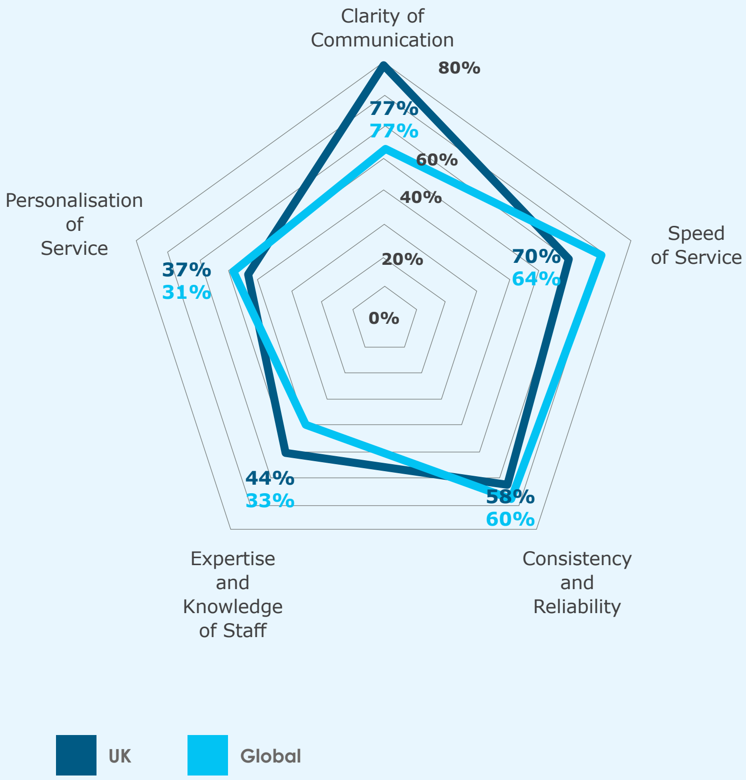
In an era where customer trust can make or break a company's reputation, insurers are stepping up to meet the challenge, reflecting a commitment to building long-term trust and loyalty in a highly competitive landscape.

KEY FINDINGS

- Clarity of communication (78%), speed of service (62%) and consistency and reliability (62%) are the top three factors for achieving higher customer satisfaction among UK insurers.
- 73% of UK insurers prioritise claims processing accuracy and customer satisfaction scores as key metrics for evaluating claims management performance.
- Nearly three-quarters of UK insurers invest in advanced technology such as AI and automation to deliver superior service quality.
- 69% of UK insurers focus on customer feedback and continuous improvement as the second key strategy to achieving customer service excellence.

ASPECTS OF SERVICE QUALITY WITH GREATEST IMPACT ON CUSTOMER SATISFACTION

% impact of service quality practices



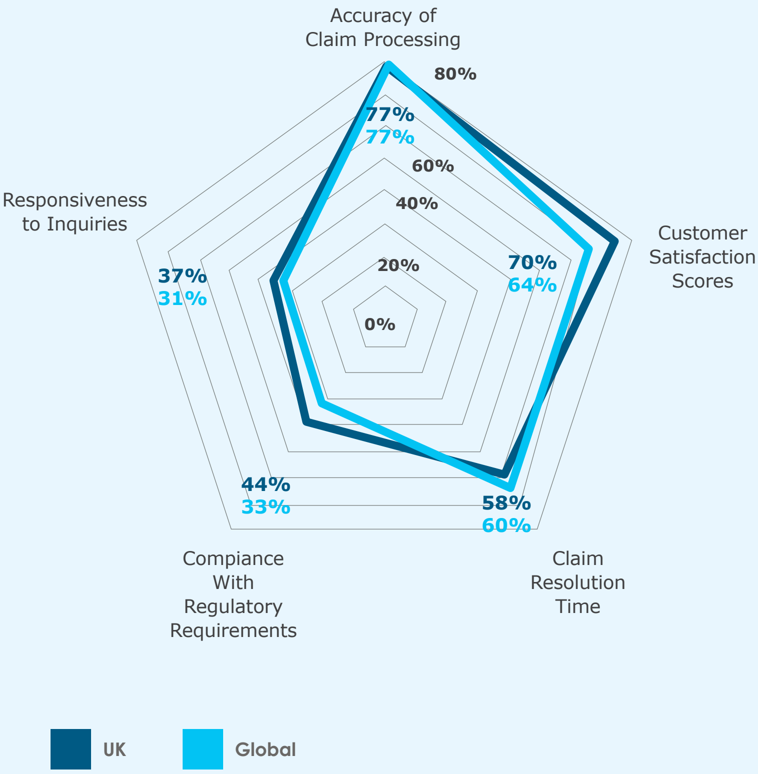
Aligning clarity, speed and reliability to elevate customer experience

In the current business environment, customer satisfaction is more than a mere metric; it is a key driver of overall business performance. The July 2024 UK Customer Satisfaction Index survey showed that 56% of customers feel that their satisfaction depends on whether an organisation understands and cares about their personal needs.[1] As a result, insurers are working to close service gaps in sales and claims to deliver a seamless customer experience.

Additionally, insurers are diving deep into data analytics to tailor experiences, as consumers are keen to adopt enhanced product personalisation and even share added personal data to attain that benefit.[2] According to our survey findings, UK insurers rank clarity of communication (78%), speed of service (62%) and consistency and reliability (62%) as the top factors for delivering a positive customer experience, a sentiment similar to their global counterparts. This showcases the growing emphasis on prioritising core service values to elevate customer trust and fulfilment in order to meet evolving demands.

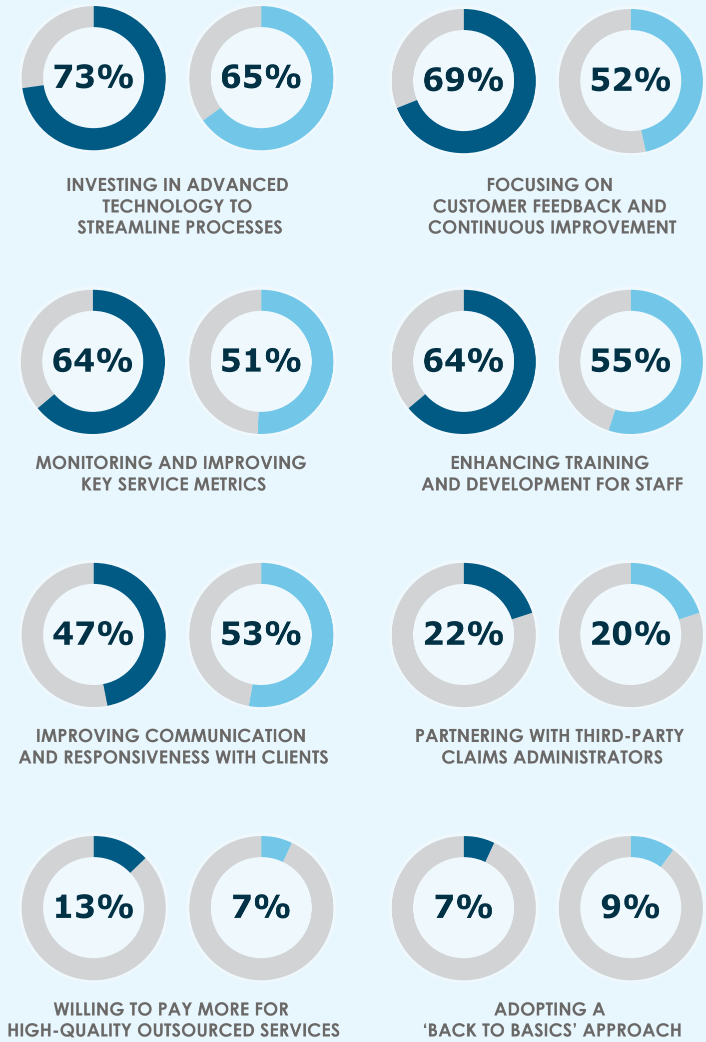
QUALITY METRICS PRIORITISED TO EVALUATE PERFORMANCE IN CLAIM MANAGEMENT

% prioritisation of quality metrics



STRATEGIES IMPLEMENTED TO DELIVER SUPERIOR SERVICE QUALITY

% implementation of service quality strategies



Optimising claims excellence through accuracy and satisfaction scores

In a fast-paced environment where customers expect quick responses and efficient resolutions to their queries and claims, insurers strongly emphasise speed and accuracy as key pillars of delivering exceptional customer satisfaction. According to our survey, 77% of global and 73% of UK insurers prioritise claims processing accuracy as the most critical metric for measuring performance. The same percentage of UK respondents (73%) also identify customer satisfaction scores as the next key metric for evaluating claims performance. In comparison, global insurers rank claim resolution time (64%) as the second most important quality indicator.

Moreover, claims handlers identify faster claims resolution and automation of the claims process as essential factors that could improve customer satisfaction.[3] Implementing such approaches will enhance trust and loyalty and drive operational efficiency, positioning insurers to gain a competitive edge in a customer-driven market.

Leveraging technology and feedback: Key drivers to boost service excellence

The rise of digital adoption and evolving technology is reshaping consumer buying habits and expectations, driving demand for more flexible and transparent insurance products. As such, insurers increasingly leverage investments in advanced technology to streamline processes and enhance efficiency. Moreover, UK insurers are experimenting with generative AI to address practical questions and assess risks[4].

Notably, nearly three-quarters of UK insurers are investing in advanced technology, such as AI and automation, to streamline processes and enhance service delivery, compared to 65% of global respondents. Insurers in the UK also focus on customer feedback and continuous improvement, with 69% reporting it as the second-best strategy to deliver superior service quality. This proactive approach highlights that insurers can refine their offerings by prioritising customer-centric strategies while cultivating a feedback-driven culture to ensure more responsive services. Globally, however, 55% of insurers responded that enhancing staff training and development is the second-best metric to deliver exceptional service, followed by improving client communication and responsiveness.

Collaborating for excellence in service

Increasing and rapidly changing customer expectations demand closing service gaps, refining claims accuracy and boosting operational efficiency for insurers. This requires a cooperative approach, where insurers engage with reliable partners who can help navigate challenges and enhance service delivery. By collaborating with a specialist in claims management, insurers can optimise processes, incorporate advanced technologies and drive superior customer outcomes. Ultimately, these partnerships will enable insurers to foster customer trust, improve satisfaction and maintain a strong position in this continuously shifting market.

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[1] "UK Customer Satisfaction Index (UKCSI) — July 2024: Key Findings," *The Institute of Customer Service*, 08 Jul 2024.

[2] "Hyper-Personalisation: A New Era Of Experience For Insurance Customers," *CAPCO*, 13 Jun 2024.

[3] "Customer Experience: The Claim Handler's Perspective," *Sprout.AI*, PDF file, 17 Apr 2024.

"Generative AI: Value creation for UK insurers," *Deloitte*, 27 Oct 2024.

The team behind the report

John Fearn

Chief Operating Officer

John Fearn, chief operating officer, has over two decades of extensive experience in the TPA and claims industry, showcasing a diverse skill set across the corporate and insurance/MGA sectors. With expertise in first- and third-party motor claims, process design, strategic planning and data analysis, John has held senior leadership roles nationally and internationally. His innovative approach and data-led solutions distinguish him in the claims and risk management field. Drawing from significant global experience, including secondment projects in Southeast Asia and Central and Eastern Europe, John brings a nuanced perspective to shaping insights and ensuring high-quality service delivery.

Daniel Link, CPCU

Senior Vice President, Consultative Analytics

Dan Link joined Gallagher Bassett in 2016. He leads the Sales and Marketing Analytics team for risk management and carrier segments. With over 20 years of experience, his role includes business development, broker relations, client stewardship, managed care analytics and internal management reporting. Before Gallagher Bassett, Dan worked at CNA Financial Insurance as a consulting director for underwriting strategy from 2015-2016 and at Zurich Financial Services as the director of manufacturing and practice leader for the USA from 2014-2015. He holds a master's degree from Loyola Quinlan School of Business and a CPCU designation from Michigan State University.

Emily Day

Consultant, Consultative Analytics

Emily Day joined Gallagher Bassett in 2017. In her role as a consultant in Consultative Analytics, Emily oversees analytics for Gallagher Bassett's largest carrier partnership, driving programme stewardship to deliver exceptional results for both clients and the firm. Emily has been instrumental in launching Stewardship 4.0 for US clients and facilitating the transition of our largest carrier partnership into the Gallagher Bassett analytic system. Emily started her career at Gallagher Bassett as an intern in Analytics and has held various roles, including in analytic strategy and client-focused analytics, especially within managed care analytics and client stewardship. She holds a Bachelor of Science in business analytics and politics from Loras College.

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