

# **Outlook on Insurance Markets 2020**

written by Jason Kapler | November 16, 2020

## **And how technology investment will define winners and losers during the pandemic**

### **Current State of Insurance**

The current economic environment has put significant pressure on carriers, highlighting the need for seamless customer service and operational efficiency. With the decline in investment revenues over the last decade and guidance from the Federal Reserve that interest rates will stay at rock bottom for years to come, the industry faces a new long-lasting reality. According to ACORD's 2020 Digital Maturity Study, the outlook on organic growth is also changing, with only 21% of global insurance company CEOs forecasting increased premiums in the next 12 months, down from 50% just a year ago. Additionally, recent upticks in COVID cases and the resulting unemployment threaten all lines tied directly to payrolls, and the recovery is likely to be slow. Therefore, insurance Commercial Lines, Group Benefits and Worker's Compensation, more so than others, need to focus on internal operations to find competitive differentiation and cost savings in the next several years.

### **Digitization of Insurance Carriers**

The pandemic has highlighted unsustainable business practices across major industries worldwide, impacting everything from

hospitality and restaurants to transportation and energy companies. In insurance, the competing pressure of near term results and long term growth creates a strategic imperative to invest in digitalization. While less than 30% of firms have truly digitized their value chain, investments in customer service and analytics are ramping up as 80% of consumers in North America, double the rate from 2015, demand digital and mobile experiences. Even the 330-year old behemoth, Lloyd's, recently released its strategy for 2021 which focused on digitization, data and analytics to, "profoundly transform the way in which customers get covered, right through to recovering from loss...." ACORD's 2020 Digital Maturity Study showed that the total shareholder returns of digitized firms well surpassed that of the overall market – 304% vs. 57%. **Additionally, when compared to new digital players incurring high cost of acquisition, legacy players that made meaningful investments saw EBITDA grow 31% (CAGR), nearly double the average of 17%.**

## **Areas of Investment**

Where to focus this investment has been a topic of debate and to date has primarily been concentrated on the front-end experiences in customer service and underwriting. Customer service continues to be a differentiator as 41% of respondents of a PwC survey conducted in June 2020 indicated they were likely to switch Life carriers due to poor digital experiences. **However, with expected stagnation in premiums it may be wise to turn focus inwards to address the looming technical debt and shine a light on the operational inefficiencies in the claims organization, which is the biggest cost center for most insurers.**

Legacy claims management technology and antiquated file storage systems are primary culprits of the growing technical debt that exists within insurance companies. However, balancing short term results with long term gains has stifled

investment, with over 90% of CIOs allocating less than 20% of their budget to remedy these problems. **Unless these systems are modernized, individual project budgets will continue to be inflated – in fact, McKinsey research among CIOs forecasts that 70% of ongoing projects are expected to incur a technical debt tax greater than 10%.**

However, there is over \$50B expected value creation forecasted by new entrants into the insurance world with over \$5B in Insurtech investment in 2019, and \$2.5B in Q3 2020. The successful adoption of claims management platforms over the last 5 years including Guidewire, DuckCreek and ClaimVantage has helped digitize back end systems and make data more accessible. This was the first step to introducing advanced data and analytics into the backend operations of insurance carriers, **but the technology market remains split between data providers, which continue to be a drain on human resources due to false positives and lack of context, and workflow management tools that take an agnostic approach to the data ingested.**

## **Technology Outlook**

The next wave of innovation is focused on end to end solutions leveraging data and analytics to automate and streamline workflows and provide proactive management solutions for claims handlers. More specifically, machine learning offers a compelling advantage when paired with the mountains of internal data becoming more accessible, thanks to the back end investments of late. This is due to the ability of technologies across natural language processing, optical character recognition and advanced artificial intelligence to parse through the historical claim data and extract actionable insights from the goldmine of unstructured data (examiner and medical notes, etc.) that has been untapped. **These investments will allow carriers to remain competitive as investment returns stagnate and thrive as the economic cycle turns and**

**premiums rise once again.**

To learn more about the Artificial Intelligence renaissance in insurance contact Andrew Naoum on the EvolutionIQ team at [andrew@evolutioniq.com](mailto:andrew@evolutioniq.com)

References:

1. ACORD, *"Insurance Digital Maturity Study 2020"*, July 2020
2. Vishal Dalal, Krish Krishnakanthan, Björn Münstermann, and Rob Patenge, *"Tech Debt: Reclaiming Tech Equity"*, October 2020, <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/tech-debt-reclaiming-tech-equity>
3. PwC, *"Moment of truth: Why insurance carriers should rethink their customer service models now"*, July 2020, <https://www.pwc.com/us/en/industries/insurance/library/carriers-customer-service-models-covid-19.html>
4. TheBusinessResearchCompany.com, *"Life Insurance Market Report"*, October 2019
5. Ramnath Balasubramanian, Ari Chester, and Nick Milinkovich, *"Rewriting the rules: Digital and AI-powered underwriting in life insurance"*, July 2020, <https://www.mckinsey.com/industries/financial-services/our-insights/rewriting-the-rules-digital-and-ai-powered-underwriting-in-life-insurance>