THE FACTORS INFLUENCING THE INSURANCE CLUSTER OF THE UNITED STATES OF AMERICA

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AN INDEPENDENT STUDY SUBMITTED IN PARTIAL FULFILLMENT OF

THE REQUIREMENTS FOR THE DEGREE OF

MASTERS OF BUSINESS ADMINISTRATION

GRADUATE SCHOOL OF BUSINESS

SIAM UNIVERSITY

2024

Title of Research: The Factors Influencing the Insurance Cluster of the United States of America

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Major: International Business Management

Degree: Master of Business Administration

This independent study has been approved as a partial fulfillment of the requirements for the degree of Master of Business Administration.

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19 / June / 2025

Abstract

This research explores the insurance industry's growth, challenges, and transformation, highlighting the sector's rapid expansion, with a global market surpassing $6.4 trillion in 2023. Despite growth, the Covid-19 pandemic impacted premiums and profits in 2020. Insurance analytics emerged as a pandemic-resilient tool. Three key challenges stand out: climate change's influences and claims, the pandemic's effect on life insurance applications, and the industry's digital transformation driven by competition and evolving customer needs. These challenges underline the industry's resilience, societal importance, and sale improvement.

This study aims to achieve two key objectives, using a documentary research method. Firstly, it seeks to investigate the insurance cluster in the USA after the Covid-19 pandemic by applying Porter's Diamond Model. Secondly, it aims to recommend strategies for the insurance cluster in the USA that could guide future growth strategies and improvement of Sale after the Covid-19 period. The study employed Porter's Diamond Model to analyze the competitive environment of the insurance cluster in the USA, offering insights into how firms can navigate the complexities of digital transformation. Recommendations are provided for insurance companies to effectively harness technological advancements while addressing socio-economic, regulatory, and data security challenges.

Keywords: post Covid-19 period, insurance industry, United States of America, Porter's Diamond Model

ACKNOWLEDGEMENT

In this section, I would like to express my gratitude to Dr. Tanakorn Limsarun, Dr. Warangrat Nitiwanakul and Assoc. Prof. Dr. Jompong Mongkolvaint, Dean, Graduate School of Business, Siam University, Bangkok, Thailand for their thoughtful and caring supervision through their educational excellence. I am most grateful to them, especially for their deep understanding of the Independent Study and their good communication skills. And also, I am thankful for the support and encouragement from my colleagues and friends. This work would not have been possible without their assistance.

Name: Theint Nway Nway Aung

Date: 9 September 2024

DECLARATION

I, Theint Nway Nway Aung, hereby certify that the work embodied in this independent study entitled "The Factors Influencing the Insurance Cluster of the United States of America." is the result of original research and has not been submitted for a higher degree to any other university or institution.

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Chapter 1 Introduction

1.1 Background of Insurance Cluster in USA

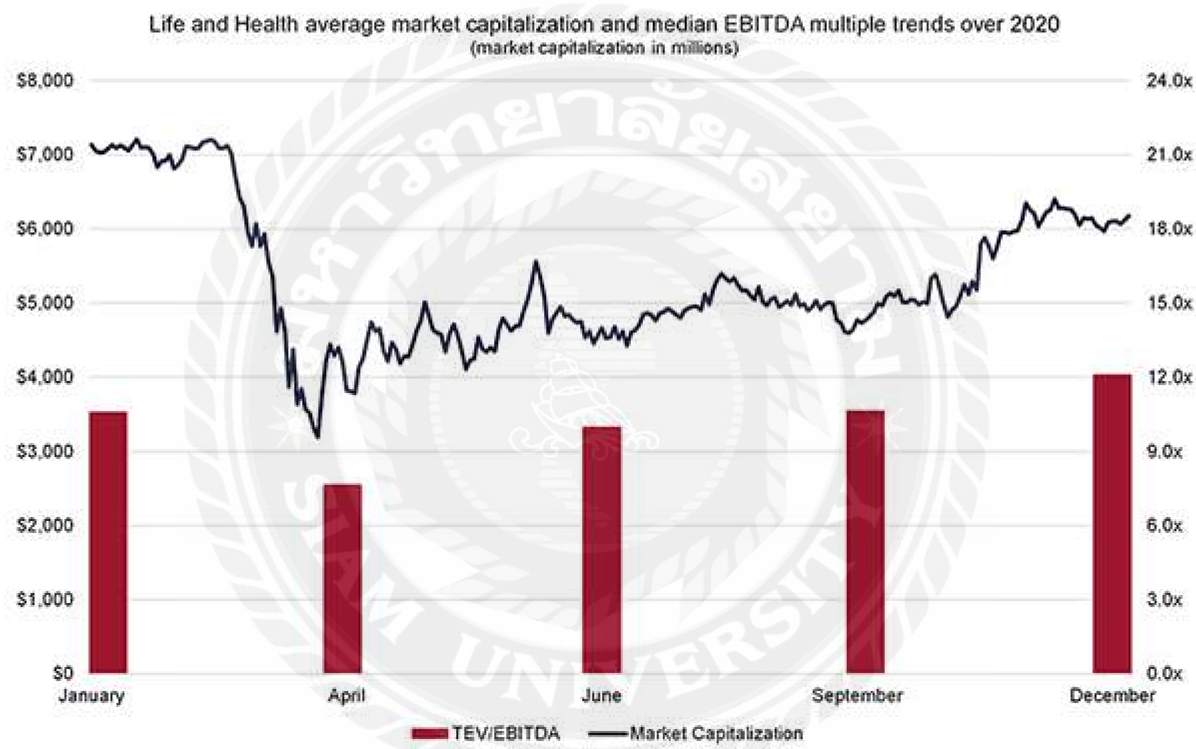
Insurance is indeed a legal agreement between two parties: the insurer (often an insurance company) and the insured (the individual or entity seeking insurance coverage). The purpose of insurance is to provide financial protection to the insured in the event of specific losses or damages. The insured, who is also referred to as the policyholder, purchases the insurance policy from an insurance company, which is commonly known as the insurer, insurance carrier, or underwriter. The insurer assumes the responsibility of providing financial coverage and reimbursing the insured for covered losses or damages as specified in the policy (Das, 2022).

There are 410,176 insurance brokers and agencies in the US as of 2023, a decline of -0.2% from 2022. The number of insurance brokers and agencies in the US has remained steady over the five years between 2018 - 2023 (IBIS World, 2023).

Over the past decade, the United States has witnessed a significant decline in the penetration rate of the life insurance industry, dropping from 3.9 percent in 2008 to 2.9 percent in 2019. This decline can be attributed to factors such as persistently low interest rates, which have constrained portfolio returns since the Great Recession, and challenges posed by an aging insurance workforce in adapting to the digital era.

In 2020, the sector faced further challenges due to increased uncertainty in individuals' financial stability, a rise in unemployment, and reduced investment income. Consequently, publicly traded life and health insurance companies in the U.S. saw their average market capitalization decrease by 13.4 percent, particularly during the first quarter as a reaction to the economic impact of the COVID-19 pandemic. However, these values rebounded throughout the rest of the year.

On a global scale, the industry found growth opportunities in developing economies, with premiums written in these regions contributing to 52.0 percent of overall growth up to 2019. Notably, the individual annuity market experienced substantial growth in developing markets, accounting for 84.0 percent of its expansion during this period (Todd Fries,April 2021).



Todd Fries (April,2021)

Figure 1.1 Life and Health Average Market Capitalization and Median EBITDA Multiple Trends over 2020

The global insurance market witnessed significant growth from 2022 to 2023, with a compound annual growth rate (CAGR) of 8.7% and reaching $6466.23 billion. However, the Russia-Ukraine war disrupted the global economic recovery, leading to economic sanctions, supply chain disruptions, and market impacts. Despite these challenges, the insurance market is projected to continue expanding, reaching $8603.8 billion by 2027 at a CAGR of 7.4%. The increasing demand for cyber insurance is driven by the growing internet penetration and associated risks, providing coverage for online transactions and IT infrastructure concerns. India's increasing internet usage highlights the need for insurance coverage against escalating cyber risks (Safdie, 2022).

According to the CAGR (Compound Annual Growth Rate), it is projected that the Global Gross Written Premium will reach $5.8 trillion by 2026, with a year-on-year growth of 0.6%. Since 2016, the global supply has experienced a modest increase of 0.2% annually. In 2021, the United States took the lead with $2.8 trillion, followed by the United Kingdom, Japan, and Germany in the second, third, and fourth positions, respectively(Life insurance, Property and Casualty Insurance and medical Insurance 2023.

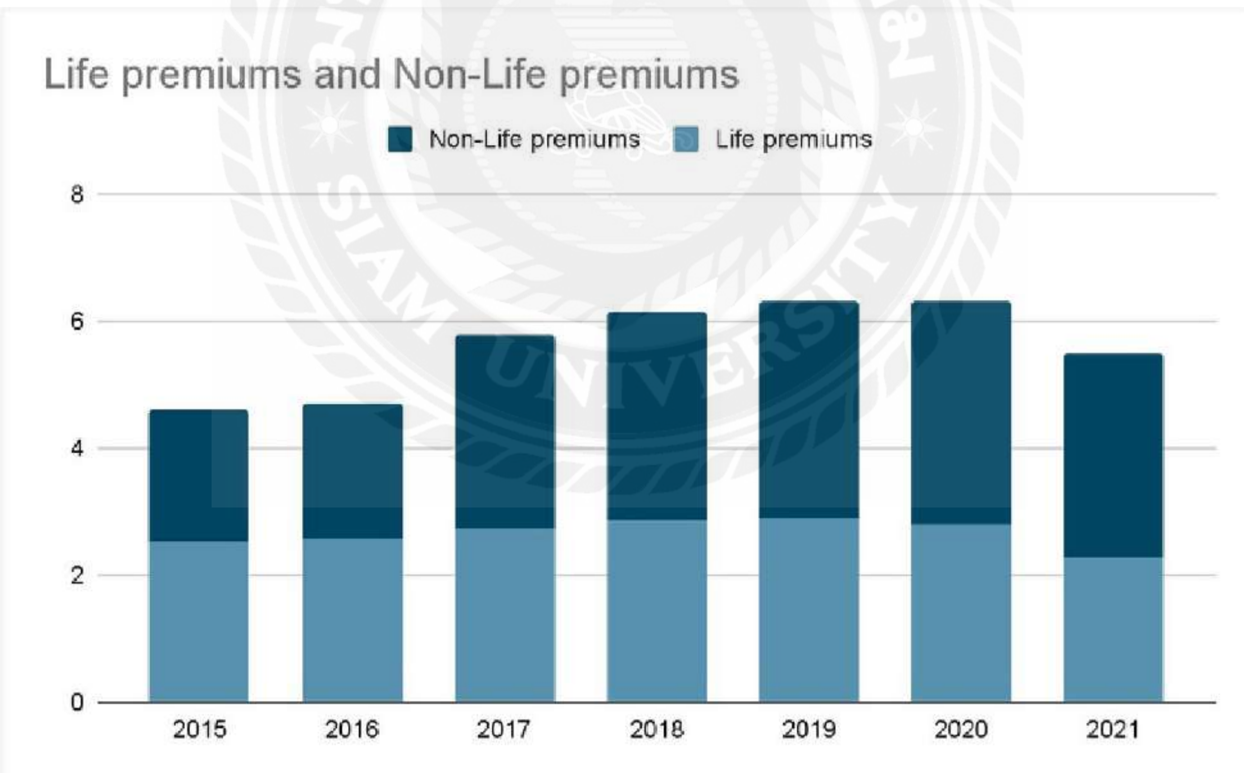


Figure: 1.2 Life Premiums and Non-Life Premium

As of 2020, the global insurance market was valued at under five trillion U.S. dollars, and it is expected to experience substantial growth in the future. Insurance penetration, which measures the development of the insurance sector, is determined by the ratio of annual insurance premiums to the gross domestic product (GDP) of a country. In 2020, the majority of European countries had an insurance penetration of under ten percent. This highlights the potential for further growth in the insurance market. To put it into perspective, the global insurance industry's value exceeds the GDP of many countries, making it one of the largest industries worldwide (Global Insurance Industry, 2022).

In 2021, it was estimated that there were around 333.34 million companies globally, which is a small increase compared to the approximately 328 million companies in both 2019 and 2020. This latest figure represents the highest estimated number of companies during the specified time frame. (Statista, 2022)

Insurance industry players include insurance companies, brokers, reinsurers, agents, regulators, associations, and professionals like risk management consultants, claims adjusters, underwriters, actuaries, and technology providers. They work together to provide coverage, handle policies, manage risk, sell policies, ensure compliance, represent interests, and support the functioning and growth of the industry.

The global insurance industry is one of the largest industries globally, ranking among the top five. However, the industry faced significant challenges due to the global pandemic in 2020, with premiums experiencing a decline in growth rate to just 1.2%, compared to an average growth of 4% per year in the previous decade. Profits also fell by approximately 15%, with the Asia Pacific region being the most heavily impacted, experiencing a decline of 36%.

The insurance industry experienced a recovery in 2021, with positive results in global insurance gross premiums. However, pre-existing challenges such as pricing pressures, slow demand, and low interest rates persist. Despite record-high interest rates and anticipated continued high rates in 2023, these challenges continue to impact the industry, alongside. concerns about a potential recession (Haqqi, 2022).

Here are the top 3 insurance companies in the world based on their revenue:

1. Berkshire Hathaway Inc., headed by Warren Buffett, is a multinational conglomerate with various subsidiaries. Its insurance operations, such as Berkshire Hathaway Reinsurance Group and GEICO, contribute significantly to its revenue. In 2020, the company reported a total revenue of $245.5 billion.
2. Ping An Insurance Group: Ping An Insurance Group is a Chinese conglomerate with diversified insurance and financial services. It offers life and health insurance, property and casualty insurance, banking, and asset management services. In 2020, Ping An reported a total revenue of $184.5 billion.
3. Allianz SE is a prominent German multinational financial services company specializing. in the insurance sector. It provides an extensive range of insurance products and services, encompassing property and casualty, life and health insurance, and asset management. In 2020, Allianz reported a total revenue of $144.8 billion.

The insurance analytics market has been affected by the COVID-19 pandemic. Insurers are relying on analytical tools to optimize their business and improve services to policyholders. These tools help predict risks, manage claims, and forecast sales, driving market growth despite the pandemic. Insurance analytics is crucial for managing risk, improving insurance contracts, and optimizing customer relationships in the insurance industry. It helps with underwriting, pricing, claims, marketing, and reserving. The use of predictive analytics and cost reduction strategies contributes to reliable reports and enhanced performance across different sectors (Allied Market Research, 2021).

1.2 Problem of the Study

The insurance industry faces challenges such as rising costs, changing regulations, technological disruption, customer expectations, cybersecurity risks, climate change, and talent gap. To stay competitive, insurers must adopt technology, comply with regulations, meet customer expectations, enhance cybersecurity, manage climate risks, and attract skilled talent. These strategies are vital for navigating the evolving landscape and maintaining competitiveness. Insurance companies are vital in protecting individuals and businesses from the negative impacts of unexpected events. As societies face a wide range of risks, insurance serves as a safety net for people's lives and property, irrespective of their social status or background.

Developed societies heavily depend on insurance, as it enables businesses and industries to withstand challenging circumstances. By assuming the role of risk underwriters, insurance firms contribute to the stability and resilience of societies, making them more prepared to face uncertainties (Anne, 2018).

1.2.1 Problem one

Climate Change and Natural Disasters

Climate change has a significant impact on the insurance industry, leading to more frequent natural disasters and increased claims. Insurance companies are encouraged to actively combat climate change as it directly affects their claims. By reducing reimbursements through climate change efforts, insurers can contribute to sustainability and financial success. To adapt, insurers should improve their understanding of climate risks to inform investments and reimbursement practices.

1.2.2 **Problem Two**

<u>Effect of Natural Disaster on Insurance Industry.</u>

In the early months of the pandemic, the expected surge in life insurance purchases did not occur immediately. Financial hardship caused by rising infection rates and job losses led to a modest 1% increase in life insurance applications in Q2 2020 compared to the previous year. However, the momentum for life insurance picked up significantly in the second half of 2020, with record growth rates of 9.2% in Q3 and 14.1% in July alone. Overall, there was a 4% increase in applications for the year, marking the highest annual growth rate on record. Online applications and purchases played a significant role in this growth, as consumers turned to digital channels during lockdowns. Insurance companies also saw an increase in payouts due to the high number of COVID-19-related deaths, with over $90 billion paid out in 2020, a 15.4% increase over the previous year (Makda, 2022).

1.2.3 **Problem Three**

<u>Digital Transformation</u>

The insurance sector is at an important turning point as a result of unusual transformation. The old business model of many insurance businesses could go through a significant change, most likely as a result of one of their major business issues, such as:

a. Competition.

Traditional insurance providers must outbid newcomers that are utilizing machine learning (ML) and artificial intelligence (AI) breakthroughs.

b. Legacy systems

Insurance companies' attempts to implement digital transformation programs have historically been limited by the difficulty of converting paper-based data into a digital format.

c. Increasing client expectations

Putting the needs of the consumer first is spurring innovation and altering the way insurance services are provided.

d. Reduced and remote labor

The use of automation and Artificial Intelligence (AI) to achieve smaller and remote teams.

1.3 Objectives of the Study

The objectives of this study are as follows;

1. To investigate the insurance cluster in the USA after the Covid-19 pandemic by applying Porter's Diamond Model.
2. To recommend strategies for the insurance cluster in the USA.

1.4 Scope of the Study

This study investigates the insurance cluster in the United States from the viewpoint of Porter's Diamond Model and therefore provides a comprehensive framework for the competitiveness analysis of this industry. It focuses on evaluating major factor conditions, such as the availability of skilled professionals, technology advancement, and access to financial resources, all of which are vital for boosting operational efficiency and sales performance. The study also explores the domestic demand conditions, including consumer preferences, market trends, and regulatory requirements, which influence innovations and drive growth in insurance products.

This study analyzes the interdependent, supporting and synergic industries- finance, technology and health- that act synergistically to draw the insurance sector forward. It also covers the important aspects of firm strategy, structure and rivalry and the competitive dynamics and strategic innovations, which are possible influences on market positioning and sales outcomes. It evaluates the impacts of the industrial government policy and regulatory frameworks with respect to the growth of the industry, as well as opportunities and challenges posed by the legal and economic environment.

1.5 Significance of the Study

Using Porter's Diamond Model, this study analyzes the conditions of critical competitiveness—factor conditions, demand conditions, related and supporting industries, firm strategy, structure and rivalry-and thus provides a comprehensive framwork regarding the drivers of success in the insurance sector. This study is relevant for policymakers as it reflects the governments' role in the development of regulatory frameworks and incentive provisions for a competitive and innovative insurance market within the parameters of national economic goals.

With these findings, stakeholders in the industry, insurance firms and related companies, can make strategic moves in terms of allocating resources, understanding market demand, and seizing inter-industry synergies for improving sales performance. The study also emphasizes innovation and competitiveness in tackling dynamic market conditions, customer preferences, and upheavals in the global landscape, whether that be economic woes or technological progress.

This contributes academically to the literature on competitiveness in industries by applying Porter's Diamond Model from the perspective of the study to the insurance sector which has hitherto not been a well-explored sector in terms of the framework. This study enables developing practical recommendations for the development of strategies that will make organizations resilient, increase sales, and ensure that the U.S.A becomes a global leader in the industry landscape. This relevance extends further to address more substantive economic issues facing long-term development of this sector, which are ensuring financial stability and consumer protection.

1.6 Research Limitations

Limitations have been highlighted in a study that applies Porter's Diamond Model for analyzing the sales improvement of the insurance cluster in the United States. First, the model focuses on national competitiveness and may distract globalization's effects as well as the inter-linking character of modern insurance markets wherein multinational firms and cross-border businesses occupy an important space. The study is also based on secondary data sources and industry documents that limit the depth and accuracy of the insights it may provide, particularly with respect to fast-evolving areas like technology and consumer behavior.

Finally, separating the effect of each element of Porter's Diamond Model becomes an impediment where these factors are often complexly and overlappingly interrelated. Analysis does not reflect some of the regional peculiarities within the United States, as the specific regulations, different economic conditions, and market dynamics at the state level may have a very different influence on the performance of the insurance.

This research has temporal and resource limitations in terms of allocating the scope of collection of primary data, such as interviews or surveys with industry stakeholders. The important and fundamental element of chance events, which plays a significant role in the model, is inherently unpredictable and cannot be quantified, which further lowers the prospect of establishing conclusive insights in this field. However, the study, despite these limitations, constitutes a new framework to understand and address specific factors critical to sales performance for the U.S. insurance cluster.

Chapter 2 Literature Review

literature review offers a comprehensive exploration of the insurance industry, both in the United States and globally, addressing key trends and challenges. It underscores the significance of insurance as a legal agreement between insurers and policyholders to provide financial protection against specific losses or damages. The number of Insurance brokers and agencies in the US, maintaining stability with 410,176 businesses in 2023, is highlighted. Additionally, the review looks into the impact of the COVID-19 pandemic on the industry, emphasizing changes in consumer behavior, claims patterns, and operational adaptations made by insurance companies. The study also points out crucial areas of transformation within the insurance sector, such as embracing digital technology, adapting to evolving customer expectations, and addressing climate change and the repercussions of natural disasters.

2.1 Porter's Diamond Model

It has been apparently quite some time since Michael E.Porter viewed the overall diamond model as a great foundation for analyzing the competitive advantage of nations and industries. Porter constructed the model from his well-known work, The Competitive Advantage of Nations (1990), and then showed that the four determinants affecting the competitive advantage of a cluster or industry were these four, namely: factor conditions; demand conditions; related and supporting industries; and firm strategy, structure and rivalry. For instance, factor conditions, skilled labor and infrastructure form the base resources are necessary for being competitive, while sophisticated demand conditions drive forward the innovation and quality enhancement necessary for an industry.

A few scholars, for instance, wrote about extending Porter's model to industry-specific examples. It is useful for understanding the competitiveness of service-based industries by emphasizing the innovativeness and knowledge-intensive resources. The model is also useful for considering too little of globalization, contending that multinational activities and international trade dynamics also shape competitiveness. The above are particularly relevant for the U.S. insurance cluster because this cluster works in a globalized and highly regulated market.

In fact, using Diamond Model in an analysis of various aspects of the financial services sector emphasizes the significance of inter-industry linkages. Thus, for example, Cho and Moon (2005) claimed that the related and supporting industries like technology and legal services are critical in fostering innovation and efficiency in financial services. In fact, using Diamond Model in an analysis of various aspects of the financial services sector emphasizes the significance of inter-industry linkages

Even though the inconvenience of Diamond Model caters to a very broad audience, it has other limitations too. For example, criticized that it does not account sophistically for some foreign external forces such as multinational corporations and foreign direct investments, which tend to occupy a central position in the contemporary industry paradigm. This suggestion means that a combination of some of Porter's ideas with other factors is needed to address the clustering case of competitiveness, like in the case of the U.S. insurance industry.

In this research, 4 key factors are used to determine the competitive advantage of the insurance industry within the USA, which are Factor Conditions, Demand Conditions, Related and Supporting Industries and Firm Strategy, Structure and Rivalry. In this case, two additional elements, Government and Chance, explain how these factors interact and shape the insurance industry's success.

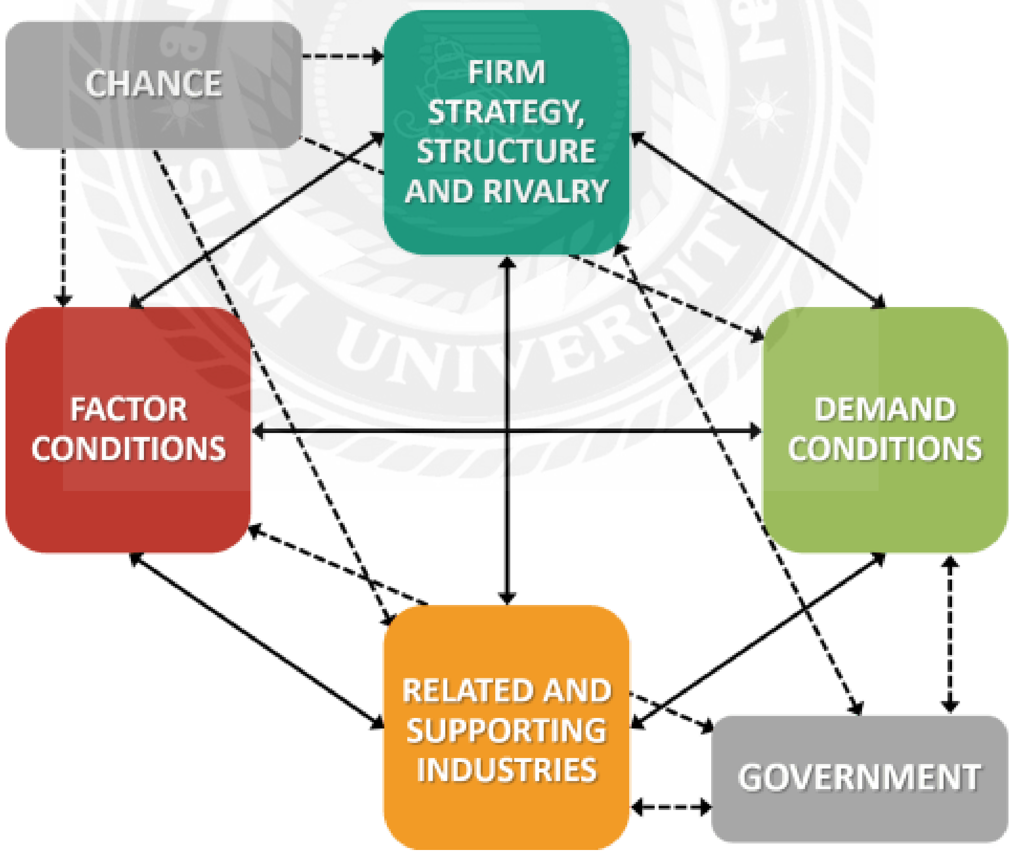


Figure 2.1: Porter’s Diamond Model

2.2 Firm Strategy, Structure and Rivalry

The insurance industry is a vital sector that provides financial protection to individuals and businesses against various risks. It acts as an automatic economic stabilizer and contributes to economic well-being. Insurance companies offer policies that safeguard policyholders from potential financial losses arising from pure risks. Insurance plays a crucial role in maintaining the financial stability of individuals, organizations, and economic entities. The industry has been undergoing significant changes, including the shift towards remote and hybrid work arrangements. The insurance industry is adapting to remote and hybrid work setups, emphasizing digital collaboration and flexible employee arrangements. In-demand skills include data science, beta underwriting, and user experience design, requiring a digitally oriented and collaborative workforce. The "Great Resignation" trend offers insurers a chance to attract talent through meaningful work and flexibility. Establishing a strong organizational purpose and data-driven flexible work policies are vital. Ensuring talent fluidity and seamless movement of workers is a competitive necessity. Leaders should identify key skills, explore alternative sourcing, and integrate purpose statements in recruiting efforts (Manchester, 2021).

Insurers are under pressure to cut costs due to price transparency, digitization, and low-interest rates. New digital competitors are gaining an edge, forcing insurers to prioritize efficiency, reduce expenses, and increase revenue per employee. Industry leaders anticipate a wave of efficiency improvements and are embarking on enterprise-wide efficiency journeys. Research shows that aiming for a top 30% cost improvement increases the chances of reaching the top quintile. An example is a global multi-line insurer that focused on digital technologies and productivity enhancements, maintaining its leading position despite challenges faced by peers through initiatives like a two-speed IT architecture and harmonized global operations model (D'Amico, 2019).

Strong customer relationships are vital for the growth and success of the insurance industry. Whether you're an agent or part of an agency, prioritizing effective customer relationship management is key to building trust and driving business growth. In the increasingly competitive insurance sector, building robust customer relationships and earning their trust is paramount for insurance agents and companies. To facilitate this process, adopting a dependable Customer Relationship Management (CRM) system is essential. A reliable CRM empowers insurance businesses to efficiently manage prospects, monitor lead opportunities, and automate marketing and sales processes. By leveraging the CRM's capabilities, insurance professionals can dedicate more time to understanding and addressing their customer's specific needs, ultimately fostering stronger and more enduring client relationships (Agency Height, 2023).

Rivalry in the insurance industry arises from factors such as the desire for increased market share, industry dynamics, and cost pressures. While intense competition can be unhealthy, it can also drive growth and innovation when managed healthily. Healthy competition encourages companies to innovate, streamline costs, conduct research, and prioritize product and service quality. Therefore, competitive rivalry, if maintained positively and constructively, can be a beneficial force within the insurance industry (Roba, n.d.).

Banks and financial institutions pose a threat to the insurance industry due to their integrated service offerings, established customer relationships, strong financial resources, regulatory overlap, and technological advancements. To counter this threat, insurance companies should focus on their core strengths, deliver exceptional customer service, embrace technology and innovation, build partnerships, and adapt to changing customer expectations. By doing so, they can maintain their competitive edge in the evolving financial landscape (Aalto-Yliopisto,2019).

Insurance companies face competition from various sources, including the government,

risk retention groups (RRGs), and self-insurance. The government offers coverage for risks not covered by private insurers. States provide insurance in specific areas to promote competition and attract businesses. RRGs, governed by federal law, offer coverage for specific liability risks and can operate nationwide, choosing favorable regulatory environments. RRGs provide insured parties with cost control. Self-insurance is another competitive option, where companies assume their own financial risk instead of purchasing insurance (Spaulding, 2023).

According to Graham (2023), in the competitive world of insurance sales, improving your offerings is crucial to stay ahead. Simply having a great product is not enough; attracting clients is equally important. The following advice to stand out in a crowded market is given.

- Improve support for current clients for recommendation

To prevent customer attrition and regulatory issues, insurers must continually find ways to improve their offerings for loyal customers.

- Create a competitive advantage.

By prioritizing customer service, efficient claims processing, and innovative tools, insurers aim to enhance the overall customer experience and build strong relationships.

- Embrace the technological revolution

Technology and automation are crucial for insurers to remain competitive and provide enhanced customer experiences, as those who fail to utilize technology effectively may underperform against tech-savvy competitors.

2.3 Factor Conditions

The maturing insurance market is compelling industry players to seek growth beyond their conventional scope, driven by emerging technological trends and shifts in consumer behavior. Historically, insurers concentrated on driving new sales and diversifying their product portfolios across various channels and segments. However, prominent players now possess extensive customer bases due to industry consolidation. Gaining new customers has grown more expensive as outshining rivals demands considerable effort and substantial marketing expenditures. In a landscape where both internal and external diversification stand as a pivotal success factor, insurers must devise fresh value propositions to ensure future sustainability. Leading firms are proactively forming partnerships with businesses in different sectors and becoming part of digital ecosystems, unlocking doors to novel target audiences. Recent industry trends encompass the introduction of specialized niche products, supplementary value-added services, and enhanced digital processes, reflecting insurance companies' drive to expand their offerings beyond their established mature core operations (González, 2021).

The demand conditions for the insurance industry in the USA are influenced by various factors. The

The U.S. insurance industry has been making efforts to address the demand for diversity and talent by increasing racial diversity in its workforce. This has been driven by both industry initiatives and regulatory actions. However, there is still a need for more comprehensive data on the industry's diversity. Industry leaders recognize the importance of improving racial diversity at all levels, including executive teams and boards, as a means to foster diversity throughout the organization (Ross & Woleben, 2020). Changing demographic information can lead to an increase or decrease in frequency and severity, and there is a correlation between demographic information and expected
losses (Admin, Insurance Journal. 2009).

The US population is experiencing significant demographic changes, driven in part by immigration. This has led to a more diverse population, with projections showing that Hispanics will make up approximately 28% of the population by 2060. Additionally, there is a shift in traditional family structures, with a higher percentage of unmarried/single parents and an increase in the number of families caring for both young children and older relatives. (See Figure 2.1) These demographic shifts have implications for the insurance industry, as it needs to adapt its offerings to meet the changing needs of these diverse family structures. Understanding and addressing the insurance needs of this evolving population will be crucial for insurers to effectively serve their customers in the future (CroForum, 2020)

Figure 2.2 Population Aged 65+ (%)

The COVID-19 pandemic has reshaped the on-demand insurance industry, driving digital transformation and necessitating remote work and innovative customer outreach. On-demand insurance products gained prominence, offering convenient online purchases and mobile app management. However, the reduced demand for traditional insurance types like auto and home insurance, due to lifestyle changes during the pandemic, presented challenges for the industry. Insurance companies adapted their offerings to cater to evolving consumer needs (Grand viewer research, 2022).

A 2019 survey revealed that despite 72 percent of insurance companies acknowledging the impact of climate change on their business, only 20 percent have taken significant steps to address the risks. Additionally, these companies have invested $582 billion in fossil fuels, which could face devaluation as climate risks increase. Insurance companies can help reduce climate risks for their clients by offering risk assessments, engineering solutions, and preconstruction advice. After a loss, they can incentivize rebuilding with resilience or in less vulnerable locations. Additionally, insurance companies can contribute to the energy transition by refusing to invest in or insure fossil fuel projects, encouraging a shift to cleaner energy sources (Cho, 2022).

2.4 Demand Conditions

In 2020, the COVID-19 pandemic had a significant impact on the global multiline insurance sector, with approximately $8 billion in costs incurred by the 16 insurers rated by S&P v bb Global Ratings. Despite this substantial financial burden, the industry managed to retain a substantial net income of $36 billion. Additionally, it is worth mentioning that certain exceptional factors unrelated to the pandemic further decreased net income by $12 billion during this period. (See graph 2.3.1) Overall, the global multi-line insurers navigated through the crisis, demonstrating resilience amidst challenging circumstances ("Current Conditions for the Insurance Industry," n.d.).

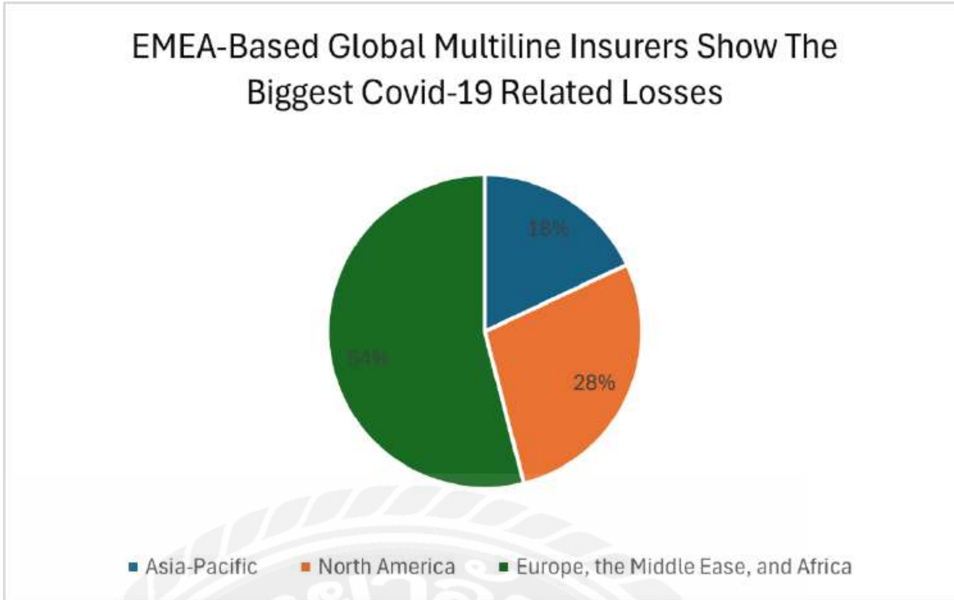


Figure 2.3 EMEA-Based Global Multiline Insurers

Due to economic growth, improved interest rates, and greater investment income, the U.S. insurance industry has experienced healthy growth within the past few years.

In 2021, the U.S. insurance industry's net premiums written totaled $1.4 trillion. There are 5,929 insurance companies across the United States. The U.S. Insurance industry employs 2.86 million employees. The U.S. Insurance industry contributes 3.1% of the country's total GDP (Flynn,2023).

According to the graph in Figure 2.4, After experiencing a slight dip in 2019 (down to $5.03 trillion), worldwide gross insurance premiums increased by 40% to over $7 trillion in the past few years. Though private health insurance expenditure decreased by 1.2% in 2020 due to COVID-19 (to $1.15 trillion), it still accounts for over a quarter of all healthcare spending in the United States (US Industries statistics, 2023).

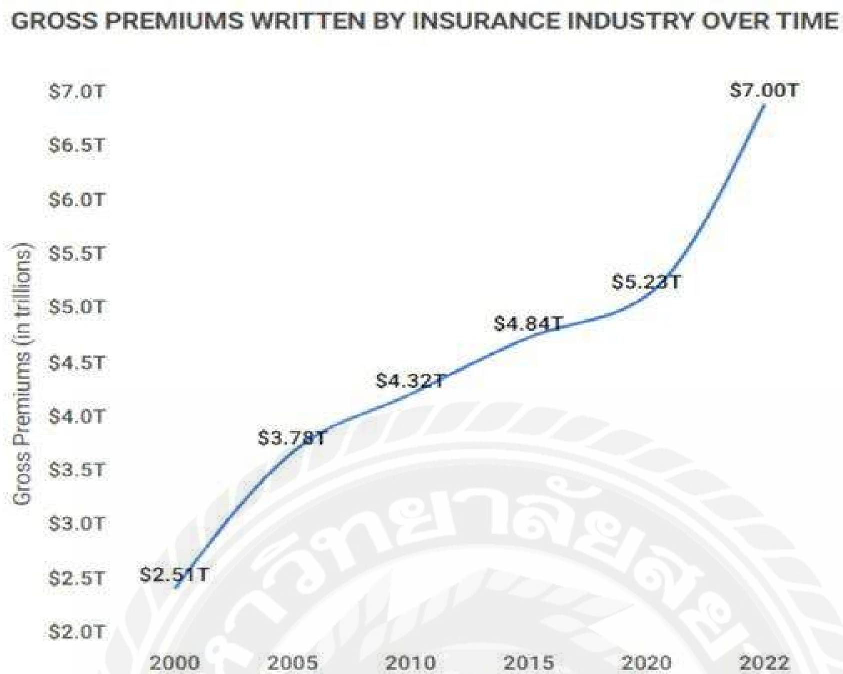


Figure 2.4 Gross Premiums Written by Insurance Industry over Time

2.5 Related and Supporting Industries

The insurance industry is interconnected with various support industries that play crucial roles in facilitating its operations and providing complementary services. The insurance industry is interconnected with various support industries that play crucial roles in facilitating its operations and providing complementary services. The healthcare payer and insurance industry are key drivers of state economies across the country, not only by expanding access to care and payer coverage but by creating jobs for millions of individuals, concluded a report from America's Health Insurance Plans (AHIP).

The Health Coverage: State-to-State 2019 report examined the effects of health insurance plans on both a national and state level. The report focused on three key aspects: access to healthcare coverage, the economic impact on job creation, and the contribution to tax revenues in statewide economies (Health Payer Intelligence, 2020).

Data and analytics firms also play a crucial role in the insurance industry by providing valuable insights and solutions that enhance various aspects of insurers' operations. In the competitive insurance industry, data-driven insights are becoming crucial for success. Many insurers are investing in insurance data analytics to predict trends and make informed decisions. The adoption of predictive analytics is increasing, with significant investments in individual life and health segments. Utilizing advanced analytics can revolutionize the insurance business, making it more resilient and future-ready. Insurers that can accurately predict customer needs based on data analysis have a higher chance of success compared to those relying on traditional methods. Embracing data analytics is key to thriving in the evolving insurance landscape (Shakeel & Shakeel, 2023).

2.6 Chance

The insurance industry runs on trust. When a customer makes premium payments, they expect an effortless, stress-free, and quick payout when they file a claim. Unfortunately, owing to lengthy assessment processes in traditional insurance practices, this can often take over 30 days (Allsec, 2021). That's where the digital transformation swoop in the important area of the insurance Industry. The insurance industry is undergoing digital transformation to improve efficiency, customer engagement, and business opportunities. However, this transformation comes with challenges. Insurers must address data privacy and security concerns due to storing sensitive customer data in the cloud. The right IT infrastructure and skills are needed for successful transformation (Rice-Boshi, 2023).

The social insurance system encompasses a range of government programs aimed at providing economic security and improving long-term economic opportunities.

The insurance industry has made significant contributions to the advancement of business and financial risk management. For Example, social insurance plays a critical role for workers and families – both in times of crisis, as exhibited by the pandemic and ensuing economic recession, and in normal economic times. The social insurance system also helps buffer the economy when growth falters, supporting consumer purchasing power when income growth is weak (Griffith, 2022).

2.7 Government

Ten years ago this month, the Affordable Care Act (ACA, Obamacare) was signed into law. It introduced several key provisions aimed at expanding access to healthcare, improving insurance coverage, and reforming the health insurance market.

Insurance companies would no longer be required to issue rebates when they overcharge Americans. In 2019, insurance companies returned $1.37 billion in medical loss ratio rebates to policyholders (American Progress, 2020).

In 2010, 16 percent of all Americans were uninsured; by 2016, the uninsured rate hit an all-time low of 9 percent. About 20 million Americans have gained health insurance coverage since the ACA was enacted (O'Reggio, 2021).

Cybersecurity is also one of the most important topics for the insurance sector today. Insurers and insurance producers must protect the highly sensitive consumer financial and health information. As more companies seek cyber Insurance to protect themselves from the financial fallout of a data breach, insurers themselves are among the firms heavily impacted by the increasing scope and frequency of cybercrime.

The National Institute of Standards and Technology (NIST) has developed a cybersecurity framework for critical infrastructure, offering standards, guidelines, and practices to manage cyber risks effectively. They closely monitor cybersecurity in the insurance sector and collaborate with insurers to resolve data breaches. Additionally, state insurance regulators regulate and monitor insurance carriers underwriting cybersecurity policies, ensuring the industry's solvency and market activities (Chemical Sector Cybersecurity Framework Implementation Guidance | CISA, 2020).

2.8 Other Influencing Factors

Insurance has changed. It used to be about getting money when things went wrong. But now, people want more. They want insurance companies to help them avoid problems in the first place. Whether it's their home, car, health, or money, customers expect insurers to assist in preventing risks that affect their lives. Growing consumer concern can be attributed, in part, to the heightened instability and unpredictability observed in recent times. The convergence of factors such as severe weather occurrences, the spread of illnesses like the Covid-19 pandemic, shifting demographics with aging societies, and rapid technological shifts has led to a significant alteration in the realm of risks. This transformation is marked by an increase in the number of risks and the emergence of novel categories of risk (Naujoks, Schwedel, & Brettel, 2023).

As 2023 takes shape, the insurance sector, much like any other industry, confronts a blend of potential advantages and challenges at the onset of each new year. However, as the year unfolds, certain prominent risks come to the fore, each accompanied by its distinct set of difficulties. The insurance landscape is transforming, as companies strive to adopt principles of diversity, equality, inclusion, and environmental responsibility. Yet, other issues are swiftly taking precedence. One of the foremost perils faced by the insurance industry revolves around the escalating shortage of skilled labor. Securing employees possessing the requisite qualifications for available positions has become increasingly arduous. Given the specialized education and certifications often necessary within the insurance realm, this scarcity is further compounded. While the advancement of technology presents a promising opportunity, facilitating the automation of numerous tasks through risk management software and other technological innovations, the pace of this automation may not be swift enough to address the mounting vacancies. Insurers are compelled to explore fresh avenues for talent acquisition, devise incentives and perks to retain current personnel, and crucially, retrain and enhance the skills of their existing workforce (Team, 2023).

Chapter 3 Research Methodology

3.1 Research Design

The methodology for this study was grounded in documentary research, which involved systematic collection, review, and analysis of existing documents and literature to gain insights into the insurance industry. Documentary research proved essential for the insurance sector, as it supported market analysis, risk evaluation, compliance tracking, and fraud detection.

Table 3.1 Keywords and Factors

Keywords	Influencing Factors	References
Insurance industry	Financial Protection	(Chowdhury, 2021)
	Competition, Diversification	(Agency Height, 2023).
	Technological Trends	(Aalto-Yliopisto, 2019)
Transformation	Efficiency and Management CustomerRelationships	CostSkipper(2001) Chowdhury(2021)
	Diversification and Adaptation	manchester(2021)
	Economic Demographic Changes	(Shakerl & Shakeel,2023) Economic

United States of America	Growth	(Rice-Boshi,2023
	Interest Rates	(DigitalTransformation (O'Reggio 2021)

3.2 Sources of Data

To comprehensively understand the dynamics and growth of the insurance cluster in the United States, this research employed a multi-pronged data collection approach:

• Literature Review: An extensive review of academic journals, industry publications, and scholarly articles was conducted to gain insights into existing research, historical development, and emerging trends within the U.S. insurance sector.

• Statistical Analysis: Statistical data from reputable sources such as government databases, industry associations, and financial reports were analyzed to assess economic performance, market size, and structural changes within the insurance industry.

• Market Research Report Review: Market research reports focusing on the U.S. insurance market, including consumer behavior, technological integration, regulatory impacts, and competitive dynamics, were examined to understand the broader economic and societal implications of the industry's evolution.

Chapter 4 Finding

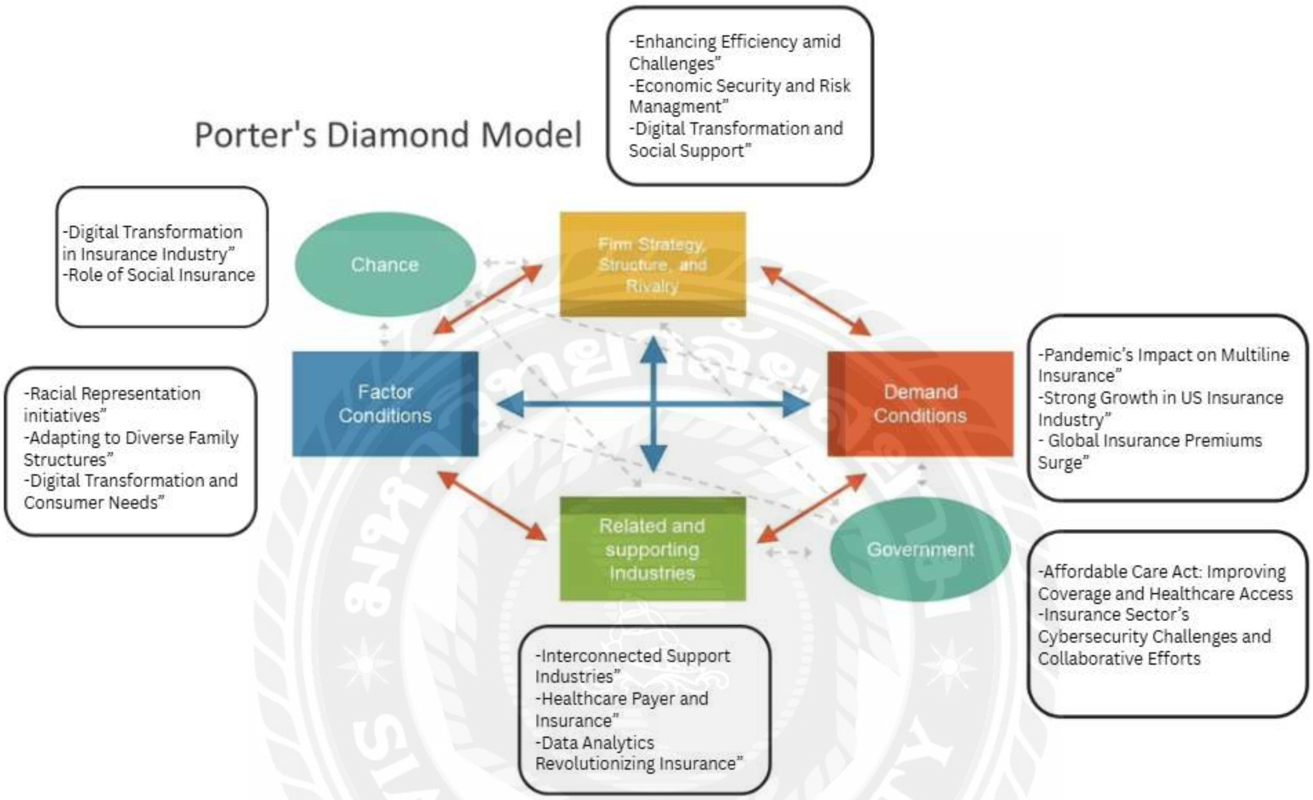


Figure 4.1 Insurance Cluster in USA Analysis Based on Porter's Diamond Model

4.1 Factor Conditions

The maturing insurance market is pushing insurers to seek growth beyond their traditional boundaries. Historically, insurers focused on expanding sales and diversifying product portfolios, but industry consolidation has made acquiring new customers more costly. To ensure future sustainability, insurers are forming partnerships across sectors, embracing digital ecosystems, and introducing specialized niche products and digital processes. This reflects their drive to expand offerings beyond established core operations (González, 2021).

In the U.S., efforts to address diversity and talent in the insurance industry are driven by both industry initiatives and regulations. There's a recognized need for comprehensive data on industry diversity. Improving racial diversity at all levels, including executive teams and boards, is a priority to foster diversity throughout organizations. Demographic changes affect loss frequency and severity, with correlations between demographic data and expected losses (Ross & Woleben, 2020; Admin, 2009).

The changing demographics of the United States, driven in part by immigration, are leading to a more diverse population, with Hispanics projected to make up around 28% of the population by 2060. Shifts in traditional family structures, including a rise in single-parent households and families caring for both young children and older relatives, are also significant. These demographic changes have implications for the insurance industry, necessitating adjustments in offerings to meet the evolving needs of these diverse family structures (Cro Forum, 2020).

The COVID-19 pandemic has reshaped the on-demand insurance sector, driving digital transformation and remote work. On-demand insurance products, known for their convenience in online purchases and mobile app management, gained prominence. However, the pandemic led to reduced demand for traditional insurance types like auto and home insurance due to lifestyle changes. Insurance companies adapted their offerings to cater to these shifting consumer needs (Grand Viewer Research, 2022).

Despite the growing awareness of climate change impacts, only 20 percent of insurance companies have taken significant steps to address related risks, and many have substantial investments in fossil fuels. Insurers can play a critical role in reducing climate risks for clients by offering risk assessments, engineering solutions, and post-loss incentives for resilient rebuilding. Furthermore, they can support the transition to cleaner energy sources by refraining from investments in and insurance of fossil fuel projects (Cho, 2022).

In the context of Porter's Diamond Model, the insurance industry is strategically navigating challenges and intensifying rivalry through measures aimed at enhancing operational efficiency, ensuring economic security, and proactively managing risks. Simultaneously, it is undergoing a significant digital transformation while bolstering social support structures. Demand conditions are witnessing shifts due to the pandemic, impacting multiline insurance and propelling strong growth within the US insurance sector, contributing to a surge in global insurance premiums. Interconnected support industries, particularly in healthcare payer and insurance, are becoming integral to the insurance landscape, and a data analysis revolution is reshaping how the industry functions. Factor conditions crucial to insurance competitiveness involve initiatives to improve racial representation, adapt to diverse family structures, and address evolving consumer needs in the digital age, collectively shaping the industry's trajectory and fostering innovation.

The Factor Conditions Influencing the Insurance Cluster in the USA

The U.S. insurance sector is favorably situated with a workforce that is well-educated and greatly experienced consisting of the actuaries, underwriters, and financial analysts. The recruitment of specialized training programs, certifications - for example, Chartered Property Casualty Underwriter - CPCU, and Certified Financial Planner - CFP - as well as partnerships with academic institutions have greatly contributed to the development of talent pipelines. Such a qualified workforce enables companies to innovate and be market adaptation with sales performance as a result.

The use of broad adoption of advanced analytics, AI, blockchain, and CRMs provides operational efficiency, improved risk assessment, as well as customer engagement, which will help increase sales and competitiveness. The U.S. stands out as a leader in the adoption of innovations that form the core of these technologies known as insurance technology. It has large-scale acceptance of advanced analytics, AI, blockchain, and CRMs. It gives operational efficiency, enhanced risk assessment, and customer engagement, which will improve sales and competitive advantage. The U.S. stands out as a prime leader in the adoption of innovations around technologies called insurtech in insurance.

Hailing complexity and decentralization (by state), the framework is that the U.S. regulatory model offers a stable environment for the insurance industry to operate. It creates incentives for compliance, consumer protection, and risk management without which public confidence would wane and demand for various insurance products would be reduced. The U.S. insurance industry is now no longer limited to just an extensive infrastructure that consists of all advanced levels of IT systems, widespread access to the internet, and reliable financial systems. Such infrastructural availability not only provides a seamless third party for the provision of all services needed by an individual but also enhances the visibility of access to new digital channels. Such digital channels gain greater access to the modern consumers now being targeted.

More resources are available to this incorporated cluster with all types of data from various sources, including government databases, credit reporting agencies, and health care records. In conjunction with advanced analytical capabilities, this massive amount of data makes it easy for firms to carry out risk assessments, tailor products, and improve pricing strategies to meet customer needs effectively. As a consequence, the major universities and research institutions are continually innovating the insurance industry within the U.S. Indeed, their collaborative research initiatives and professional education programs ensure that these institutions remain ahead of the competition in facing the new emerging challenges and opportunities within the industry.

4.2 Demand Conditions

In 2020, the global multiline insurance sector faced a substantial financial burden of approximately $8 billion due to the COVID-19 pandemic. This cost was incurred by the 16 insurers rated by S&P Global Ratings. Despite these challenges, the industry displayed resilience, managing to retain a significant net income of $36 billion. It's important to note that certain exceptional factors unrelated to the pandemic further reduced net income by $12 billion during this period, as illustrated in Figure 2.3(a) (Current Conditions for the Insurance Industry, n.d.).

On the other hand, the U.S. insurance industry has demonstrated healthy growth driven by economic expansion, improved interest rates, and increased investment income. In 2021, the industry's net premiums written reached $1.4 trillion, with a total of 5,929 insurance companies operating in the United States. This sector employs approximately 2.86 million individuals and contributes 3.1% to the country's total GDP (Flynn, 2023). Additionally, worldwide gross insurance premiums have shown a significant increase, rising by 40% from $5.03 trillion to over $7 trillion in recent years. While private health insurance expenditure experienced a slight decrease of 1.2% in 2020 due to the impact of COVID-19, it still represents over a quarter of all healthcare spending in the United States.

4.2.1 Inflation Effect on Demand Conditions

In July 2023, U.S. inflation rose by 3.2% from the previous year, significantly increasing household expenses. According to Mark Zandi, chief economist at Moody's Analytics, this inflation means the average household spent $202 more in July than the previous year and $709 more than two years ago to afford the same goods and services. With inflation driving up costs across the board, it's also impacting commercial insurance, making this essential financial tool increasingly expensive. (How U.S. Inflation Is Impacting Commercial Insurance | LandesBlosch, 2023)

4.2.1(a) Rising Claims Costs: Again, inflation means the cost of goods and services is going up. If it's more expensive to repair or replace damaged properties and vehicles, commercial insurers have to raise premiums to pay claims and maintain profitability.

4.2.1(b) Eroding Investment: Income Insurers invest a big portion of their premium income into various financial instruments to generate additional revenue. Inflation can erode the real return on these investments (i.e., return after accounting for inflation), creating a shortfall that needs to be covered.

4.2.1(c) Increasing Administrative Costs: Inflation leads to a general increase in the cost of doing business. From salaries to utilities, every operational aspect gets more expensive. Like any other business, insurers need to pay these bills.

4.2.1(d) Rising Reinsurance Costs: Insurers often purchase reinsurance to protect themselves from severe losses. However, reinsurance costs can rise during periods of high inflation. Insurers pass on these increased costs to policyholders through higher premiums.

4.2.1(e) Uncertainty and Risk: High inflation brings economic uncertainty, which inherently breeds risk for all organizations. Insurance companies facing an uncertain market will increase prices because "what if" is much riskier than a totally predictable future. For example, if next year is predicted to be another record year for inflation, insurers will price in that speculation. Additionally, if there is a chance the insurer won't make money from investments, they will price that into their rates as well. Remember—insurance companies are publicly traded and need to show results, so they are going to err on the side of caution by increasing rates even more.

The Role of Demand Conditions in Driving Sales Growth

In a general way, it can be said that American consumers exhibit a very high level of awareness and a really great tendency to procure almost all types of insurance products, such as life insurance, health insurance, property and casualty insurance, and specialty insurance. This sophistication is the one with which companies innovate and customize policies in ways that will meet the ever-changing needs of the consumer and therefore promote competition and sales growth. The increasing cost of healthcare, the increasing older population, and thus greater awareness of the need for financial protection have resulted in a growing demand for health and life insurance products. These trends are also a push factor so as to bring the insurance companies to offer more products, increase service delivery, and adopt customer-centric sales approaches.

An always on-the-go nation demands a seamless, convenient, and individualized experience for their populace digitization thereby making digital sales channels, mobile applications, and AI customer support a norm. These innovations stimulated the insurance companies to intensify their digital platforms, making them more accessible and widely penetrating into the market. Affordability boosted by higher disposable incomes and a burgeoning middle class, increases buy-in to such products offered by insurance services. The demand for business-related insurance products-including liability and cybersecurity policies-also grew with the increasing number of small and medium-sized enterprises and the burgeoning size the digital economy.

Mandatory insurance covers such as those for automobiles and health insurance from the employer have helped develop a steady underpinning for this market. Furthermore, they have also provided a healthy environment in which sales are growing continuously as it encourages competition among insurers vying to capture the price and quality aspects. Another aspect has been raised because of COVID-19. As it learns about the need for coverage for financial safety and well-being, it has driven the demand for health, life, and business interruption insurance. Consequently, the shift has stimulated insurers to innovate in product design and sales approaches.

Big companies and institutions generate huge volumes for group insurance policies such as employee benefits and liability coverages. This segment, which largely contributes to premium revenues, also furthers the development of specialized insurance solutions. The US market is so vast that geography and demographics result in a multiplicity of demands over different regions and population groups. Insurers then customize products and approaches for hitting certain regional niches, e.g., disaster insurance for areas likely to be hit by hurricanes or cost-efficient cover options for underserved communities.

4.3 Firm Strategy, Structure and Rivalry

Social Support

Social support is crucial in the insurance industry as it helps make insurance accessible, equitable, and sustainable, providing essential protections for individuals, businesses, and communities (Research Gate, 2023). Here are several key reasons why social support is important in the industry:

The insurance industry, a vital sector for providing financial protection against various risks, has been adapting to significant changes, including the shift towards remote and hybrid work arrangements. This transformation underscores the importance of digital collaboration and flexible employee arrangements. In-demand skills in the industry now include data science, beta underwriting, and user experience design, necessitating a digitally oriented and collaborative workforce. The "Great Resignation" trend offers insurers an opportunity to attract talent through meaningful work and flexibility, emphasizing the need for a strong organizational purpose and data-driven flexible work policies. Ensuring talent fluidity and seamless worker movement are competitive necessities, with leaders identifying key skills, exploring alternative sourcing, and integrating purpose statements in recruiting efforts (Manchester, 2021).

Insurers are facing pressure to cut costs amid factors like price transparency, digitization, and low-interest rates. The rise of digital competitors has forced insurers to prioritize efficiency, reduce expenses, and increase revenue per employee. Industry leaders are embarking on efficiency journeys, with research indicating that targeting a top 30% cost improvement increases the chances of reaching the top quintile. Notably, a global multi-line insurer maintained its leading position by focusing on digital technologies and productivity enhancements, implementing initiatives like a two-speed IT architecture and harmonized global operations model (D'Amico, 2019).

Strong customer relationships are pivotal for insurance industry growth and success. In the increasingly competitive sector, building robust customer relationships and earning trust is paramount. Prioritizing effective customer relationship management (CRM) is essential, with a reliable CRM empowering insurance businesses to efficiently manage prospects, monitor lead opportunities, and automate marketing and sales processes. This approach allows insurance professionals to dedicate more time to understanding and addressing customer-specific needs, fostering stronger and more enduring client relationships (Agency Height, 2023).

Competitive rivalry within the insurance industry arises from factors such as the pursuit of increased market share, industry dynamics, and cost pressures. Healthy competition can drive growth and innovation when managed constructively. It encourages companies to innovate, streamline costs, conduct research, and prioritize product and service quality. Therefore, maintaining positive and constructive competitive rivalry can be a beneficial force in the insurance industry (Roba, n.d.).

Banks and financial institutions pose a threat to the insurance industry due to their integrated service offerings, established customer relationships, strong financial resources, regulatory overlap, and technological advancements. To counter this threat, insurance companies should focus on their core strengths, deliver exceptional customer service, embrace technology and innovation, build partnerships, and adapt to changing customer expectations, thereby maintaining a competitive edge in the evolving financial landscape (Aalto-Yliopisto, 2019).

Insurance companies face competition from various sources, including the government, risk retention groups (RRGs), and self-insurance. Governments offer coverage for risks not covered by private insurers, and states provide insurance in specific areas to promote competition. RRGs, governed by federal law, offer coverage for specific liability risks, providing insured parties with cost control. Self-insurance, where companies assume their own financial risk instead of purchasing insurance, is another competitive option (Spaulding, 2023).

In the competitive world of insurance sales, improving offerings is crucial to stay ahead. Beyond having a great product, attracting clients is equally important. To distinguish themselves in the fiercely competitive insurance industry, insurers should prioritize improved support for current clients, creating a competitive advantage through superior customer service, efficient claims processing, and innovative tools, as well as embracing the technological revolution to provide enhanced customer experiences (Graham, 2023).

The Role of Firm Strategy, Structure, and Rivalry in Shaping Sales Improvement

Innovations coming from tech, especially InsurTech, are making a significant impact on the U.S. insurance cluster. The transformation of insurance processes such as underwriting, claims, customer service, and so forth is brought about through automation, artificial intelligence, and big data analytics by newly established and already well-established technology companies. These integrations have increased operational efficiencies, enhanced customer experiences, and indeed made it possible to personalize policies and thereby pay off directly on sales. Additionally, with the help of digitalization, insurance products will become accessible to many, thus allowing the growth of the market and maximizing customer linkages.

Sales performance on both fronts has improved significantly because of the synergy formed between the insurance sector and financial services. Banks and investment firms have acted as the complementary financial product enablers, developing services including investment-linked insurance policies, combining life insurance with retirement savings plans, and providing mortgage insurance packages in an effort to support the insurer. Such collaborations increase the scope of cross-selling opportunities and furnish additional sales improvement through revenues from sources outside of insurance. Besides that, the access capital provided by the financial sector allows the insurers to invest in creativity and new services.

From the dawn of data-driven healthcare-technology in the U.S. sector, insurance health plan companies are gradually changing their streaming approaches in risk management and consumer satisfaction. More electronic health records, telemedicine, and wearable health devices nowadays are coming to improve health insurance. These all have increased the personalized and flexible health insurance products provided to consumers. It has achieved increased demand especially within the health and life insurance sectors, improving sales and retention levels.

Definitely, there are profound effects of legal and regulatory services on the insurance industry. The presence of an effective legal framework thumping compliance, consumer protection, and risk mitigation keeps the trust intact so vital for growth. Legal services and regulatory bodies assist insurers in compliance navigation with labyrinthine state and federal regulations, enabling their competitiveness in the highly regulated market. With such legal certainty, insurers devote more to product and marketing innovations, which ultimately sell more.

The growth of the insurance sector has been facilitated by the marketing and advertising sectors in building the brands of the insurers and in reaching out to the customers. Such partnerships allowed insurance companies to employ digital marketing methods, consumer insights by data, and targeted advertisement in order to facilitate reaching potential customers better. The innovations in marketing have influenced the increase sales levels and penetration into the market. Increasing numbers of cyber threats put the personal data of policyholders into danger, thus implying the collaboration between U.S.-based insurance companies and the cybersecurity industry. This would assist with customer trust and protection through secure digital platforms and advanced protection from breaches.

The Incentive and Performance Management Systems

Establishing a transparent and dynamic performance framework is essential. Objectives include aligning sales KPIs with strategic goals, introducing tiered commission models to reward high performers, and integrating gamification tools to boost morale and competition. Regular performance reviews will ensure accountability and create a culture of continuous improvement.

Robust Training and Development Framework

Investing in talent development is key to maximizing sales potential. The cluster will implement comprehensive onboarding programs for new agents and provide ongoing training focused on advanced sales techniques, product mastery, and customer engagement. Sales playbooks and scenario-based learning modules will be standardized across the network to ensure consistency and quality.

Technology Enablement for Sales Efficiency

Modernizing sales tools and platforms will enhance productivity and customer reach. Objectives include the integration of CRM systems to streamline lead tracking, the adoption of mobile and web-based sales tools, and the use of AI-powered analytics to identify high-potential prospects. A seamless omni-channel experience will be developed to support both digital and face-to-face customer journeys.

The reported customer confidence increases sales, especially in the case of digital insurance products. Research institutions and universities are critical to developing new models in insurance and data analytics tools and training programs. Such collaboration leads to innovative insurance products and services tailored to meet the new needs of consumers. By introducing new policies that consider the gig economy or specific insurance for climate risks, the transition toward new market segments has been very impressive, resulting in improved performance across sales. There are emerging groups in disaster and risk management such as geospatial data providers and climate analysts, capable of improving the risk assessment modeling of insurers.

Such improvements would lead to better risk identification with respect to natural disasters and environmental changes and subsequent alterations to pricing policies, reductions in claims frequency, and more targeted products. Ultimately, this would reflect improved sales performance achieved by property and casualty insurance.

4.4 Related and Supporting Industries

The insurance industry's impact extends beyond its core operations, as it has strong ties to support industries that contribute significantly to state economies. A report by America's Health Insurance Plans (AHIP) highlighted the vital role of the healthcare payer and insurance sector in state economies. This industry not only expands access to healthcare coverage but also generates jobs, benefiting millions of individuals. The report, "Health Coverage: State-to-State 2019," delves into the effects of health insurance plans, emphasizing three key aspects: improved access to healthcare coverage, substantial job creation, and contributions to tax revenues in state economies. Additionally, data and analytics firms are increasingly crucial in the insurance sector, providing valuable insights and solutions to enhance insurer operations. The adoption of predictive analytics is on the rise, particularly in individual life and health segments, allowing insurers to predict trends and make informed decisions. Embracing data analytics is essential for insurers aiming to thrive in today's competitive landscape (Health Payer Intelligence, 2020; Shakeel & Shakeel, 2023).

The Impact of Related and Supporting Industries on Sales Performance

Another very important aspect of the US financial services industry is the support of the insurance cluster. Banks, investment firms, and asset management firms have all contributed to enabling insurers to employ management risk portfolios, invest in technology, and develop new products by providing financial resources. Insurance is also being cross-sold with banking services as a result of the coupled partnership with financial institutions. The new rapid development of the U.S. technology sector, particularly InsurTech, has changed the scene of the whole insurance industry. Major advanced technologies like Artificial Intelligence (AI), Machine learning, Blockchain, and predictive analytics help streamline claims processing, improve underwriting accuracy, and enhance customer experience. Infusion of these technologies improves sales performance directly by increasing customer trust and operational efficiency.

Thus, it is easily said that growth in health insurance sales has been owing to collaboration with the healthcare sector. The widespread implementation of electronic health records (EHRs), telemedicine, and wearable health monitoring devices has enabled insurers to design individualized health plans and wellness incentives, improving the overall attractiveness of their services to the consumer. On the contrary, these improvements boost the capability of the insurer in risk management and cutting down costs of claims. Strong legal and regulatory framework in the U.S. supports the insurance industry by ensuring compliance, fraud reduction, and consumer trust. Law firms, consulting agencies, and regulatory bodies furnish specialized knowledge that helps insurers navigate complex legal environments, allowing them to concentrate on developing product offerings and driving sales.

The American marketing and advertising industries have significantly helped insurers reach target audiences. Digital marketing strategies, data-based advertising, and media agencies have increased customer engagement as well as raised brand awareness and policy sales. With the collaboration of universities and research centers, innovations have been provided and pursued by insurance companies. Such institutions provide research, professional development programs, and industry-based trainings to ensure an adequate supply of skilled human resources for talent to enhance sales performance through new products.

As cyber threats become increasingly rampant, developing relationships with the cybersecurity industry becomes quite critical. Insurers now offer specific cyber insurance to businesses on the back of cybersecurity institutions which assist them in evaluating threats and underwriting. New revenue avenues and a larger market have emerged through this collaboration. Disaster management companies, climate analytics suppliers, and geospatial technology companies serve as enablers through which insurers can enhance risk evaluation and assessment models, especially in property and casualty. This has translated into better pricing and greater consumer confidence, thereby driving sales.

4.5 Government

A decade ago, the Affordable Care Act (ACA), commonly known as Obamacare, was enacted with the aim of expanding healthcare access, enhancing insurance coverage, and reforming the health insurance market. One significant provision of the ACA was the elimination of the requirement for insurance companies to issue rebates when overcharging Americans, resulting in $1.37 billion in rebates to policyholders in 2019. Over the years, the ACA has made substantial progress in reducing the uninsured rate, which dropped from 16 percent in 2010 to a record low of 9 percent in 2016. Approximately 20 million Americans have gained health insurance coverage since the ACA's inception, signifying its positive impact on healthcare access. In the insurance sector, cybersecurity has emerged as a top priority, given the sensitive financial and health data insurers handle. To address this, the National Institute of Standards and Technology (NIST) has developed a cybersecurity framework for critical infrastructure, providing guidelines to manage cyber risks effectively. State insurance regulators collaborate with federal regulators to combat cyber threats and closely monitor cybersecurity within the insurance industry, ensuring solvency and market integrity (O'Reggio, 2021; "Chemical Sector Cybersecurity Framework Implementation Guidance | CISA," 2020).

The Influence of Government Policies on the Insurance Cluster

Regulatory patterns in the insurance industry are mainly shaped by the U.S. government. Regulatory bodies b like the National Association of Insurance Commissioners and state insurance departments create rules and regulations governing how the business of insurance should operate for purposes such as consumer protection, equitable rating, and sufficient coverage. Accordingly, these regulations create a competitive and transparent market environment where trust in sales increases. This way, the insurer must adhere to these policies such that they motivate customers to become friendly, increasing their chances of fetching and keeping clients.

Buying insurance for automobiles or health insurance provided by one's employer (under the Affordable Care Act) is something most people have made compulsory by the government. Such mandates help stabilize a certain amount of direct demand from consumers for some insurance products, which ultimately leads to greater sales volume. Besides such statutory requirements, regulations about workers' compensation and life insurance cover for specific industries often generate demand for health and business-related covers. Such benefits thereby increase the revenue streams of insurers.

Policies adopted by governments usually provide tax benefits and subsidies to motivate insurance purchases, such as tax-deductible premiums applicable for health insurance as well as tax deductions with life insurance products. Such policies tend to promote some selected forms of insurance consumption. For example, the general tax-deferred nature of life insurance products has resulted in increasing sales, particularly for individual retirement and estate planning. All of these have it in spending more on insurance by consumers; hence increasing sales for providers. When looked at from another angle, an element such as the Affordable Care Act (ACA) was tressed that introduced a completely new paradigm to the US insurance market: accessing health insurance by millions of Americans. Government interventions also made the American insurance market inclusive and expansive by getting insurers to be specific about covering pre-existing conditions or defining essential health benefits: Such provisions improved access for many into the insurance market. Health insurance sales have risen significantly, in particular, because the ACA requires the insurance companies to amend their offerings to meet new standards and thus reach out to a greater pool of customers.

Regulation of the United States insurance market would mostly be at state level, with each state having the right to enact its own policy on rates, coverage requirements, market conduct, etc. While such de-centralization would give insurers some amount of flexibility, it itself would create differences in insurance underwriting and consumer demand from state to state. In stricter-regulated states, such as California, consumers seem to be more protected, and adoption and market penetration seem to be much higher, thereby stimulating sales; while in less-regulated states, competition is expected to be greater and costs will fall, and demand may be raised as a result.

Educating the public on the need for insurance and choice of an appropriate insurance scheme directly impacts the performance of sales, resulting in government initiatives. Such public campaigns are health insurance enrollment drives and the requirements for auto insurance, persuading people to buy insurance. Furthermore, it creates reduced information asymmetry between the consumer and insurer, therefore improving the market penetration for increasing the total sale of the industry. In such economic recessions as the 2008 financial crisis, the recent effect of the COVID-19 pandemic on the insurance market is found to have stimulated economic recovery, increasing demands for specific types of insurance cover. During these periods, the government often rolled out economy relief programs, indirectly benefiting the insurance sector by improving disposable income, thereby motivating people to buy health and life cover and instilling stability in the overall market.

Due to government policies related to climate change and environmental risks, the cluster of insurance industry in the United States is influenced. The number and intensity of natural calamities have been increasing, hence regulations for disaster preparedness and risk mitigation make insurers come up with more advanced products in addressing emerging and unique risks such as flood and earthquake. This particularly develops new niches in products and markets as well as contributes to an increase in sales in property and casualty lines.

4.6 Chance

The insurance industry, built on trust, often faces challenges related to lengthy claims assessment processes that can take over 30 days (Allsec Tech, 2021). To address this, the industry is undergoing a digital transformation aimed at enhancing efficiency, customer engagement, and business opportunities. However, this transformation brings its own set of challenges, including data privacy and security concerns associated with storing sensitive customer data in the cloud. Successful digital transformation requires the right IT infrastructure and skills (Rice-Boshi, 2023).

Furthermore, the social insurance system, a part of the insurance industry, plays a crucial role in providing economic security and improving long-term economic opportunities. It has proven particularly vital during times of crisis, such as the pandemic and subsequent economic recession, as well as in normal economic conditions. The social insurance system helps stabilize the economy during periods of weak growth by supporting consumer purchasing power (Griffith, 2022).

<u>The Impact of Chance Events on the Performance of the Insurance Cluster</u>

Natural disasters like hurricanes, wildfires, typhoons, floods, and earthquakes have changed significantly over the years in terms of occurrence. These disasters result in increased claims to be paid in insurance terms but also allow the introduction of new innovative insurance products; for example, catastrophe bonds and specialized disaster recovery insurance policies. This results in the insurers who can adjust to adapting to their environment with better risk management solutions and better customized products experiencing demand increases for their coverage offerings and thus, sales. But worse, in some cases, the financial position of the insurer gets destabilized, and he ends up increasing premiums or reducing coverage options for high-risk areas, which in turn affects sales.

Indeed, downturns in the economy like that of the 2008 financial crisis and the impact of the COVID-19 pandemic make crucial chances for the insurance industry. During recessions, consumer expenditure will tend to decline and, hence, generate less demand for optional types of insurance products such as life insurance or annuities. Some areas-such as health insurance and business interruption coverage-may see greater demand because of increased perception of risk. There may also be a shift in some consumer behavior as a result of the economic slowdown, with a few policyholders choosing cheaper, basic coverage and affecting the performance of premium-selling insurance products.

Although the development of COVID-19 as a mega crisis was rare and unavoidable, its effects were foreseen on both health and other insurance systems. It had positive and negative impacts on insurance lines. On the one hand, it increased the need for health and life insurance as well as business continuity coverages. However, the pandemic has likely created considerably greater uncertainty and financial stress among insurers from claims, underwriting risks, and investments. The requirement for quick policy and premium adjustments by insurers had consequences both for consumer behavior and sales performance. And ultimately, such an event would broaden the market by a long-time horizon. Health and life insurance are two segments that will realize a lot of growth as consumers start to realize the need to have coverage.

Chance events to do with technological breakthroughs, such as the new rise of InsurTech, have turned the insurance landscape completely upside down. InsurTech companies are those that have turned to modern technology, including the likes of artificial intelligence, blockchain, and data analytics, to compel their competitor insurance companies to innovate and rethink their strategies. It has absorbed them into the kind of products that are more affordable, seem more transparent, and are more customer friendly, leading to massive sales generation for firms that are embracing such innovation. The insurers that failed to adapt would have lost market potential, thus having an overall bearing on industry performance. This transformation in the insurance landscape gives testimony to how the so-called chance events of technology can significantly change the mode of sales.

Chance political events such as changes in government leaders, modification of tax laws, and reforms in the health care policies will have short- and long-term impacts on the insurance industry. For instance, the passing of the Affordable Care Act (ACA) in 2010 shifted the health insurance market by increasing coverage and expanding the market for insurers. Changes in tax policies as well as deregulation efforts, on the other hand, would create changes in consumer attitudes toward purchasing as well as profitability for insurers. Political uncertainties, such as unforeseen changes in the regulatory environment, often cause consumers and insurers to be apprehensive, which translates into decreased sales during the transition period.

U.S. insurance market has indirect effects on global economic events like trade wars, financial crises, and fluctuations in global oil prices. Examples include increasing oil prices or geopolitical instabilities which can have a positive or negative impact on the global economy that will also affect the financial stability of both the insurers and their clients. Those insurers who have international exposure can face volatility in investments or sudden increases in claims against international markets, which can affect their financial soundness. In the same manner that their business models would be challenged, other geopolitical events such as changing international regulations could potentially open new markets or often create challenges for U.S. insurers who might wish to expand globally.

There may exist a massive demand for certain kinds of insurance, e.g. health insurance or workers' compensation insurance, because of public health incidents - that is, emergence of new diseases or sudden increase in workplace accidents or environmental hazards. These incidents may also cause the amendments in public regulatory requirements thereby driving insurers to introduce new policies or adapt existing ones so as to meet public needs hence affecting sales performance.

4.7 Other Influencing Factors

The landscape of insurance is evolving from merely providing financial support when things go wrong to actively assisting customers in avoiding problems altogether. This shift is driven by growing consumer concerns and the increasing unpredictability of risks in today's world. Factors such as severe weather events, pandemics like Covid-19, demographic changes, and rapid technological advancements have led to the emergence of new categories of risk and a higher number of risks overall (Naujoks, Schwedel, & Brettel, 2023).

In 2023, the insurance sector faces a blend of opportunities and challenges. One significant challenge is the shortage of skilled labor in the industry. Finding employees with the required qualifications for insurance roles has become increasingly difficult, compounded by the specialized education and certifications often needed. While technology presents opportunities for automation and efficiency through risk management software, the pace of automation may not be sufficient to address the growing job vacancies. Insurers must explore new talent acquisition avenues, retain current personnel with incentives, and invest in retraining and upskilling their existing workforce to navigate this challenge (Team, 2023).

Chapter 5 Conclusion and Recommendation

5.1 Conclusion

5.1.1 Challenges in Insurance Industry

The insurance industry's valuable customer data attracts cybercriminals, emphasizing the need for robust security, especially for personally identifiable information (PII). Insurers are prioritizing cybersecurity due to digital transformation. With digital transformation amplifying its importance, insurers grapple with safeguarding personal data and managing intricate cloud security in hybrid environments. Transitioning to data-driven strategies necessitates comprehensive approaches integrating compliance and governance. While technological tools enhance security, human involvement remains critical, particularly in automating repetitive tasks. Amid the surge in remote work, insurers must fortify their defenses beyond traditional methods, embracing Role-Based Access Control (RBAC) and Zero Trust frameworks to mitigate escalating risks associated with home-based work (Croenen, 2023).

5.1.2 Modern Working Environment in Insurance Industry

In Digital Insurance, the industry should manage the shift to remote work, emphasizing the need to create virtual substitutes for casual workplace interactions, such as those that happen around the world, and how the transition to remote work has positive effects on aspects like employee recruitment and more (Hoff, 2023).

The insurance industry is undergoing significant digital transformations, driven by real-world productivity data. This has prompted insurance companies to consider radical changes in their future operations. A study of US insurers revealed that 96% are speeding up digital transformation plans due to hybrid working trends. The primary focus for many insurers is enhancing efficiency and customer experience through new technologies. Notably, technology spending in the industry is becoming more aggressive, with a majority planning to invest more in data analytics, artificial intelligence, and robotic process automation (JENOA, 2023).

5.1.3 Government Policy and Investment in Insurance Industry.

Insurance company regulation in the United States is divided between state and federal jurisdictions. Each of the 50 states is responsible for regulating insurance operations within its boundaries, setting rules for permissible terms in insurance contracts. State-level oversight encompasses areas like insurance rates, licensing for companies and brokers, financial examinations, and customer service assistance. The states mainly regulate insurance companies in the US, but federal laws like the 2015 National Association of Registered Agents and Brokers Reform Act and the 1986 Liability Risk Retention Act have brought federal involvement in interstate insurance operations. These laws make it easier for out-of-state insurance sellers to operate and allow groups with similar risk profiles to offer more policy options to consumers (Global Legal Group & Boehning, 2023).

5.2 Recommendation and Strategy for Insurance Cluster in the USA

According to this research, there are 2 main recommendations and strategies for the insurance cluster after the Covid-19 period in the USA.

Firstly, the Covid-19 pandemic has reshaped work expectations, leading to a paradigm shift in company approaches. The hybrid work model, combining remote work with office presence, has emerged as a solution. Employees have diverse preferences – some favor remote work for better work-life balance, while others want to return to the office. Embracing this duality is crucial for a successful re-entry.

Balancing flexibility and structure is key to hybrid work's success. Companies should plan tasks for remote and in-person work, ensuring predictability. Communication of plans and purpose is vital. Tailoring the hybrid model to each team's and business's needs.

Crowd sourcing preferences can lead to a more engaged workforce. Avoid blanket policies and communication that isolate remote workers. Strive for a flexible, agile approach that accommodates individual needs and builds a productive, adaptable culture for the future (Guardian Life, 2022.).

Secondly, developing a differentiated claims experience involves leveraging technology to streamline claims processing by using image recognition and fraud detection can accelerate the often slow claims approval process. Integrating document understanding helps unlock unstructured claims information, cutting processing times and costs. This addresses issues like slow manual reviews, lengthy wait times, and high costs associated with back testing/model validation. Benefits include efficient claims adjudication through triage, instant claims processing, and reduced fraud risk using advanced tools and data. As a result, claims evaluation becomes more accurate, responsive, and aligned with customer needs (Sharma, 2023).

Leveraging Porter's Diamond Model to enhance sales within the U.S. insurance cluster involves strategically addressing its four key components: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry.

1. Factor Conditions:

- Investment in Human Capital: Developing a skilled workforce through targeted education and training programs can enhance underwriting accuracy, claims processing efficiency, and customer service excellence.
- Technological Advancement: Adopting cutting-edge technologies, such as artificial intelligence and data analytics, can streamline operations, improve risk assessment, and offer personalized insurance products, thereby attracting a broader customer base.

2. Demand Conditions:

- Consumer Education: Implementing comprehensive educational campaigns to inform consumers about the benefits and necessity of various insurance products can stimulate demand and foster a more informed customer base.
- Product Diversification: Developing a range of insurance products tailored to diverse consumer needs, including specialized coverage for emerging risks, can meet the evolving demands of the market.

3. Related and Supporting Industries:

- Collaboration with Technology Firms: Partnering with technology companies can lead to the development of innovative insurance solutions, such as telematics-based auto insurance or health monitoring devices, enhancing product offerings and customer engagement.
- Engagement with Financial Institutions: Collaborating with banks and investment firms can facilitate the bundling of insurance products with other financial services, providing customers with comprehensive solutions and increasing sales opportunities.

4. Firm Strategy, Structure, and Rivalry:

- Encouraging Healthy Competition: Fostering a competitive environment through strategic initiatives can drive innovation, improve service quality, and lead to more attractive pricing models, benefiting consumers and enhancing sales.

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