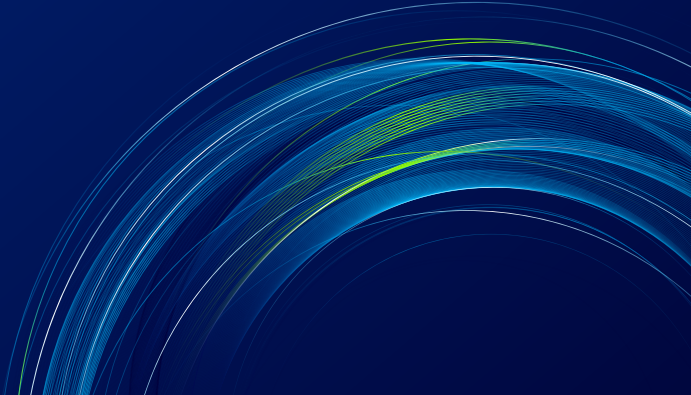
SAPIENS

The Performance Gap

Why Operating Models Define Competitive Outcomes in Insurance



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The Question Facing Your Leadership Team

Today’s insurance ecosystem is fundamentally different from previous ones. In every market cycle, insurers have navigated hardening conditions, shifting risks, and rising customer expectations.

But volatility is no longer episodic – it is structural. Climate severity, social inflation, interest rate dislocation, and reinsurance cycle compression are not receding.

The question facing every leadership team is the same: **is our operating model ready for what comes next?**

The answer is too often compromised by fragmented architecture, manual workarounds, and decision logic that cannot keep pace with external change. The result is performance drag that compounds over time, eroding margins, complicating governance, and ultimately failing the policyholders who depend on the industry for protection.

This paper makes a central argument: the performance gap is not primarily a technology problem. It is an operating model problem. Companies that will outperform in the coming years will build dynamic operating models capable of absorbing change, aligning decisioning, and sustaining performance across cycles. It starts with an **“All Systems Go”** approach.

All Systems Go

Insurers facing identical macro pressures are producing divergent results. The differentiator is not intent, capital position, or product breadth – it is whether the operating model is at a state of **All Systems Go.** This means it's aligned, observable, and sufficiently resilient to convert volatility from a threat into a new competitive advantage.

This paper examines:

1. Why volatility is now systemic, not cyclical

2. How static operating models create compounding execution drag

3. How that drag manifests across five enterprise performance gaps

4. How internal performance failures translate directly into customer-facing risks, unsuitable products, overpriced coverage, and service failures that widen the global protection gap

5. What structural readiness looks like for companies positioned to close the gap

From a technology perspective, SaaS delivery, cloud elasticity, and explainable decision intelligence move the enterprise from project-led change to continuous capability.

Stable performance despite volatility is not a technological outcome. It is an operating model outcome.

The question is no longer: **"Did we evolve?"**

It is: **"Are we operating at full readiness, every quarter?"**

1

Mission Brief: a Structurally Volatile Landscape

Volatility is no longer an occasional disruption. It's now constant across non-life and life.

Climate-driven catastrophes, claims inflation, and geopolitical tension are reshaping pricing and loss severity in the property and casualty (P&C) sector. Annual insured losses **above $100 billion** are now routine. Claims inflation is still outpacing earned premium growth, pushing combined ratios under steady pressure. The squeeze is structural and it's tightening. Even strong rate adequacy can't keep up when loss costs rise faster than premiums can be repriced.

Life insurers also face a different rate environment. Stronger investment margins have improved performance, but they require a reset. Long-duration liability management and portfolio positioning must adjust to a steeper yield curve, while **renewed demand** for savings and retirement products is lifting volumes. To absorb that growth, operating models need scalable governance, solid ALM, and tighter capital planning, all to capture the expected uplift through 2027.

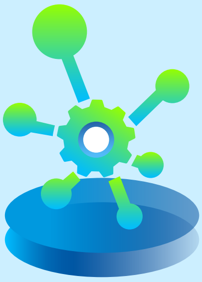
Supervisory bodies and rating agencies now look beyond financials. **They evaluate** operational resilience and technology readiness as core signals of preparedness. That means one thing for executives: experience in past cycles won't carry forward. The operating model must sense change, learn quickly, and adjust across pricing, underwriting, product design, and claims, without weakening control.

SIGNAL

A persistent inability to achieve "all systems go" during change windows reveals a lack of structural preparedness.

2

System Check: Static Foundation vs. Dynamic Operating Model



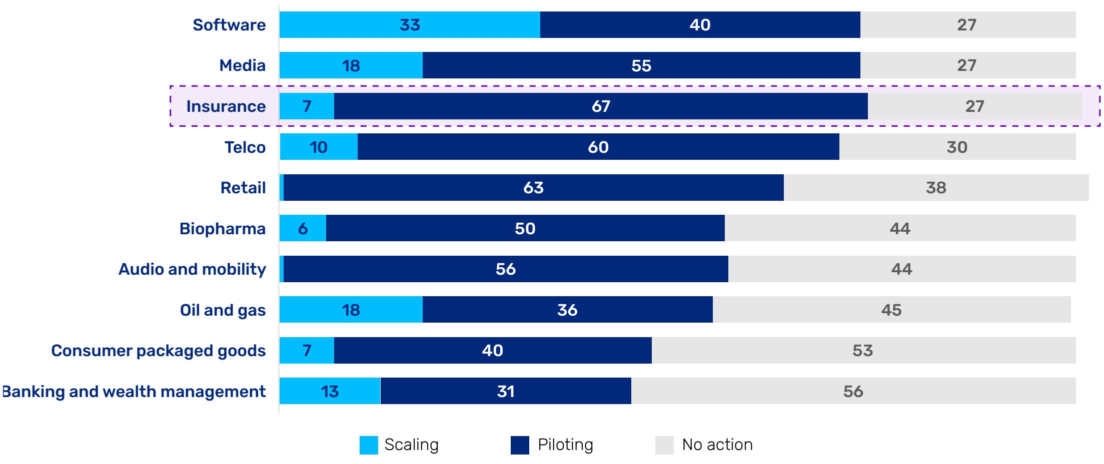
Static operating models were engineered to record and process. They prize stability over adaptability, fragment workflows across systems, and depend on manual controls. They force painful tradeoffs under stress:

- Speed vs. control
- Cost vs. flexibility
- Compliance vs. customer experience

Dynamic operating models embed change into normal operations. Transitioning the enterprise from project-led change to continuous capability requires SaaS delivery, cloud elasticity, and explainable decision intelligence. Controls are designed into workflows, data lineage is clear by default, and product iteration accelerates without sacrificing governance.

Success at Scaling AI Compared with Other industries

What has your organization's response been to leveraging Gen AI based on the latest news and trends in Gen AI? (% of responses)



BCG. "Insurance Leads in AI Adoption. Now It's Time to Scale." Sept. 2025

The result of a dynamic operating model is an enterprise that runs at All Systems Go: cycle times compress, claims accuracy improves through learning loops, pricing reflects exposure trends sooner, and transformation fatigue transforms into a sustainable operating rhythm.

3

A No-Go Situation: The 5 Performance Gaps

⬢ **Performance Gap**

⬢ **Internal Symptoms**

⬢ **Customer Impact**

When operating models are static, volatility does not just affect financial results. It creates compounding structural gaps that flow outward from the balance sheet to the policyholder. Across every line of business, five enterprise performance gaps emerge, each with distinct internal symptoms and direct customer consequences.

1 Operational	Manual processes Surge backlogs Rekeying errors	**Slower claims** **Service failures** **Erosion of trust**
2 Financial	Rising run costs Combined ratio drift Opaque ROI	**Overpriced coverage** **Reduced capacity** **Market exit**
3 Compliance	Fragmented audit trails Governance strain under IFRS 17 NAIC Solvency II	**Delayed filings** **Regulatory exposure** **Reputational risk**
4 Decision	Siloed underwriting logic Disconnected pricing Claims feedback	Unsuitable products Adverse selection Lapse risk
5 Speed-to-Market	Prolonged product updates Slow appetite changes	**Coverage gaps** **Failure to meet evolving policyholder needs**

Note: Each gap is measurable, maps to executive level KPIs, and has a customer-facing consequence that ultimately contributes to the global protection gap.

4

On Deck: Performance Signals by Role & Business Line

The performance gaps above manifest differently depending on role and business context. Below are the critical signals, the **No-Go** symptoms that indicate structural exposure, and what **Go** looks like when the operating model is aligned.

CIO: Execution Risk Becomes Business Risk

No-Go Symptoms

- Fragmented platforms with brittle release cycles
- Opaque data lineage and manual reconciliation
- High incident rates and slow Mean Time to Recovery or Repair (MTTR)

What Go Looks Like

- Elastic infrastructure with controlled change windows
- Embedded controls and clear platform governance
- Release cadence that accelerates delivery, without increasing risk

CFO: Cost Volatility is Structural

No-Go Symptoms

- Rising run costs, with opaque ROI on transformation spend
- Combined ratio drift, without clear causal visibility
- Capital allocation misaligned with risk exposure

What Go Looks Like

- Elastic cost curves via SaaS, reducing fixed-run exposure
- Metrics that correlate expense ratios with operating performance
- Predictable signals that rating agencies and reinsurers trust

COO/Claims: Speed & Accuracy Should Not Compete

No-Go Symptoms

- Re-keying, leakage, and surge backlogs at claim notification
- Manual escalation paths that slow resolution and frustrate policyholders
- Stop-start initiatives that leave service levels inconsistent

What Go Looks Like

- Elastic cost curves via SaaS, reducing fixed-run exposure
- Metrics that correlate expense ratios with operating performance
- Predictable signals that rating agencies and reinsurers trust

CUO: Emerging Risks Outpace Product Cycles

No-Go Symptoms

- Slow appetite changes disconnected from claims feedback
- Prolonged product update cycles that miss market shifts
- Underwriting decisions that cannot be explained or audited

What Go Looks Like

- Rapid product iteration, with closed loops between underwriting and claims
- Modular product components enabling faster configuration
- Explainable decision logic that supports governance and learning

Life Core Systems: Duration Mismatch & Product Agility Risk

No-Go Symptoms

- Product update cycles too slow to match rate and demand shifts
- ALM misalignment, as duration gaps widen under new rate conditions
- Manual illustrations, disclosures, or suitability workflows creating compliance strain

What Go Looks Like

- Near-real-time ALM insights driving proactive portfolio and hedging adjustments
- Rapid product calibration aligned to demand, distribution feedback, and rate changes
- Straight-through suitability, disclosure, and illustration workflows that reduce risk and accelerate issuance

P&C (Personal Lines): Exposure Volatility & Underwriting Discipline Risk

No-Go Symptoms

- High underwriting leakage from disconnected pricing, rating, and claims signals
- CAT exposure visibility limited to annual or static models
- Claims cycle times drifting upward due to manual FNOL, or triage

What Go Looks Like

- Dynamic pricing and underwriting informed by continuous claims and exposure feedback
- Real-time CAT exposure monitoring that drives disciplined risk selection
- Digital FNOL and automated triage that improve loss ratios and customer experience

P&C (Commercial Lines): Submission Friction & Portfolio Visibility Risk

No-Go Symptoms

- Submission backlogs and inconsistent broker data driving quote delays
- Fragmented appetite rules forcing underwriters into manual workarounds
- Limited visibility into account-level profitability across multi-line programs

What Go Looks Like

- Automated submission ingestion and broker data alignment feeding faster quotes
- Central appetite management guiding consistent underwriting decisions
- Unified account-level profitability and risk scoring enabling proactive portfolio steering

Reinsurance: Capacity Pressure & Treaty Risk

No-Go Symptoms

- Tightening treaty terms driven by company loss ratio volatility
- Reinsurance assumptions embedded in spreadsheets and updated annually
- Capital retention risk rising as reinsurers load uncertainty into pricing

What Go Looks Like

- Dynamic reinsurance enhancement informed by near-real-time exposure data
- Portfolio visibility that supports proactive treaty structuring
- Capital allocation discipline that earns reinsurer and rating agency confidence

Workers Compensation: Duration & Inflation Risk

No-Go Symptoms

- Claims inflation and extended duration eroding reserve adequacy
- Manual case management unable to identify recovery outliers early
- Fragmented data between medical, legal, and indemnity functions

What Go Looks Like

- Predictive models identifying high-complexity claims at intake
- Integrated data across all claim dimensions, enabling proactive management
- Reserve adequacy signals surfaced in near-real time for CFO visibility

Enterprise Decisioning: Fragmented Logic, Compounding Risk

No-Go Symptoms

- Decision logic siloed across lines of business, with no common governance
- Inability to explain or audit underwriting or pricing decisions at scale
- AI deployed on top of fragmented architecture, amplifying inconsistency

What Go Looks Like

- Unified decision intelligence with explainability embedded by design
- Common governance framework spanning underwriting, pricing, and claims
- AI as an accelerator, aligned with operating model, not layered over gaps

5

AI: Amplifier or Accelerator?

Artificial intelligence is reshaping every part of insurance operations, but its impact depends entirely on its foundation. When operating models are static, AI doesn't fix the weaknesses – it amplifies them. It speeds up flawed underwriting logic, scales inconsistent decisioning, and increases compliance risk in systems, without explainability built in.

The story changes in dynamic operating models. The same AI capabilities become accelerators. Claims automation cuts manual work materially and shortens resolution time. Pricing adjusts in near-real time, as exposure trends shift. **McKinsey estimates** that automation and AI can **reduce claims handling costs by 25–30% and compress processing times by 40–50%.** Underwriting becomes explainable, auditable, and continuously improved through feedback loops with claims outcomes.

Forrester's **2026 forecast** is clear: AI and automation will improve expense ratios at the top 50 insurers by two percentage points, but only for carriers that have scaled beyond pilots into full production. Adoption is no longer the differentiator, it's scaling, which requires a dynamic operating model built to disseminate AI across the enterprise.

THE AI IMPERATIVE

The performance gap between AI-enabled and AI-constrained companies will widen in direct proportion to the quality of the operating model underneath. Deploying AI on a fragmented foundation accelerates your problems.

6

Policyholder Impact: from Performance Gap to Protection Gap

Internal performance does not stay internal. When operating models fail to keep pace with volatility, policyholders feel the consequences directly: slower claims resolution, pricing that reflects operational drag rather than true exposure, products that no longer fit evolving risks, and service experiences that erode trust at the moment of greatest need.

For life customers, operational inefficiencies surface as limited access to modern, flexible products, slow onboarding, and delayed payouts. Since life claims often carry significant emotional weight, inconsistent or impersonal experiences damage trust in ways that drive lapse and opt-out, withdrawing coverage from people who need it most.

These individual failures compound at industry level into the protection gap: the growing divide between total economic losses and insured losses. **The global protection gap** is estimated at over $900 billion, a figure that represents not just a commercial shortfall, but a failure of the industry's core social purpose.

> Closing internal performance gaps is a public-purpose obligation. Every point of operational improvement narrows the distance between the company's promise and its delivery.

7

The New Competitive Advantage

Sustained outperformance now depends on execution consistency and structural adaptability. Companies running dynamic operating models pull ahead because they integrate signals faster: from exposure data, claims, and emerging loss patterns. They show lower claims leakage, steadier combined ratios across cycles, and faster product repricing when mortality, morbidity, or economic assumptions move.

Market stakeholders have already made their judgment. Reinsurers now price volatility directly into treaty terms. Carriers with observable, well-governed portfolios earn better conditions and everyone else pays for uncertainty. Rating agencies have elevated technology resilience, and operational stress-testing into formal criteria. Investors discount insurers where transformation spending is high, but operating proof points are missing. Scale still matters, but without structural readiness, scale amplifies fragility, not performance.

ACORD's **AI and Digital Maturity study** found that robust AI integration can reduce P&C insurer expenses by 14.6%, representing **an estimated $480 billion in annual industry savings.** Operating model maturity can be viewed as a combined-ratio gap – and for carriers who fall behind, that gap widens every year.

The advantage goes to companies that can demonstrate All Systems Go on demand:

Aligned operations

Observable decisioning

A dynamic operating model that turns change into capability

8

Readiness Diagnostic: Are We at Go?

Readiness is a condition that requires continuous monitoring, not a one-time destination. Use this diagnostic each quarter to assess structural exposure across critical dimensions:

Pricing-to-claims learning:
are exposure and claims signals informing pricing in near-real time?

Release discipline:
do change windows complete on schedule with declining MTTR and incident rates?

Surge resilience:
can operations absorb catastrophe or volume spikes without breaking service levels?

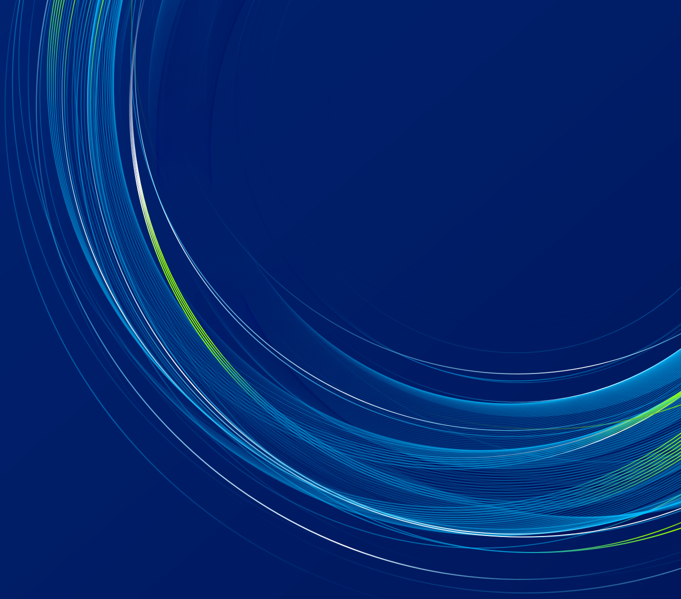
Data lineage:
can decisions be traced end-to-end for audit, regulatory, and rating scrutiny?

Capital efficiency:
are expense and loss ratios steadying as operating capability matures?

Decisioning governance:
is underwriting and pricing logic explainable, consistent, and governed across all lines?

Stakeholder confidence:
are reinsurers and rating agencies rewarding execution quality with better terms and outlooks?

Roughly 30% of rated insurers still lack robust stress-testing capabilities, making these questions practical tools for closing the structural assessment gap, not abstract board exercises.



Going into the Future

This is the first paper in the Performance Gap series. It establishes the market thesis and names the structural problem: operating model adaptability is now the primary driver of divergent performance outcomes in insurance. The consequences of structural gaps extend beyond the balance sheet to the policyholders insurers need to protect.

Look out for our follow up piece, which takes the next step: making the risk measurable. It provides diagnostic tools that map each of the five enterprise performance gaps – operational, financial, compliance, decision, and speed-to-market – directly to the CIO and CFO metrics that matter most:

- **Combined ratio**
- **Expense ratio**
- **Capital efficiency**
- **Regulatory cost**
- **Release performance**

For executive teams who identify the gaps named in this paper, the upcoming diagnostic whitepaper translates structural exposure into a quantified, actionable assessment across P&C, life, wealth, retirement, reinsurance, and workers' compensation, with enterprise decisioning examined as the cross-functional capability that connects and governs intelligent decision-making across all of them.

In the meantime, contact Sapiens for a system assessment.

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