2025 Insurance Outlook: Dealmaking, Distribution, Capacity, and Innovation

By Jeff Heine

In 2024, the insurance industry underwent significant operational transformation, facing more pressure than ever to innovate, improve efficiency, and deliver a world-class customer experience. According to pwc, insurance organizations are “doubling down on enterprise-wide digital transformation,” including strategic technology investments in key areas such as claims and policy administration. Meanwhile, the industry was contending with ongoing economic uncertainty, geopolitical clashes, and record-breaking catastrophic weather events.

The coming year brings many reasons for cautious optimism across the industry, provided insurance organizations follow through on their plans to make strategic technology investments.

Here are some predictions for the coming year and some potential pitfalls to watch out for.

M&A makes a comeback

Insurance M&A activity will resurge in 2025 as the economy recovers, VC investment increases, and interest rates begin to normalize. Carriers, facing mounting pressures to broaden their distribution channels without sacrificing profitability, will increasingly consider acquiring MGAs or Program businesses.

Another trend that will continue to influence dealmaking is the aging out of many insurance business owners. As more insurance industry professionals retire and put their businesses on the market, we will see an increase in sellers. Carriers, brokers, MGAs, and insurtechs will be the primary buyers as they lean on acquisitions to achieve growth, but this trend will be seen across the entire insurance industry.

Possible pitfalls: The issue of capacity may limit growth for MGAs. If MGAs must wait for their capacity providers to allocate more capital, it can delay their ability to underwrite, expand into new markets, or add new lines of business. Additionally, organizations with outdated tech stacks will be less attractive to buyers in search of acquisition targets that are efficient, profitable, and tech-savvy, while those who are digital natives or have already undergone a significant digital transformation, will be more appealing.

Cautious gains for reinsurers

Reinsurers will be on track for modest growth in 2025 despite inflation and record-breaking climate costs. While a recent Fitch Ratings Survey previously predicted a price increase in this sector early in 2025, they have since revised their outlook for reinsurance from "neutral" to improving" as capacity increases and inflation rates start normalizing. To achieve this growth, reinsurers must make more strategic investments in R&D to develop new products and reach new markets. The focus in 2025 for reinsurers will be on modernizing operating models to become more customer- and product-centric.

Possible pitfalls: With the increased frequency and severity of catastrophic weather events and weather-related damages and claims, reinsurers urgently need greater visibility into the risk that carriers write. We'll see even more reliance on data modeling and AI to help with underwriting decisions and risk assessment.

Tort reform may counteract social inflation and litigation

Legal system abuse aimed at insurance companies, social inflation, and third-party litigation financing drive up premiums and prices across the industry. Insurance industry advocates have long argued that tort reform is crucial to managing liability insurance costs and keeping premiums affordable for consumers. In 2025, insurers will continue advocating tort reform to counter rising litigation costs, unpredictable legal outcomes, and rising indemnity payouts. Potential legislative changes in the US and Europe may help drive this. For example, with Republicans now holding a majority in the US House and Senate, the Litigation Transparency Act of 2024 may have a chance at passing.

Possible pitfalls: More research is needed on how tort reform might impact the long term, especially in the P&C sector.

E&S and specialty insurance growth spree continues

The excess and surplus (E&S) market was the breakout star of the industry in 2024, and we expect this trend to continue. As risks increase worldwide, new business will continue to flow to the E&S and wholesale sectors, even as other sectors stabilize. For example, when carriers, reinsurers, and MGAs pull out of high-risk markets due to increasing catastrophe losses and climate change risks, E&S is often there to step in. It's doubtful that business will return to the carriers, MGAs, and brokers, as it's simply too risky for them to underwrite.

Potential pitfalls: Failure to keep up with demand and accurately underwrite due to outdated tech systems could hinder E&S and wholesale growth. We expect to see IT leaders in the E&S, wholesale, and specialty markets make some bold moves to upgrade their technology in 2025, particularly around automation, AI, and data analytics. Without these upgrades, this loops back to creating capacity constraints due to poor visibility through the underwriting chain.

Insurtech-led ecosystems will drive the next wave of insurance innovation

The role of insurtechs in creating ecosystems and modular tech solutions is anticipated to grow, focusing on flexibility and the ability to integrate various technologies. Insurance marketplaces will continue to evolve and mature. Insurers will implement a robust API fabric and composite APIs to perform essential lifecycle functions. This shift enhances the customer experience and fosters innovation, allowing insurers to integrate the technology they need and become fully future-proof as they respond more effectively to changing market demands and consumer expectations.

Insurance ecosystems will be built on data-driven, cloud-native platforms. Cloud-based architecture is essential for maximizing an insurance ecosystem's scalability, flexibility, and efficiency. Using cloud-based platforms and open APIs will help ecosystems come together quickly and iterate faster. The most important benefit to insurance organizations is the flexibility to add additional functionality, capabilities, and services as the business grows with minimal disruption and no costly integration process. This will ultimately drive growth and ensure long-term sustainability in a competitive market.

Potential pitfalls: Legacy technology that doesn't "play well with others" or cannot scale properly will hold organizations back from participating in lucrative ecosystems. Our research found that 41% of insurance organizations have not updated their core technology systems used across the business in more than 5 years.

Cybersecurity insurance will continue to evolve and refine risk products

The Crowdstrike outage proved that there are many nuances to cyber insurance policies. Not all business interruptions are caused by cyberattacks like ransomware, insider threats, or nation-state hacking. Sometimes, the culprit is as simple as a software upgrade gone wrong. We expect to see more specialized cyber risk products in 2025 and updated terms and conditions on existing cyber insurance policies. The insurance industry is already reevaluating its perspective on potential risks and thinking less in terms of a single catastrophic "super cat" incident but instead on the risk of mid-sized incidents that take place on a more frequent scale and can still cause significant damage.

Potential pitfalls: We still haven't seen all of the fallout from this incident, as many enterprises are seeking recourse through the court systems. Crowdstrike is now facing a class action lawsuit and a $500 million suit filed by Delta Airlines. This could be a very expensive lesson for the insurance industry.

About the author

Jeff Heine is the Chief Revenue Officer of Novidea, the cloud-based, data-driven insurance management platform.