Digitalization in the Insurance Industry

Trend report

What is Insurance?

All aspects of life include risk exposure. However, individuals and businesses have a choice, accept the consequences of potential loss or seek insurance coverage.

Insurance is a form of risk management. It hedges against the risk of contingent loss and guarantees payment to you or a designated recipient for an uncertain future event.

The financial protection from risks

The purchase of insurance is the most common risk transfer mechanism for most people and businesses. Insurers protect against loss, whether car damage, a missed flight, or loss of life. In certain instances, insurance is compulsory.

Although it cannot prevent bad things from happening, insurance provides financial compensation to address the economic hardship caused by a loss in exchange for paying a small premium to the insurer. Thus, protecting oneself against uncertain future occurrences.

However, as new challenges arise, insurance companies must adapt their practices to respond to a changing regulatory and technological landscape and customer needs.

Types of insurers

Most insurance companies do not cater to the same customer base or offer the same product.

Life and Health Insurers: Insurance companies offer coverage on the risk of life and medical expenses

Protection against premature death	Life insurance delivers protection against financial loss resulting from the death of an insured individual. Paying a monthly premium or lump sum ensures that named beneficiaries receive the policy proceeds upon death.
CRO/Protection against poor health or unexpected medical costs	Healthcare costs can be difficult to forecast, given the unpredictable nature of accidents or unexpected diagnoses. Health insurance helps towards the expenses of falling ill, a predetermined critical illness or a struggle to meet the costs of medical expenses, such as home modifications.
Protection against outliving one's financial resources	According to a poll of people aged 44 to 75, the fear of depleting assets outranked dying as their biggest concern. Consequently, the wish for a good quality of life throughout retirement has resulted in tailored insurance policies to cover the cost of nursing home fees or at-home care.
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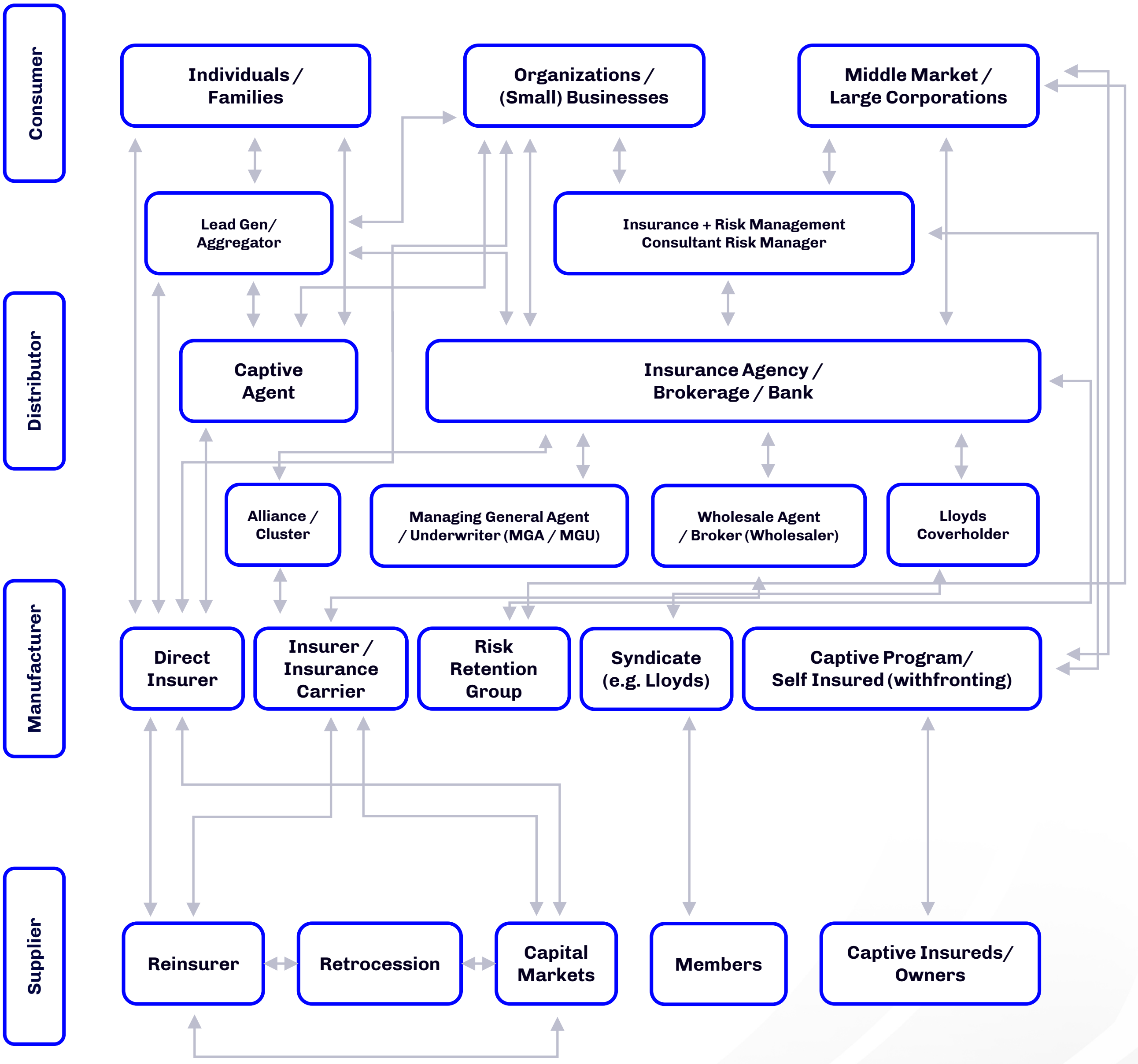
Non-life Insurers:
This is the property or casualty insurance.

Property insurance	Property insurance protects physical things at risk of being lost, damaged or becoming a financial loss to the insured. Property insurance offers umbrella coverage combining various dangers in a single policy, such as collision, fire, theft or other covered perils.
Casualty insurance	Casualty insurance is broader than property and often covers an individual or organization for negligent acts or omissions. In addition, it covers indemnity losses for bodily injury or damages the policyholder may cause to others, including automotive or professional liability.

The Insurance Supply Chain

Insurance policy distribution is complex, with numerous actions. The ensuing breakdown outlines the journey taken by companies to acquire the financial means to support claims to how customers receive their insurance policies.



Source: https://www.linkedin.com/pulse/insurance-supply-chain-peter-macdonald/

Supplier

Insurance companies require substantial surplus capital to pay for claims. However, to do so, insurers require insurance to ease the financial burden and in the event of large-scale catastrophes.

Reinsurers act as insurance policies for companies and supply the necessary financial capacity. Insurers transfer risk through reinsurance to manufacture and sell insurance policies.

Manufacturer

Through the support of reinsurers, together with their surplus claims capital, insurance companies can manufacture and issue policies. Thus, companies can pay all claims without the threat of insolvency.

Distribution

Insurance agents or brokers match customer needs with available products, evaluate offerings and support purchasing. In addition, agents distribute policies to customers for commissions, as a representative for customers within the marketplace or of a specific company.

However, the growing presence of technology promises to improve efficiency within distribution and reduce the number of intermediaries between consumers and producers.

Consumers

There are many different types of buyers of insurance policies, from individuals and families that purchase products specific to their lifestyles to businesses ranging from middle market to large corporations.

Regardless of their situation, customers seek to trade potential risks for a premium to protect themselves from loss.

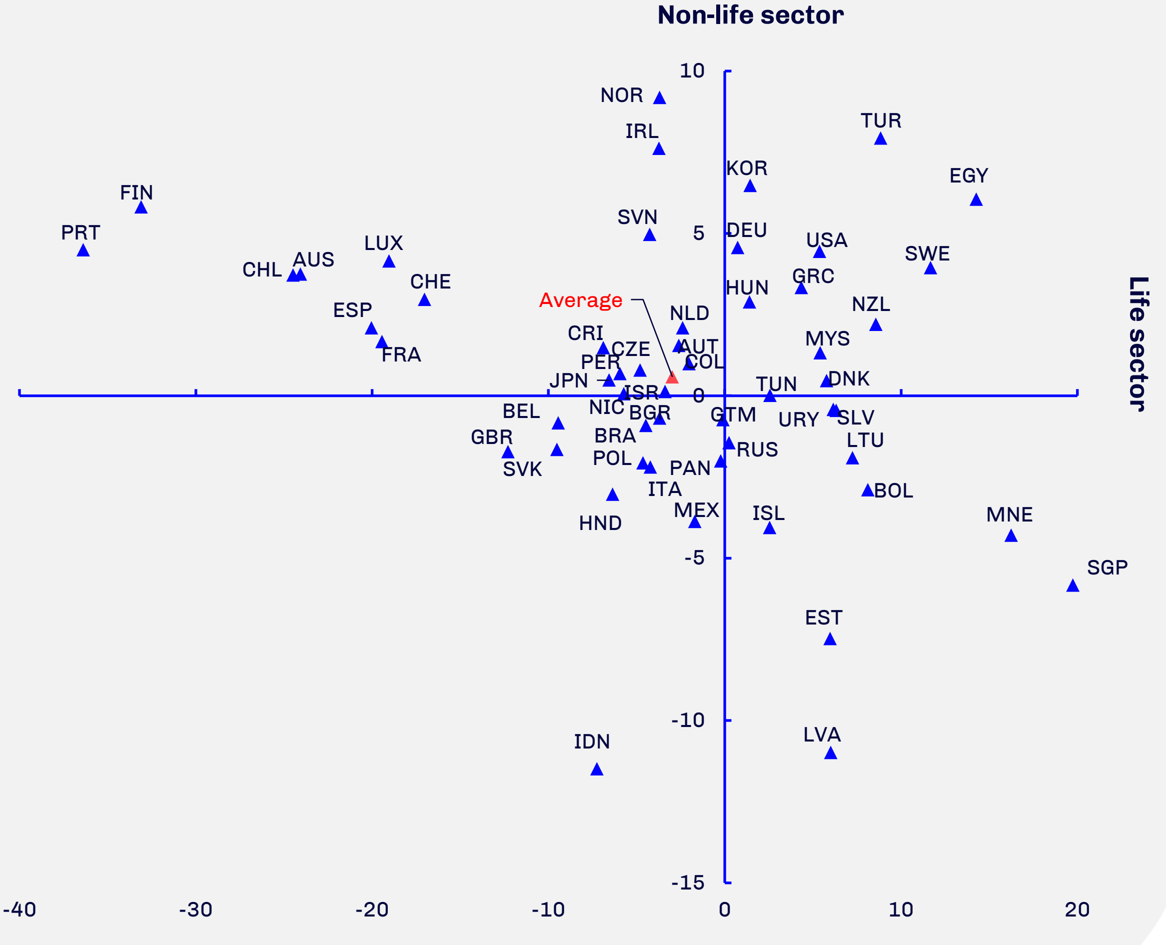
The Insurance Industry by numbers

In 2020, the COVID-19 pandemic triggered a global economic downturn. Like many sectors, [the insurance industry experienced a slowdown in the number of premiums written in 2020](#).

The growth of gross premiums halted in the Life sector, experiencing a 3% decline. In addition, the Non-Life sector slowed considerably, experiencing an increase of less than 1%. Compared to the growth of 4.7% in the Life sector and 3.6% in the Non-Life sector in 2019.

Annual real growth rates of direct gross premiums in the life and non-life sectors in selected jurisdictions, 2020

In per cent



Source: OECD Global Insurance Statistics (2020)

In the Life sector, premiums declined as customers reduced discretionary expenditures such as life insurance policies. However, in other cases, COVID-19 increased the need for health insurance policies.

Nevertheless, the Life sector appears upwardly mobile as a rise in risk awareness and the need to mitigate an unpredictable future increases demand.

The Non-Life sector experienced a downturn in premiums across various business lines as a consequence of lockdowns, a rise in unemployment and GDP contraction.

One of the main lines in the Non-Life sector, motor vehicle insurance, experienced a decline in written premiums due to mobility restrictions and reductions in the sales and use of cars.

However, there were rising claims payments in other Non-Life lines, such as business interruption in cases where companies had applicable coverage for revenue losses due to COVID-19.

In **2022**, the global insurance market is valued at **$5.3 trillion**. However, risks remain. Low and falling interest rates make high returns through investments in public bonds and deposits challenging for insurers. Additionally, inflation may make future claims more costly.

Trends that will shape the Insurance Industry

Insurance companies face a market shaped by customer demands, innovative new entrants, and a wave of digital disruption.

The following trends may shape the next decade for the insurance industry and policyholders.

Dig deeper

Changing consumer expectations and demographics

Capturing larger market share with JIT insurance policies

Move from pay-out and protection to true prevention

Intelligent Data processing new a must-have

AI is now an integral part of insurance businesses' processes

Cybersecurity strategies and compliance are non-negotiables

Digital workforce and specialist supply with insurance expertise

Bridging the gap between legacy systems with RPA

Changing consumer expectations and demographics

Today, consumers have far greater control and choice. A study of EMEA insurance executives found that **45%** believe rapidly evolving customer needs and expectations are the top challenge for growth over the next three years.

Therefore, companies must raise their performance bar. They cannot rely upon reputation or long-held relationships to maintain customer loyalty. According to EY and Accenture, millennials are focused on finding the best deal rather than prior relationships with insurance companies.

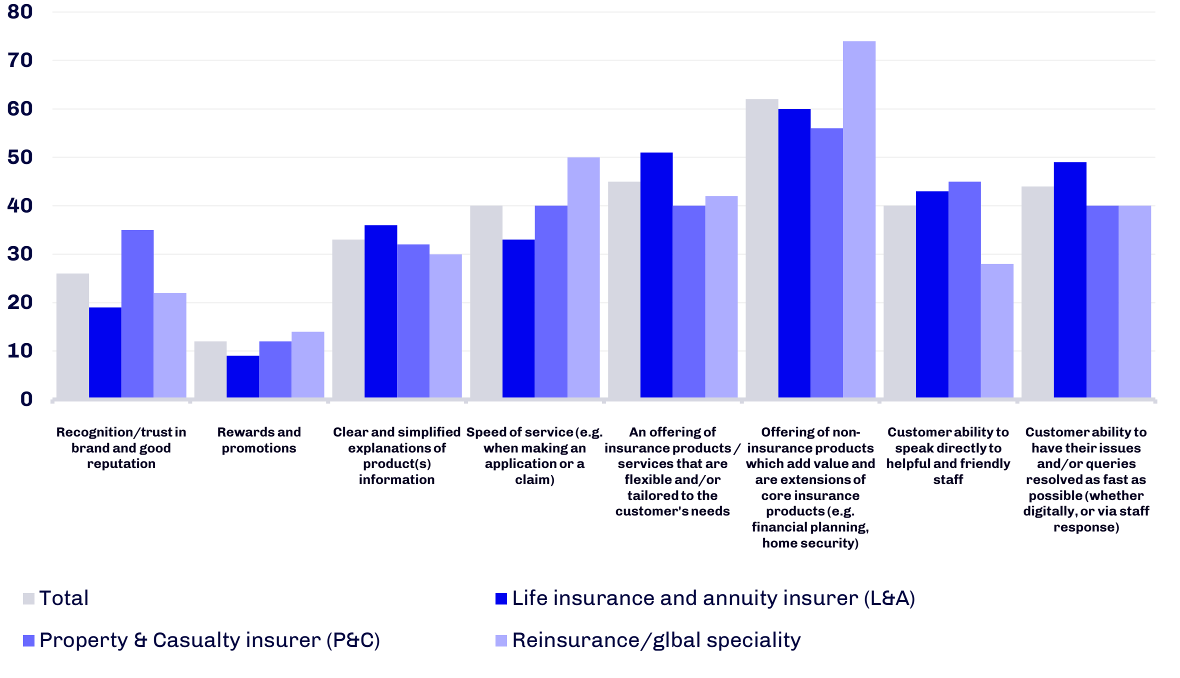
Insurers must add value beyond core products to attract customer interest today. By 2024, 33% of the premium insurance volume will come from new propositions.

Thus, indicating how the industry is rapidly shifting from product-led to service-led offerings that deliver a holistic experience to customers.

Therefore, innovative and flexible products, such as pay-per-mile car insurance, will become increasingly popular. Furthermore, data will be crucial in designing products that target specific individual needs.

For insurance companies to exceed customer expectations, delivering innovative services, streamlining administrative processes, and exceptional client experiences will help put the customer's needs at the heart of everything they do.

Overall, which of the following, excluding price, do you think is most important to consumers when choosing an insurance provider? (select top three)



Source: https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/financial-services/deloitte-uk-insurance-trends-new-world-new-customers-new-solut

Capturing larger market share with JIT insurance policies

The art of gathering premiums has been relatively static for years, but InsurTech companies are now venturing into pay-per-use business models.

Just-in-time (JIT) is a risk management strategy that considers the exact insurance cover necessary and aligns the type and duration of cover required. Thus, allowing customers to use insurance only when needed.

JIT insurance policies are paid based on use, reducing premium costs and policy period obligations.

For insurance companies, JIT policies allow them to consider risk holistically and forecast cover accurately. In addition, with its popularity among younger generations, the opportunity for insurers to capture new market shares and obtain valuable customer data increases.

Global case: Undo Insurance

The rise of digital insurance providers, such as Undo Insurance, provides consumers with tailored insurance offerings for the home, travel or accident and allows them to report damages directly through their application.

Within the Undo app, customers have a complete overview of purchases, how much they pay and coverage specifics. In addition, using data enables Undo to draw accurate pictures of their customer needs and risk profile.

Furthermore, with Undo, customers only pay what they need. Automated processes have enabled Undo to create a streamlined workflow, thus saving time and minimizing expenses offering users cheaper insurance costs.

Move from pay-out and protection to true prevention

Insurance companies are beginning to instrument life itself. As insurers embed technologies and draw out data from assets and people's lives through predictive behavioral analytics and IoT devices, they can better understand the causes of risks.

For example, applying predictive analytics and accumulating behavioral data from applicants for vehicle insurance is computed when underwriting premium rates.

Insurers can then assess the likelihood of the insured's potential involvement in an accident or risk to the car based on behavioral data regarding their driving and external factors such as the safety of the neighborhood.

Ultimately, insurers can tailor policies and premiums to the individual. In addition, the insights they acquire can ensure insurance companies can begin proactively intervening and preventing risk and fraudulent behavior.

As the digital shift impacts the insurance industry holistically, transforming user data into actionable intelligence is imperative. Firstly, to help improve the lives of policyholders whilst growing revenue and market share.

Intelligent Data processing now a must-have

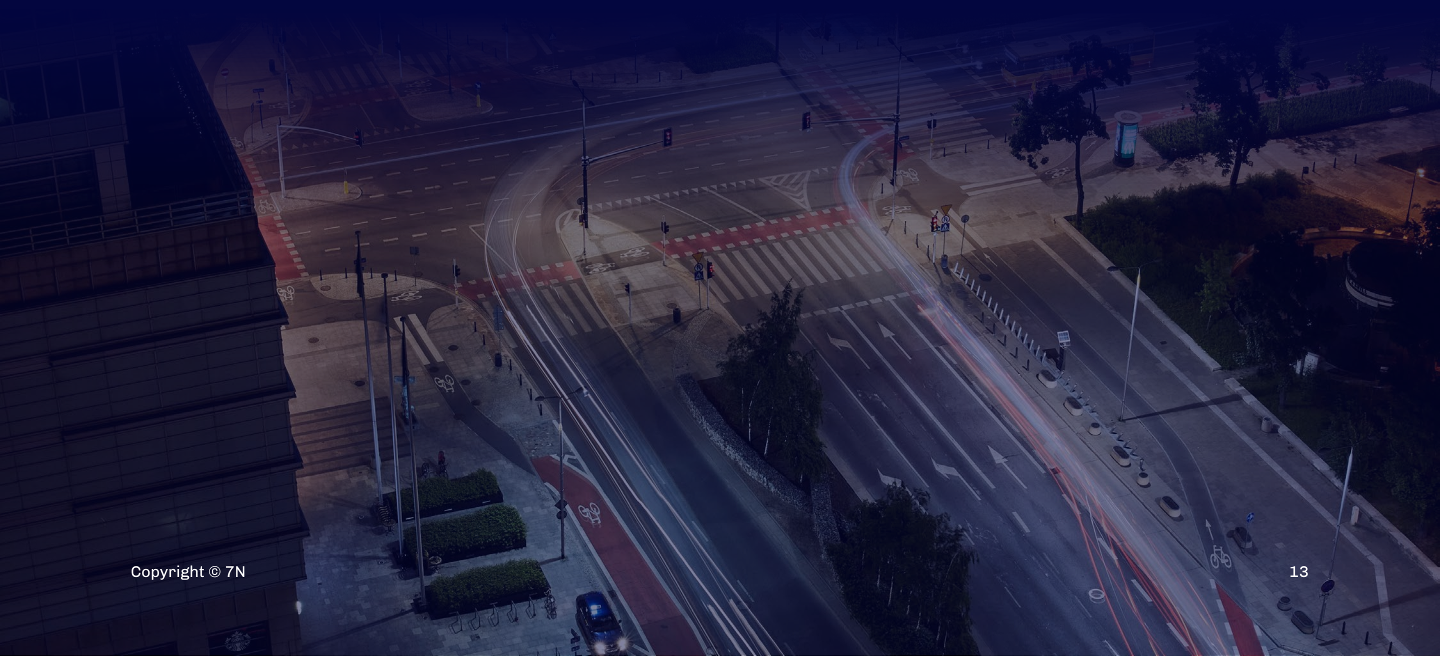
Previously, generic data was the insurance industry's core, focusing on geography, demographics, and claims history. But today, the amount of data created daily is incomprehensible for most humans.

To compete with companies looking to dis-intermediate traditional insurers, 66% of the legacy players are investing and adopting their own AI and technological solutions. Today, insurers utilize online and telematics data for insight into customer behavior.

By analyzing customer preferences, insurance companies utilize predictive algorithms powered by machine learning to constantly optimize and showcase relevant insurance products, improve underwriting and mitigate losses. However, it simultaneously creates new concerns regarding data privacy and cyber threats.

The influx of connected consumer IoT devices, with McKinsey estimating it will increase to 43 billion globally by 2023, offers businesses the ability to understand consumers better, resulting in new product categories, personalized pricing, and increasingly real-time service delivery.

As a result, insurers are pursuing new forms of data analysis for a competitive advantage.



AI is now an integral part of insurance businesses' processes

AI is having a seismic impact across the insurance industry, and its presence is increasingly visible across numerous processes.

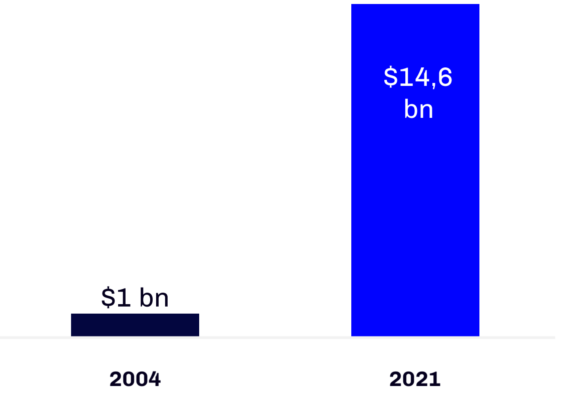
In particular, analytic tools support insurance companies in delivering customized pricing and improving interactions that focus on customer experience and fraud prevention through chatbots, optical character recognition, sentiment analysis and social media algorithms.

Furthermore, the data collection opportunity AI provides helps insurers achieve automation, enhance personalization and improve decision making.

For example, AI can support claims processing efficiency within claims administration, reducing human error and bypassing knowledge gaps. As a result, 90% of the online claims at the Chinese life insurance firm Ping-An, were automatically processed by AI, with a turnaround time as short as three minutes.

AI is creating a complex, emerging landscape within the insurance industry. Its growth is responsible for developing new sectors like InsurTech.

Growth in investments for Insurtech



Cybersecurity strategies and compliance are non-negotiables

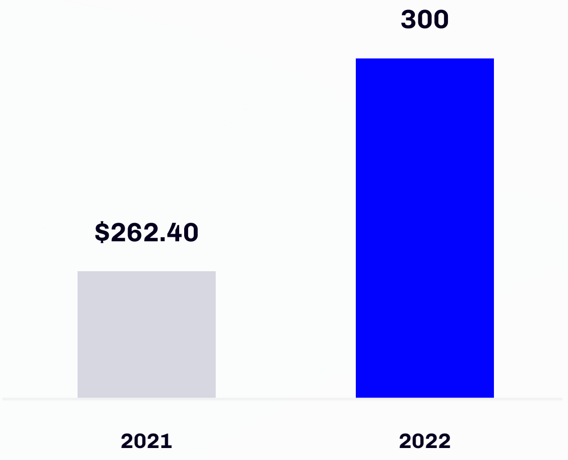
Digitalization is advancing all aspects of society, and the insurance industry is no different. However, the investment in technical solutions, the importance of data, and the challenges posed by remote working and policy sales through online platforms, expose insurers to the risk of cyberattacks.

Insurance companies are a target for cyber-attacks because they process confidential policyholder data. The 2022 Cyber Insurance Risk report stated that 82% of the largest insurance carriers are victims of ransomware attacks from cyber criminals.

For that reason, insurers must comply with cybersecurity regulations and maintain vigilance. The consequences of a cyber attack can be severe and result in supply chain interruption and reputational damage that may be irreversible.

Insurance companies must evaluate the risks associated with their systems and business networks. Risk assessments, legacy modernization, comprehensive data protection strategies and employee training can ensure businesses understand how threats materialize and the controls necessary to prevent attacks.

Cybersecurity spending



Cybersecurity Ventures values global spending on cybersecurity in 2021 to **$262.4bn** in managing expanding volumes of data, preventing the failure of cloud services or a multi-client data breach resulting in fraud or theft, with an expected growth to **$300bn** in 2022.

Digital workforce and specialist supply with insurance expertise

As the value chain goes digital, insurers must identify skill gaps and assemble the optimal workforce for their digital business needs. However, currently, employees in digital roles account for only 8% of the total workforce at insurers, in contrast to 36% at Fintech and Big Tech companies.

The most significant barrier to digital innovation is a lack of skilled teams. Therefore, companies must recognize the importance of digital specialists and rethink the skills and profile of their workforce. If they cannot, it may affect the organizational ability to innovate, increase costs and prevent the delivery of consumer expectations.

As technology evolves, the need for systems specialists who can design, build and maintain elements of emerging technologies, such as automation, AI and the IoT, is pressing for insurers.

For example, as consumers become more comfortable with technology, the need to deliver flexible offerings such as one-click purchasing of insurance coverage, immediate claims payments and enhanced predictive analytics for claims and risk profiles are crucial for growth.

Insurers have the opportunity to progress their digital capabilities through their workforce. Investing in its people and digital upskilling can safeguard insurance companies' futures, create an innovative working culture and attract great talent.

Bridging the gap between legacy systems with RPA

Insurers have traditionally relied upon legacy applications and systems. However, over time, systems have grown in an isolated fashion and become disparate, causing decision-making friction, degrading agility, and increasing maintenance costs.

To avoid expensive investments in top-of-the-shelf technology or building systems from scratch, Robotic Process Automation (RPA) bridges the gap between legacy systems to improve the customer experience and operational efficiency.

RPA is part of the greater hyper-automation trend transforming business processes. It links legacy systems and allows insurers to improve productivity through faster operations. RPA's sophisticated framework automates many manual, rules-based tasks from underwriting, collecting customer information, extracting data and claims processing

Thus, automating data transfer to cloud applications and knitting together data from legacy systems on the premises to cloud-based systems maximizes value.

The longer the wait to replace legacy systems, the harder insurers will find supporting these systems and affecting their ability to attract large market segments with higher product expectations. Whereas, InsurTech startups who have fully embraced a personalized digital experience are rapidly acquiring market share.

Therefore, RPA can support insurers in achieving the full benefits of digitalization. The modernization of legacy IT platforms and the scaling of automation improve the back-office processes, customer-facing services and transform the working environment.

The 7N Way:
The flexible IT consultancy

A global network of extraordinary IT people – delivering on clients' objectives and beyond

Sector expertise drives the digital transformation

In recent years, macro events have increased the pace of innovation, development cycles, and competition, while creating an ever-changing risk landscape. Armed with knowledge of these trends and their implications on the business, our agents and consultants can help mitigate risk and identify opportunities in our clients' business cycle.

Over decades, 7N has been part of several waves of digitalization. Today, our consultants work across industries and geographical borders to deliver the projects that define the new digital realities.

We offer clients a highly specialized portfolio of IT services and solutions delivered by the top 3% of IT professionals. Our expertise spans across many industries providing digital transformation across all phases of the IT project life cycle.

By engaging early with 7N, our clients already benefit from our expertise when defining project scope and strategic needs, and they always gain flexibility to adapt and accommodate changing demands while retaining control and maintaining ownership of IT development in-house.

How we deliver high-performance IT

Delivering with high efficiency shouldn't lead to higher workload. We build efficient teams, where expertise and experience accelerate more than headcount and capacity. In doing so, we helm form small, highly efficient teams, staffed to maximize client impact.

A tailored recruitment process refined over 30 years

We have a sophisticated our best-of-breed approach to identifying and quality-assuring top 3% IT professionals. Our model is designed to identify personal capacities, professional skills, and drive to deliver to our clients. For all clients, we have dedicated recruitment teams whit extensive local knowledge and global reach for candidate sourcing. We tailor our recruitment process to each client's technical and cultural needs.

Connect with our advisors

Schedule a meeting and hear more about how we can help you assess your possibilities and overcome your challenges.

GET IN TOUCH

IT CONSULTING
Driven by High Performance

7N Group is an elite IT consultancy agency with more than 20 years of market experience in serving all aspects of critical IT projects both within the public and private sector.

We have dedicated ourselves to finding the right match between our consultants and the companies we serve – we believe that is how the best results are created. At 7N, we have built a professional community of extraordinary people. A community dedicated to achieving professional and personal development. A place where the best gets to play with the best.

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