



Pulse Check – State of the European Insurance Industry

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Survey Report

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EXECUTIVE SUMMARY

“Digital maturity and operational resilience will continue to be the top priorities for European insurers in the coming years.”

Dear Readers,

We are pleased to present the fourth edition of the annual ISG “Pulse Check – State of the European Insurance Industry” report, analyzing the current state and future outlook of the European insurance market.

The Pulse Check report is based on insights from our industry research and advisory practice, augmented with the results of our October 2023 survey of more than 250 executives from insurance companies and technology ecosystem partners across Europe.

General uncertainty across markets, driven by factors such as inflation, fear of recession, geopolitical tensions and climate change, continues to impact the insurance market.

In 2024 – 2026, insurers will focus on increasing their top-line performance by attracting new customers, improving customer retention and adapting to the digital age. Operational resilience and organizational agility are also top priorities to enable insurers to be flexible and responsive to market fluctuations.

Although most European reinsurers and insurers have weathered increased inflation and interest rates relatively well, the imperative is to prepare for economic slowdown and protect capital that has become expensive by tightly controlling discretionary spending and focusing on projects that add immediate value to the core business.

The top three investment areas for European insurers over the next few years will be:

Digital first

Insurers will invest in developing new digital business models and optimizing digital service channels for customers. Selecting suitable insurance software platforms to support infrastructure, core legacy modernization and the cloud roadmap remain on the agenda for most companies.

Personalized customer services

Customers are increasingly willing to share their data. This allows insurance companies to get closer to their policyholders and offer proactive protection rather than selling standard products through brokers. For existing products, such as auto insurance, this means using telematics to analyze driving behavior to assess risk. In the health sector, this means integrating data from wearable devices into underwriting and risk managing health insurance policies. Products tailored to individual customer needs are increasingly taking shape. This requires increased collaboration between insurers, InsurTech, service providers and platform marketplaces like Amazon.

InsurTech has recognized that larger customer bases present greater upselling potential and is working with insurance companies to enable more effective operations and, conversely, to gain more precise and relevant customer data. This transformation will refocus the entire insurance organization and align the value chain with the digital core.



Compliance and security

Increasing complexity requires careful attention to governance and cybersecurity, which will continue to be among the most critical topics in the coming years. The number of sweeping cyberattacks is increasing, and insurers must comply with regulations such as GDPR, CSRD, DORA or the EU AI Act, while regulators are watching closely.

Insurers tend to be more open to new business concepts and operating models and opportunities to actively optimize their ecosystem, which confirms the business outlook from our survey last year, when ISG predicted significant growth in the as-a-service and managed services segments. Most insurers traditionally worked with multiple IT and business process service providers to manage their IT, HR or finance departments, but were challenged to seamlessly manage multiple partners, realize value from increasing investments and deliver successful long-term outcomes. This is fuelling the trend towards consolidating providers to reduce fragmentation and build strategic partnerships with an outcome-based model that holds a handful of providers accountable for demonstrating value.

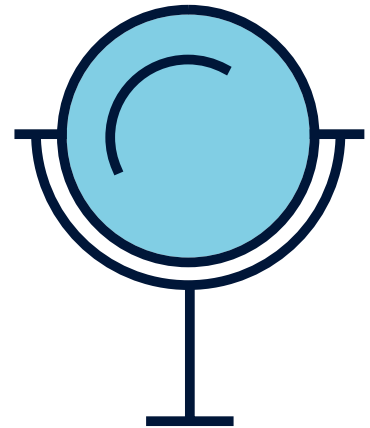
Spending on digital and IT is increasing as businesses work to improve the customer journey and operational efficiencies. Process and decision automation as well as data management strategies play a critical role in creating a human-centered, technology-enabled business that leverages rapidly evolving digital technology to reshape the shrinking workforce and improve the cost base. As predicted last year, AI will undoubtedly be an additional accelerator. Since the launch of LLM (large language model)-based ChatGPT in November 2022, generative AI (GenAI) has grown significantly. The first GenAI use cases have been launched, and insurers and technology providers are driving further development.

Looking to the future of the insurance market, we see increasing shifts in insurance ecosystems and products both within and outside Europe, indicating continued change in the insurance landscape in the coming years. Marketplace platform providers, such as Amazon or ANT Group, will challenge insurers on the sales side, and service providers will challenge insurance companies on the process handling side.

Insurance is struggling to become a fully data-driven and technology-enabled industry in the face of growing dynamism and complexity. Insurance leaders need to regularly identify the business and IT capabilities they need and find partners that can support those capabilities and help them deliver better value and drive customer engagement.

Insurance companies must engage in consistent innovation across all aspects of their business to stay relevant in today's market. Through smart strategic positioning and partnerships, insurers can more efficiently gain access to digital capabilities, process knowledge and specialized talent while expanding market access and sharing risk. This is no easy feat and requires the insurance C-suite to have a clear technology and innovation strategy.

The ISG Insurance Pulse Check report aims to provide a comprehensive picture of the European insurance industry, including strategic priorities and initiatives, technologies to help meet those priorities, and general business imperatives.



INSURANCE INDUSTRY IN EUROPE – EVOLVING MARKET DYNAMICS AND MACROECONOMIC CHALLENGES

Insurers in Europe see challenges in providing security and earning trust amidst rapid economic, climate, geopolitical and technological changes.

As predicted last year, economic performance and operational resilience remain the top priorities for insurers. To be flexible and responsive to increasing market volatility, insurers should constantly reassess, monitor and adjust their strategies. Insurers see converting challenges into opportunities to meet their obligations to policyholders and to be an attractive partner of choice as a priority.

We see insurers across Europe adjusting their investment plans to ensure financial stability. They are choosing to be prudent, reducing higher-risk investments and discretionary spending and focusing on areas that directly benefit the core business. They are postponing lower priority investment decision-making until the market shows stable and clear direction.

In the current economic situation, CFOs prefer to invest in new business lines or distribution capacity rather than in mergers and acquisitions and returning capital to investors. They do not plan to take on debt beyond refinancing needs, reflecting higher interest rates and a sharp increase in leverage over 2022.

Another unchanged priority is creating new business while improving the policyholder's customer journey experience, which, on the one hand, is hampered by an economy that is not growing, but on the other hand, offers countless opportunities from so much change. Insurers are partnering across sectors with healthcare, automotive or technology companies, for example, to create ecosystems to offer bundled personalized offerings and realize cross-selling opportunities.

Inflation

Inflation is an ever-present problem for insurers, as claims and expense cost estimates are based on historical experience. In an already hardened European insurance market, rising inflation could lower average spending on insurance. Average inflation in Europe was below two percent for the two decades through the end of 2021. Higher average general inflation, around nine percent in 2022 and most likely above six percent in 2023, led to higher claims costs for Property and Casualty insurance, e.g., for car repairs or property replacement. Insurers have responded

with premium increases, but the ongoing fight for profitability means they have to be careful not to lose customers. Only a few are developing products with "inflation protection" as an additional feature.

In addition, clients are concerned that lasting inflation and volatility in asset evaluation will erode the actual value of investments, reduce investment returns and affect ratings by regulators and rating agencies.

While insurers remain well-capitalized in general, the critical question as we advance is the extent to which the positive impact of higher interest rates will offset the negative impact of higher inflation. This will particularly affect those non-life insurers with weak reserve levels or low pricing power.



Recession risk

Insurers are also concerned about impending recessionary risks that have put a notable drag on overall spending. A good indicator of the reduction in spending is the increase in personal savings. The Household Saving Rate (HSR) in the European Union increased to 14.20 percent in the second quarter of 2023, from 13.68 percent in the first quarter of 2023.

Our insurance clients in Europe are concerned about the stability of insurance premium income, which typically accounts for around 50 percent of pre-tax operating profit, expecting their customers to not only cut back on spending in a recession but also make insurance claims for job losses, health problems or other financial difficulties. Enterprise insurance customers are more likely to make claims for property damages, liability or business interruption losses. We do not see our insurance clients launching products such as job loss insurance or business continuity insurance.

Geopolitical tensions

Although European insurers have not been substantially affected by geopolitical tensions, including the war in Ukraine, global insurers must review their investment strategies to account for defaults by foreign clients due to supply chain disruptions, economic sanctions, currency fluctuations, trade restrictions or business interruptions and changes in legislation. While shipping and cargo insurance are particularly affected, other lines of business are also suffering.

Insurers expect the complex geopolitical environment may also increase cybersecurity risks, which already cause insurers sleepless nights. Hardly a week goes by without an insurance company falling victim to an attack, and European and regional regulators are focusing on prevention and defensive procedures.

Increased regulatory requirements

The insurance industry has always been highly regulated but increasing uncertainty and evolving risks force regulators to significantly increase regulation. Insurers must comply with regulations including GDPR, CSRD, DORA, the EU AI Act and more.

Additional regional adaptations cause extreme complexity and require continuous validation and tracking. Regulatory requirements for new technologies, data protection and cybersecurity have become increasingly important in the insurance industry.

The increased cost of capital

While the increased cost of capital affects discretionary spending, we expect life insurers, especially in France and Germany, with large books of traditional life policies and assets of shorter duration than liabilities, to be net beneficiaries from rising interest rates.

Energy crisis

While insurers are only minimally affected by the energy crisis – primarily through operating costs – they are indirectly impacted through the provision of insurance for energy-related businesses, such as property insurance for energy company power plants, refineries and pipelines. Even more important are the increasing risks in the security of supply, especially in Germany, which could lead to unplanned business interruptions and significant economic consequences.

According to the 2023 ISG Insurance Survey, European insurers perceive higher inflation, the threat of recession and geopolitical tensions as their top three risks. These factors contribute to the overall uncertainty in the market and challenge insurers to reassure their customers while navigating the evolving market dynamics and macroeconomic landscape. As a result, insurers are constantly reassessing and adjusting their strategies to remain flexible and responsive to market volatility.

Top Three Risks as Perceived by European Insurers

1

Higher inflation can potentially affect the solvency position of insurers – as the cost of claims settlement may escalate.

2

Impending recession risks are impacting overall spending on property and casualty insurance. Negative economic sentiment often lowers discretionary insurance spending.

3

Geopolitical tensions have a domino effect on the cost of living, supply chains and changes in legislation.

TOP BUSINESS PRIORITIES AND INVESTMENTS FOR INSURERS IN EUROPE

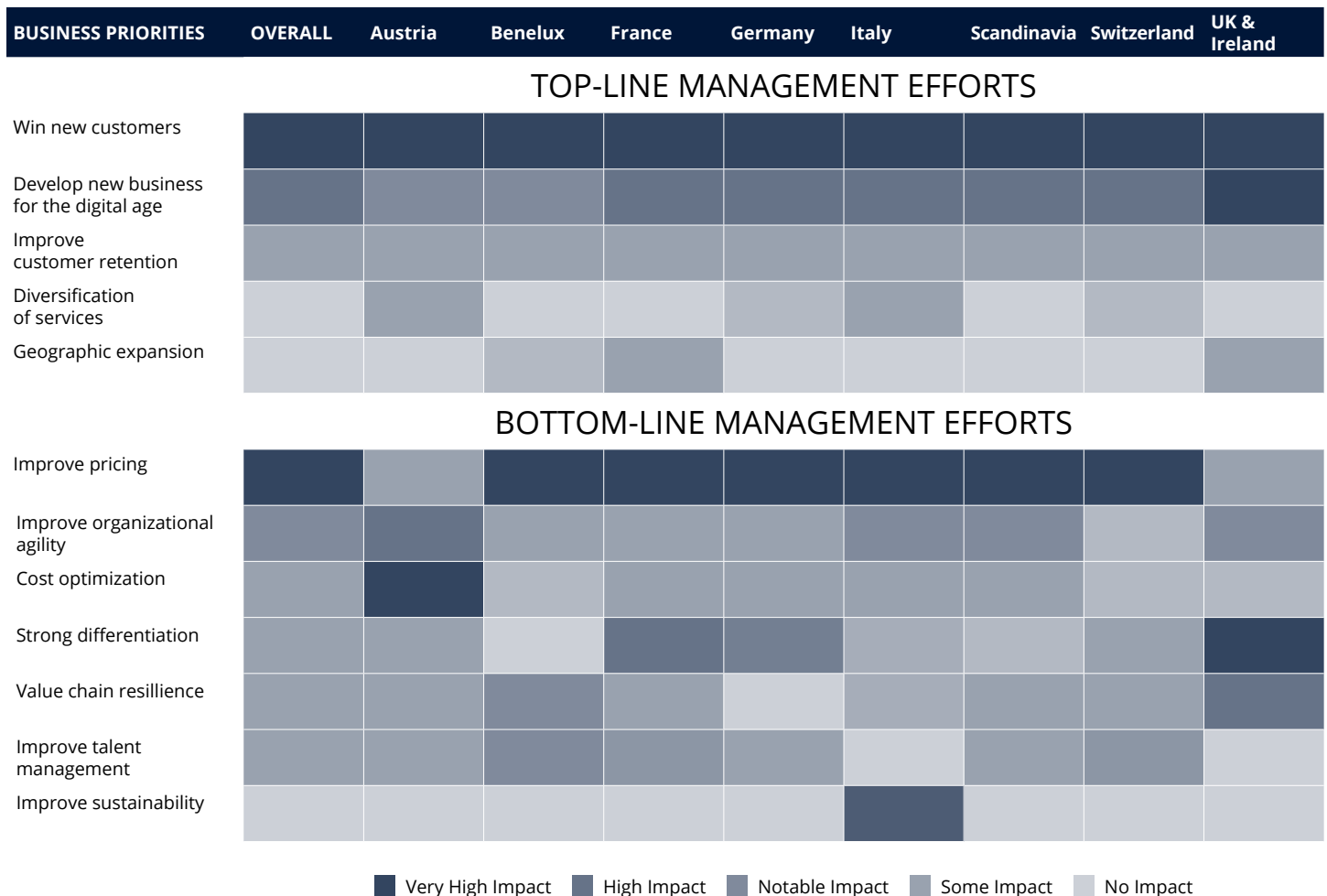
Insurers in Europe focus operational initiatives and investments on several areas to improve performance and remain competitive. These areas include enhancing digital capabilities to serve customers better, improving underwriting processes to manage risk better, and investing in new technologies such as artificial intelligence and machine learning to improve efficiency and accuracy in operations.

Other key focus areas include expanding distribution channels to reach new customers, improving claims handling processes to provide better service to policyholders, and developing new products and services to meet changing

customer needs. By investing in these areas, insurers in Europe are working to stay ahead of the curve and position themselves for long-term success.

Our survey findings indicate that insurers in Europe prioritize keeping existing clients. To attract new customers, insurers are developing new businesses for the digital age and improving pricing. The industry faces a common set of challenges and opportunities and the same need to adapt and innovate to stay competitive across the European market, with only minor variations at the country level.

To stay competitive in today's rapidly changing environment, insurers are focusing on these critical priorities:



Most insurers are focusing on both current and new customers, as well as developing new businesses for the digital age and improving their pricing.



Key initiatives and investments

Most European insurers are implementing next-generation technology projects to improve their market position. Leading the way are initiatives around AI, which insurers expect to deliver the highest ROI, whether it's operational functions, products or market access to enhance the customer journey. Technology providers are increasingly faced with demands from insurance companies to prove value first and run all new technology initiatives and programs on a newer operating model based on 'outcomes and value delivered.'

Insurers are focusing on driving growth through improved market response

They must prioritize retaining existing customers and offering better pricing options to remain competitive in the European market. This will benefit insurers and provide better options and services to customers.

European insurers continue to focus on improving agility and cost efficiency by ensuring operational resilience. Although sustainability and talent management are taking a back seat this year, they will remain essential in the coming years.

Geographic expansion is the lowest strategic priority for insurers.

What are the key priorities for your organization in the next two years?

% respondents that selected "Urgent and important priority" OR "Urgent but not important priority"



1

Existing customer relationships will be reinforced by enhancement of service quality to improve the customer experience.

2

Due to the current economic climate, customers are increasingly seeking affordable insurance options, intensifying pressure on insurers to reduce prices.

3

Insurers are actively pursuing initiatives to enhance organizational agility to better cater to millennial customers and changing market conditions.

4

As insurers adapt to market shifts, cost optimization becomes a top priority at the C-suite level. Projects aimed at eliminating value leakages and improving operational efficiencies are underway.

5

Strengthening the supply chain/value chain is a key focus, driven by the imperative for insurers to ensure seamless and uninterrupted service delivery, prompting increased investments across the value chain.

Though not explicitly stated, nearly all respondents prioritize acquiring new customers and developing innovative business propositions.

DIGITALIZATION IS THE CATALYST FOR INSURANCE SUCCESS

Digitalization remains an essential investment as insurers see a positive correlation with their operational resiliency. The higher the maturity level, the more people have access to insurance services, and the higher the quality and efficiency of underwriting, risk mitigation and risk measurement. Our insurance clients recognize this investment cannot be postponed considering the decline in the working-age population – higher-level digitalization can help insurers rearchitect their workforce and manage the ongoing talent supply challenge much more effectively.

At the same time, the increasing reliance on digital infrastructure makes such assets more vulnerable to business interruption and cyber-attacks, so investments in digital risk management will continue to increase significantly, particularly in cyber and AI. The importance of “customer trust” as a key differentiator and the increasing attention from regulators make these investments essential.

Clients are also focusing on lean and effective internal structures and partner ecosystems. The optimization of inbound and outbound data processing is becoming increasingly important to enable the customer journey and service quality. Efficient distribution of tasks according to functional and technological priorities is on the agenda of all our clients and will be

implemented continuously over the next few years.

Against this backdrop, “Digital First” is the motto for the coming years. The development of new digital business models and the optimization of digital services channels should be the top priority. Decisions on suitable insurance core systems platforms and infrastructure and the milestones associated with modernizing the core portfolio and the cloud roadmap remain on the agenda for most companies.

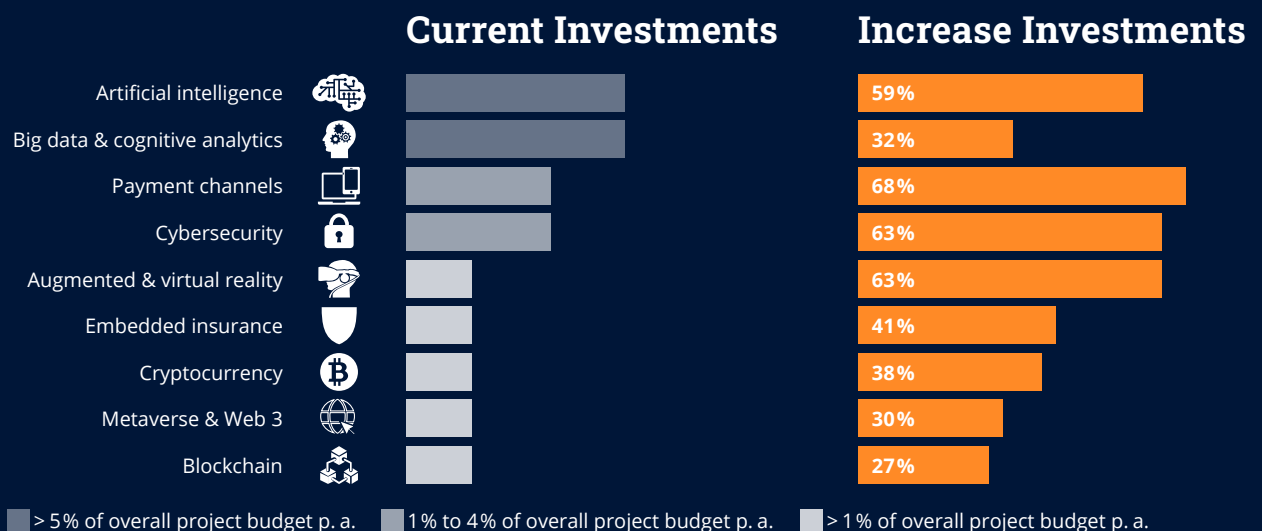
We explore this in more detail on the following pages.

Technology trends, market maturity and investment priorities

European insurers are implementing projects in next-generation technologies to improve their market position. Leading the way are initiatives around AI, which insurers expect to deliver the highest ROI, whether it’s operational functions or products and market access that enhance the customer journey. Technology providers are increasingly faced with demands from insurance companies to prove value first and to run all new technology initiatives and programs on a newer operating model based on ‘outcomes and value delivered.’

Investment priorities

How high are your investments in the following technologies?
Are you planning to increase investment between 2024 and 2026?



Our findings confirm that insurers see the secure integration of technology, data analysis and artificial intelligence as the most crucial innovation topic. This includes the development of digital platforms, mobile apps and online marketplaces to optimize insurance purchasing and claims management.

Artificial intelligence (AI)

The desire to leverage artificial intelligence and predictive modeling for risk assessment, pricing policy creation and more accurate fraud detection is not new but is still relevant. Machine learning algorithms help analyze large amounts of data to make better underwriting and claims decisions.

The profound advances in real-time detection of forgeries and manipulated content, such as the Reality Defender platform, enable insurers to instantly combat synthetically altered images, videos, audio calls and documents.

The use of telematics devices and Internet of Things (IoT) technology allows insurers to collect real-time data from vehicles, homes and wearable devices to create personalized offers, reward safe behavior, prevent claims or enable 5G technology for fast and more reliable real-time monitoring of insured assets. Evolving quantum computing increases the performance of complex calculations, encryption and decryption.

We believe straight-through-processing, process automation and decision automation (using AI, RPA, ML) play a vital role in creating a human-centered, technology-enabled business using rapidly evolving digital labor technology to rearchitect the shrinking workforce and improve the cost base. After the InsurTech company Lemonade streamlined the claims management process down to a few minutes with claim submission by mobile phone and zero paperwork, automation speed in the insurance sector has increased rapidly. Claims processing including payment was possible within three seconds in 2016 and is now down to two seconds.

GenAI is helping insurers such as SwissRe create reports and generate flood maps or design additional passages for policies. The benefits of GenAI are discussed in the following chapters.

Blockchain and crypto

Blockchain technology is being researched to improve transparency, security and efficiency in the insurance industry. It can rationalize processes such as issuing policies, claims handling and reinsurance. We do not yet see widespread acceptance among our clients.

Some blockchain use cases connect to crypto, such as blockchain-based cryptocurrency tokens that can represent a share of risk or a policy and may be traded on blockchain-based platforms.

Blockchain enables insurers to exchange data securely and in real-time based on a decentralized trust architecture and has a high potential to cover and essentially automate trust-related transactions.

Cryptocurrency is starting to find applications in the insurance industry, albeit in a limited capacity. Some insurance companies accept Bitcoin and other cryptocurrencies as payment methods, providing customers with an alternative to traditional fiat currencies. Some use it to improve compliance with anti-money laundering (AML) and know-your-customer (KYC) regulations.

Smart contracts are self-executing, with terms and conditions written in code. In insurance, smart contracts can automate policy issuance, premium payments and claims processing, making the process more efficient and transparent.

Metaverse and Web 3

While Metaverse usage is still in its early stages, we see pilot projects in the insurance of virtual assets, virtual customer contact in virtual branches or offices, and simulation of potential vulnerabilities in a virtual environment.

The Metaverse still has broad potential in sales and marketing, customer service, and, most importantly, claim surveys and loss assessment, particularly in combination with AI, AR/VR, blockchain, crypto, smart contracts and education and training or virtual events and conferences. Overall, the application is picking up speed, even if not as quickly as previously assumed.

Augmented Reality/Virtual Reality (AR/VR)

AR and VR technologies are revolutionizing the way we conduct inspections, valuations and damage assessments. By leveraging these technologies, insurers can get accurate results and reduce the need for on-site visits. Additionally, AR/VR is becoming increasingly popular in training, with insurers reconstructing entire events to prepare salvage and recovery teams for future emergencies.

Payment channels

The spectrum of payment applications in the insurance industry is broadening from simple conversions of payments to PayPal and other digital platforms to new methods of financing treatments between health insurance companies and the pharmaceutical industry. The potential for innovation and transformation is vast.

Big data

The hype may have peaked several years ago, but big data is far from done. It forms the foundation for several of today's most exciting technologies, including AI, machine learning, social media and IoT, which have several technical or ethical aspects.

Data is the basis for prediction and data-driven decisions. Handling, cleansing and validating data will remain a high priority in the industry.

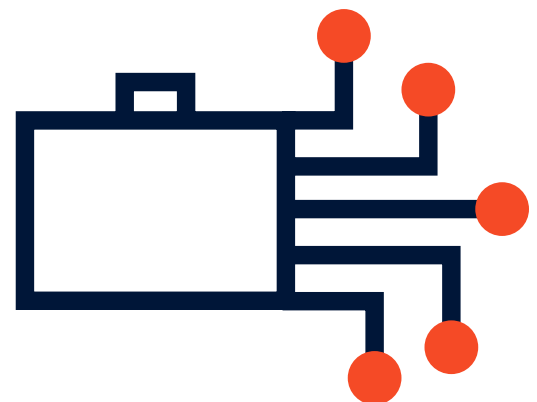
The use of open data and platforms combining various sectors like insurance, manufacturing and healthcare for a personalized event is rising. The convergence of traditionally distinct industries and data sources leads to a comprehensive, cohesive and collaborative approach to managing and employing data, enabling the seamless integration of data from different sectors towards a unified goal.

Embedded insurance

While the European market is very mature, emerging markets in the Middle East or Africa are not at the same level, and global insurers are thinking about investments to balance the shrinking buying power in Europe. It's not about the extension of geographic footprint. It's more about better understanding and respecting the local needs and environment. Especially in the growing markets of Central and Eastern Europe (CEE), Africa and the Middle East, we see heightened demand for affordable, flexible, transparent and customized insurance products in the future.

Embedded insurance offers that integrate risk protection into the purchase are becoming popular in many areas, from travel and car hire to buying household appliances. However, the question of which insurance provider is more attractive – the manufacturer, platform provider or insurance company – remains open. Currently, insurance companies are leading the way, but it will be interesting to see how this develops in the future.

We generally see continued interest in embedded insurance products and micro-insurance, especially in the Property and Casualty (P&C) sector. Allianz is actively investing with Allianz X in embedded insurance to offer more affordable, flexible, transparent and personalized insurance products in the future.

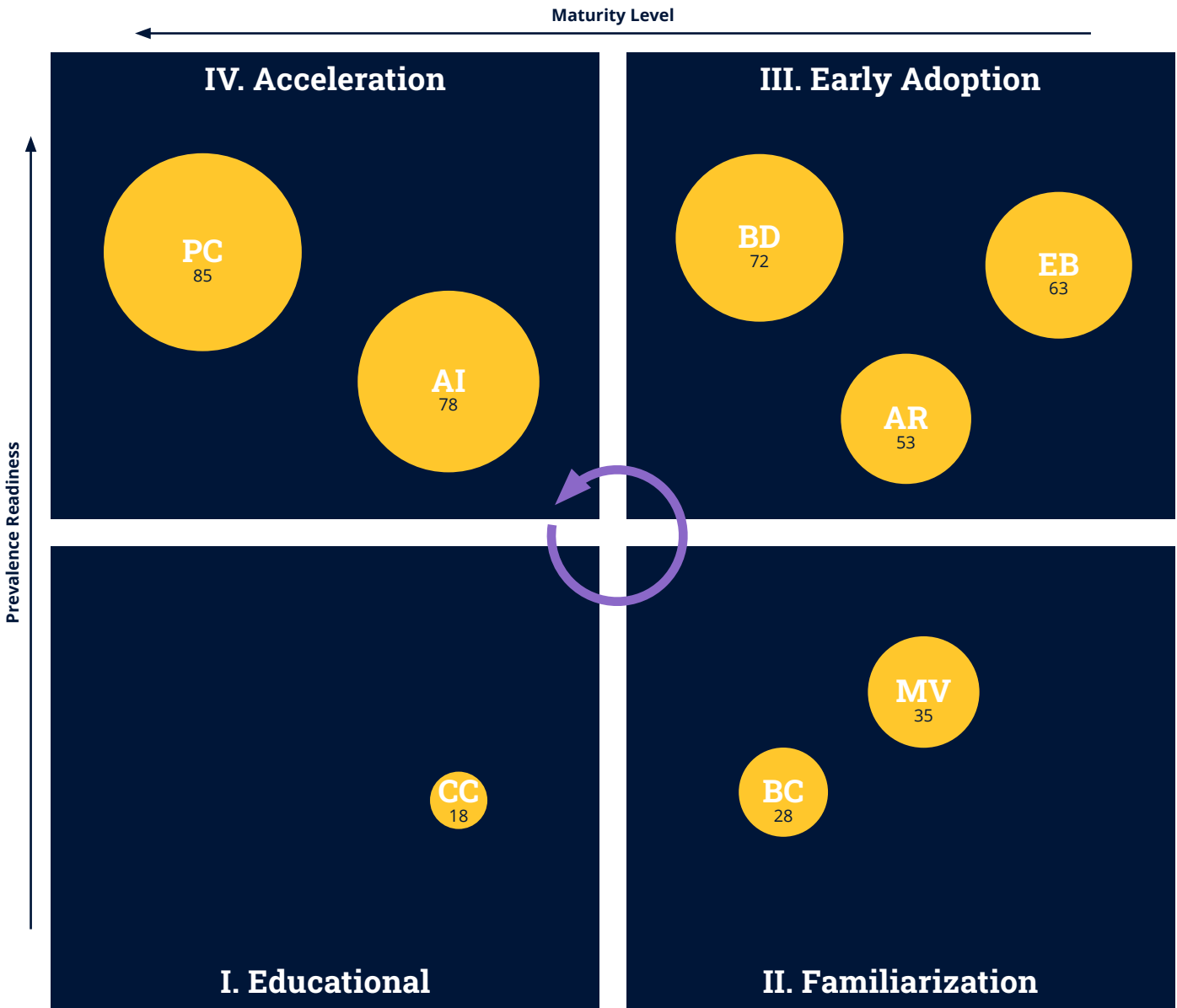


MARKET MATURITY – NEXT-GENERATION TECHNOLOGIES

Market maturity is a crucial factor in the adoption and success of next-generation technologies. As technology evolves and matures, it becomes more reliable, efficient and cost-effective, making it more attractive to businesses and consumers. However, the pace of market maturity can vary greatly depending on the specific technology and industry. Some technologies may take several years to reach maturity, while

others may evolve more rapidly. Businesses and individuals need to stay informed about the market maturity of next-generation technologies to make thoughtful decisions about adoption and implementation.

Our research shows the maturity and adoption speed of next-gen technologies in Europe.



AI – Artificial intelligence
AR – Aug. / Virtual reality

BD – Big data / Cognitive
BC – Blockchain

CC – Crypto currency
EB – Embedded insurance

MV – Metaverse / Web 3
PC – Payment channels



TECHNOLOGY ECOSYSTEM AND SOURCING EFFORTS

European insurance companies are realigning business-relevant service enablers, technology ecosystems and sourcing efforts for cost efficiency and to adapt to changing market dynamics and macroeconomic challenges. With demand for digital services increasing, insurers are investing in modern core insurance platforms, infrastructure and cloud roadmaps to stay ahead of the curve. Building ecosystems involving partners, governance and cybersecurity is also crucial to ensure the security and win the trust of their customers.

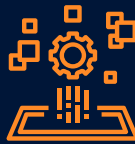
Most insurers have traditionally dealt with multiple business process and IT service providers managing their legacy and future needs. This approach decreased dependency on any one provider and improved labor cost arbitrage. Over time, it

has started to pose unique challenges around seamless governance, delivering value against investments in this area and managing successful, long-term outcomes. This is fuelling a trend towards vendor consolidation to reduce fragmentation and move towards more strategic partnerships with an outcome-based model that calls for a few vendors to be responsible for demonstrating value instead of focusing on FTE savings.

Similarly, insurers are keen to bring some essential technology functions back into their fold, either through reshoring or managing their global capability center from offshore or nearshore or a mix of both.



Vendor consolidation



Insourcing efforts



IT outsourcing efforts



Building internal nearshore or offshore capacity



BPO outsourcing

Priority

1

2

3

4

5

2025-26

93%

78%

77%

76%

76%



2022-23

59%

64%

62%

50%

68%

Scores represent percent respondents rating Urgent and Important

Sourcing priorities

Our survey reveals how insurers plan to prioritize sourcing investments over the next three years. Vendor consolidation has again taken a substantial leap compared to the 2022 survey, when it was a priority for 33 percent of respondents.

93%

Vendor consolidation

European insurance companies are strategically engaging in vendor consolidation to streamline operations and enhance cost efficiency. By reducing the number of external partners, they aim to achieve better economies of scale and negotiate more favorable terms with key vendors.

IT outsourcing remains a crucial element of the realignment strategy, with insurance companies leveraging external expertise to manage and enhance their technological landscape. This allows them to stay competitive in the rapidly evolving digital landscape without shouldering the full burden of IT development and maintenance.

IT outsourcing efforts

77%

76%

**Nearshore/
offshore capacity**

To optimize costs and enhance operational flexibility, European insurers are investing in optimization of captive capacity in near-shore or offshore locations. They review operating and performance management models and further process automation, focusing on regions with higher stability, skilled workforce and lower labor costs.

Insourcing is being leveraged by insurance firms to bring certain functions in-house, thereby exerting greater control over critical processes. This move is motivated by a desire for increased flexibility, improved risk management, and direct oversight of key business activities.

Insourcing efforts

78%

76%

BPO outsourcing

Business Process Outsourcing (BPO) is the area with the comparatively lowest maturity, although it is becoming increasingly relevant, particularly in Northern Europe, and will grow in the coming years as insurance companies will entrust non-core functions to external service providers and focus on core competencies, benefiting from specialized expertise and often reducing operational costs.

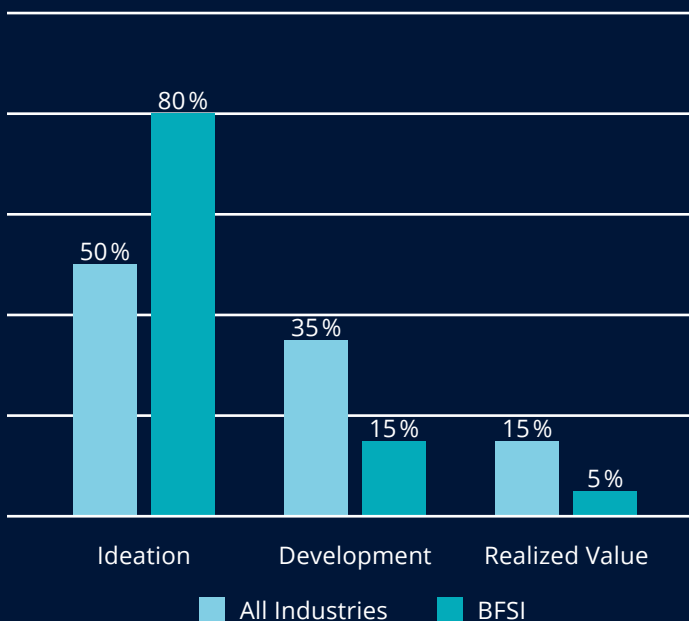
European insurance companies are navigating the complex landscape of service enablers by consolidating vendors, strategically insourcing, outsourcing IT functions, establishing offshore capacity and engaging in BPO to achieve greater business efficiency and cost-effectiveness.

THE POWER OF DATA AND AI IN INSURANCE: UNLOCKING VALUE AND INNOVATION

The insurance industry has seen tremendous growth and transformation with the advent of data and AI. These technologies have unlocked great value and innovation, allowing insurers to understand their customers better, assess risk accurately and improve their products and services. With data analytics and AI, insurers can make data-driven decisions and optimize their processes, improving efficiency, reducing costs and increasing profitability.

Additionally, AI can help automate manual processes, reduce costs and increase efficiency for insurance companies. By adopting data and AI technologies, insurers can stay competitive, improve their bottom line and better serve their policyholders.

Maturity and Value Realization



Case Studies of Realized Value for GenAI

- The AI-powered engine accurately interprets a wide range of handwritten and machine-printed documents with an accuracy rate of over 85%. Sixty percent faster processing time with direct FTE impact.
- Contact center intelligence solutions deliver customer insights, conversational analytics, call intent prediction, agent performance analysis, and conversational sentiment analysis, reducing operating costs by 25%.

Data & AI “battlegrounds” for insurance firms



Automated claims and dynamic underwriting to better serve customers

AI driven straight through processing for automated claims and dynamic underwriting improves pricing and personalization, reduces risks, detects fraud detection and improves profitability.



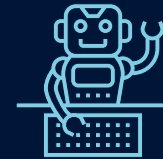
Shift from “claims handling” to “claims prevention”

Predictive analytics help insurers **move from handling claims to preventing claims** by giving feedback on how to reduce risks and collaborating with customers for **loss prevention solutions**.



Data governance to the rescue in an increasingly regulated world

Insurance needs **data governance solutions** to comply with **regulations (like DORA)** and **build trust**. These solutions also help insurers **assess and report their ESG performance**.



Insurance risk profiles heavily influenced by AI

Traditionally **human-centric risk profiles** now **include AI and data-driven risks**. AI-based risks are potential **damages that may arise from AI-driven solutions** and these risks are often **performance, cost or ethical in nature**.



Data analytics and data culture: A winning combination

Enterprise level data analytics capabilities support decisions and outcomes based on data. This requires developing such capabilities, but also **cultivating a culture of data**.



Empowering teams for data-driven decisions

Adapt organizational structures to empower teams to make quick **data-driven decisions**, encourage creativity and innovation, and maintain **customer centricity**.



Foster a rewarding, data-driven culture to nurture talent

It is **hard to find and retain data analytics talent**. Organizations that invest in developing their existing data talent create a culture of data literacy and curiosity.



Analytics and AI: Integration with legacy systems

Organizations depend on **legacy systems that are not able to meet evolving data needs**. Integrating or enhancing systems with AI, analytics and/or cloud solutions will support new data capabilities.

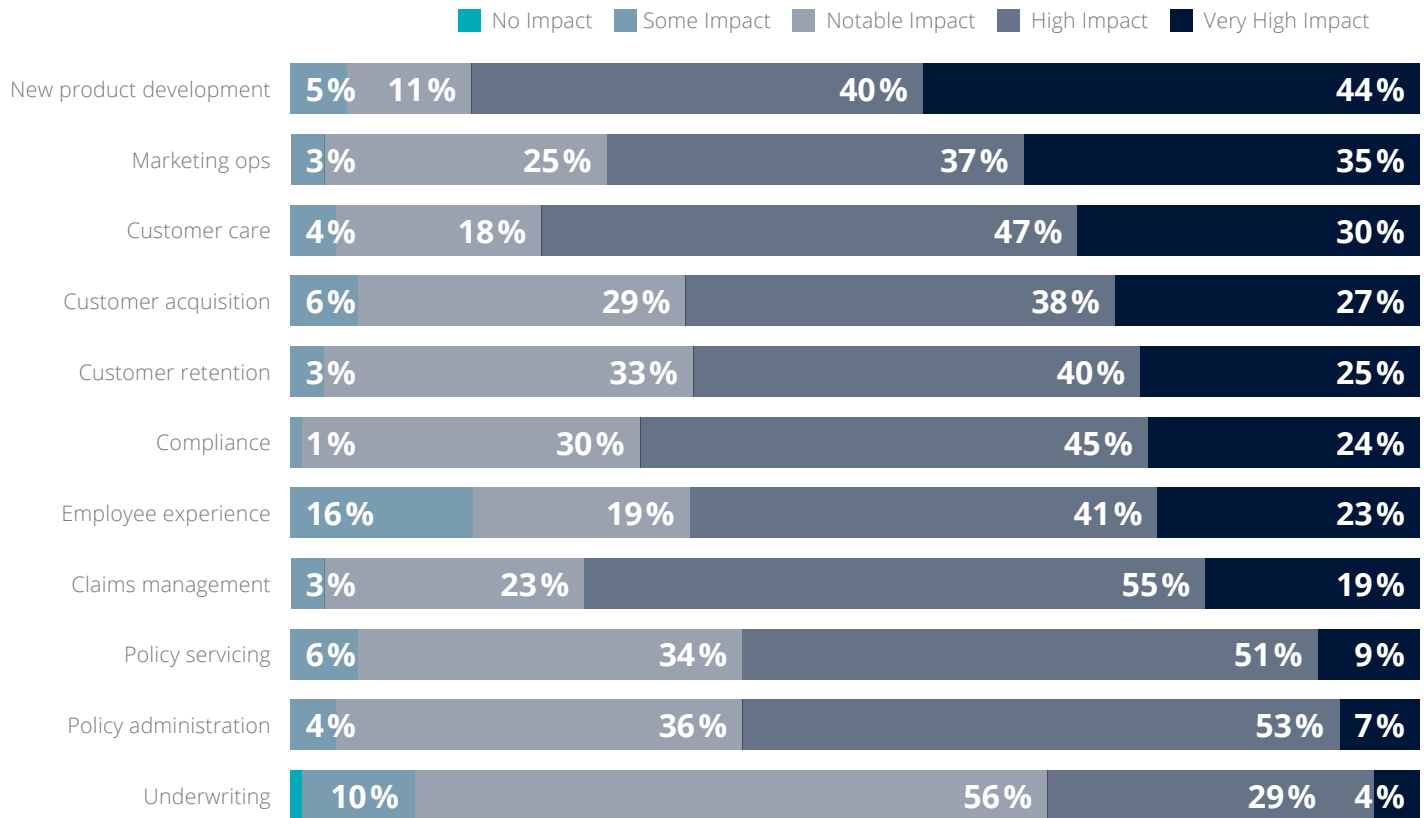
● Industry-specific ● Cross-industry

How insurers are adopting GenAI in business

The rise of AI and machine learning has been a game changer for the insurance industry, with many insurers now exploring and experimenting with GenAI to streamline their processes, improve customer service and find cost optimization possibilities across the insurance value chain. Some examples of how insurers use GenAI include new product development, marketing operations, business acquisition, compliance, underwriting, claims processing, fraud detection and customer service automation.

The potential for GenAI in the insurance industry and across the entire insurance value chain is immense, and it can significantly enhance the customer experience (CX) and provide personalized solutions during crucial moments of policyholders' lives. By leveraging GenAI, insurance companies can automate processes, reduce costs, and provide more accurate risk assessment to their customers. Ultimately, this will lead to increased customer satisfaction and loyalty, which benefits both the policyholders and insurers.

Impact of GenAI across the insurance value chain



GenAI as a technology will have the most holistic impact across the insurance value chain, improving the customer journey through policyholders' life-changing events.

Insurance enterprise confidence toward AI adoption

Insurers in mature markets recognize the potential benefits of AI and are exploring its capabilities through small use cases and limited pilots. With regulatory uncertainty in the insurance industry, European insurers need to be prepared for any changes that may come their way. Strategic partnerships with technology service providers and InsurTech can help insurers stay ahead and utilize the latest AI advancements. An AI readiness plan ensures success in this rapidly evolving field.

From our findings in this survey and our experience working with insurance companies across Europe, we have noticed both high and low levels of confidence when adopting AI technology.

Some areas of high confidence include digital and technology adoption culture across the insurance organization and the use of AI for fraud detection and claims processing, which has proven more accurate and efficient than traditional methods.

However, there is still some hesitation around taking the first mover position with GenAI for underwriting and customer service, as some fear it may not be able to provide the same level of personalization and human touch that customers expect. Insurers must carefully weigh the benefits and challenges of using AI to make informed decisions that align with their business goals and values.

Areas of high confidence

Organization culture to adopt digital

Prioritizing technology investments

Creating digital-ready workforce

Relationships with existing vendors

Process alignment to adopt technology

Areas of low confidence

Availability of required adequate funding

Availability of experts to drive adoption

Understanding of adopting new technology

Access to technology vendor ecosystem

Taking the first mover lead in digital

AI readiness is key amid regulatory uncertainty. Insurers are keen to explore AI capabilities with small use cases and limited pilots to test its outcomes and maximize benefits using strategic partnerships with technology vendors.

State of generative AI research

The adoption of GenAI in insurance is still in its early stages. Still, it is expected to increase in the coming years to improve efficiency, reduce costs and enhance customer experience.

One of the most observed use cases of GenAI in insurance is fraud detection. AI-powered algorithms can analyze large volumes of data and identify patterns and anomalies that may indicate fraudulent activity. This helps to detect and prevent fraudulent transactions, ultimately reducing financial losses.

Another critical use case is customer service. AI-powered chatbots and virtual assistants can interact with customers naturally, providing personalized recommendations and support. This improves customer satisfaction and reduces response times.

GenAI technology can deliver significant realized value across various industries and use cases. By leveraging machine learning algorithms, GenAI can generate new and innovative ideas, designs and solutions to complex problems that may not have been possible with traditional approaches.

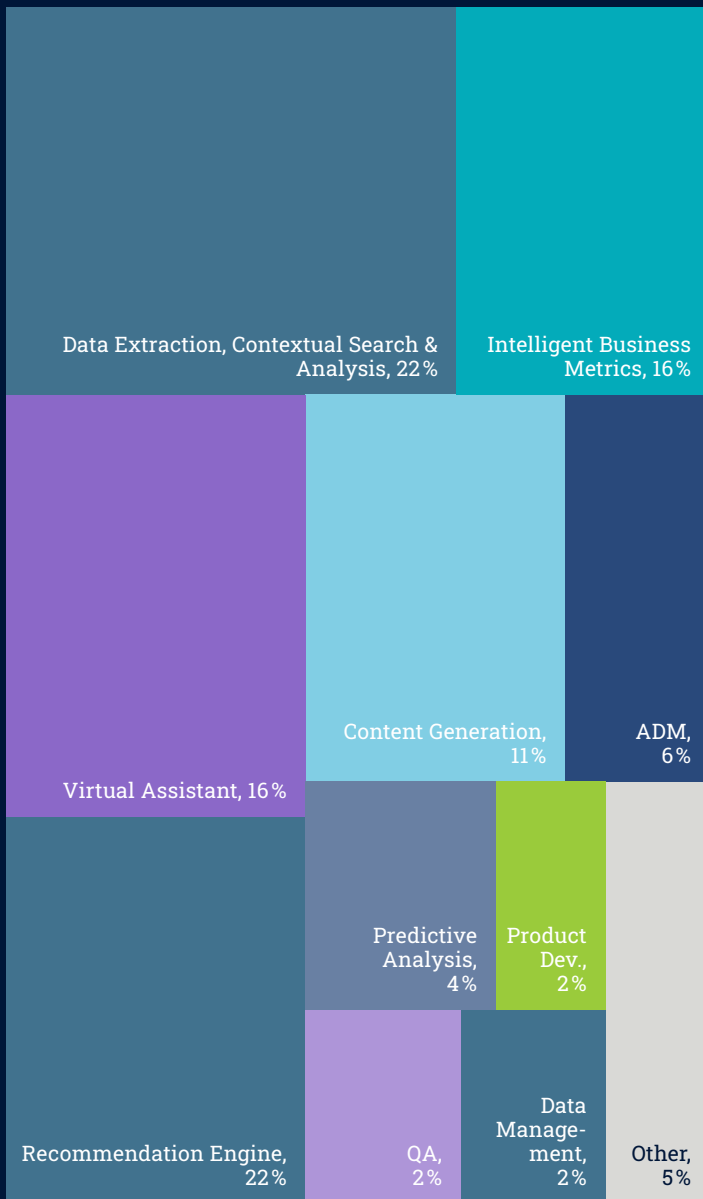
Some of the critical areas where GenAI can deliver realized value include:

- Product design and development: GenAI can be deployed to generate thousands of design variations for a product, helping companies identify the optimal design to meet their requirements quickly.
- Value chain optimization: GenAI can optimize supply chain operations by analyzing complex data sets and identifying opportunities for cost savings and efficiency improvements.

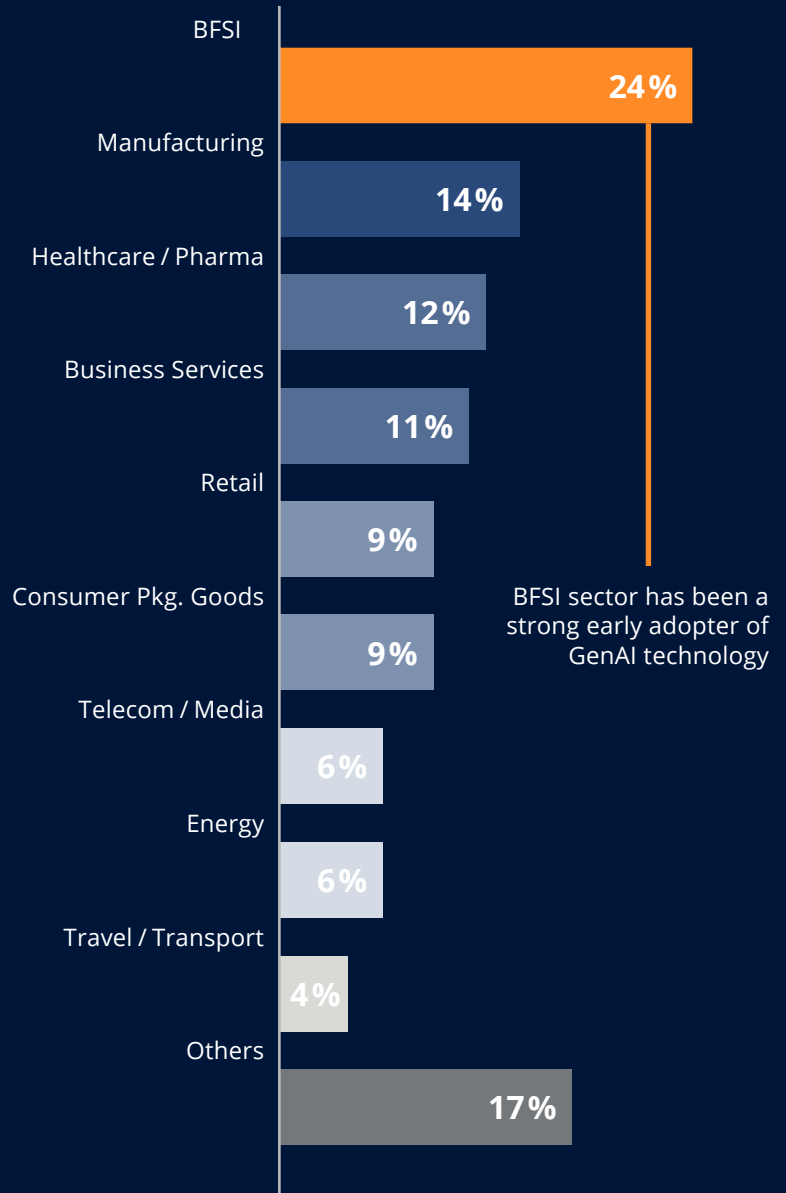
- Fraud detection and prevention: GenAI can detect and prevent fraudulent activities in real time by analyzing large volumes of data and identifying patterns and anomalies.
- Customer experience (CX): Gen AI can personalize CX by analyzing customer data and providing customized recommendations and solutions.
- Healthcare: GenAI can improve patient outcomes by analyzing patient data and providing personalized treatment plans.

Overall, the realized value of GenAI will depend on the specific use case and industry. However, it is expected that GenAI will continue to transform industries and enable businesses to innovate and stay competitive in the ever-changing business landscape.

GenAI Applications



Industry Adoption % of observed use cases by industry





Risks and ROI of GenAI use cases for insurance

Fraud analysis: GenAI has the potential to enhance the accuracy of fraud detection algorithms by generating synthetic data to train them. This can help reduce the number of false positives and improve the overall effectiveness of fraud detection in insurance.

Claims processing: AI has helped identify claim types and the extent of damage, but GenAI can take it a step further by generating automated responses for claims inquiries. This will speed up the claims process and improve customer experience by providing quick and accurate responses.

Co-pilot for building policies: Personalization is a critical element of the insurance industry. With the emergence of GenAI, insurers can now create highly personalized content that complements policies, enabling insurers to provide more valuable and relevant information to their customers, which can help them better understand their insurance policies and feel more confident in their coverage.

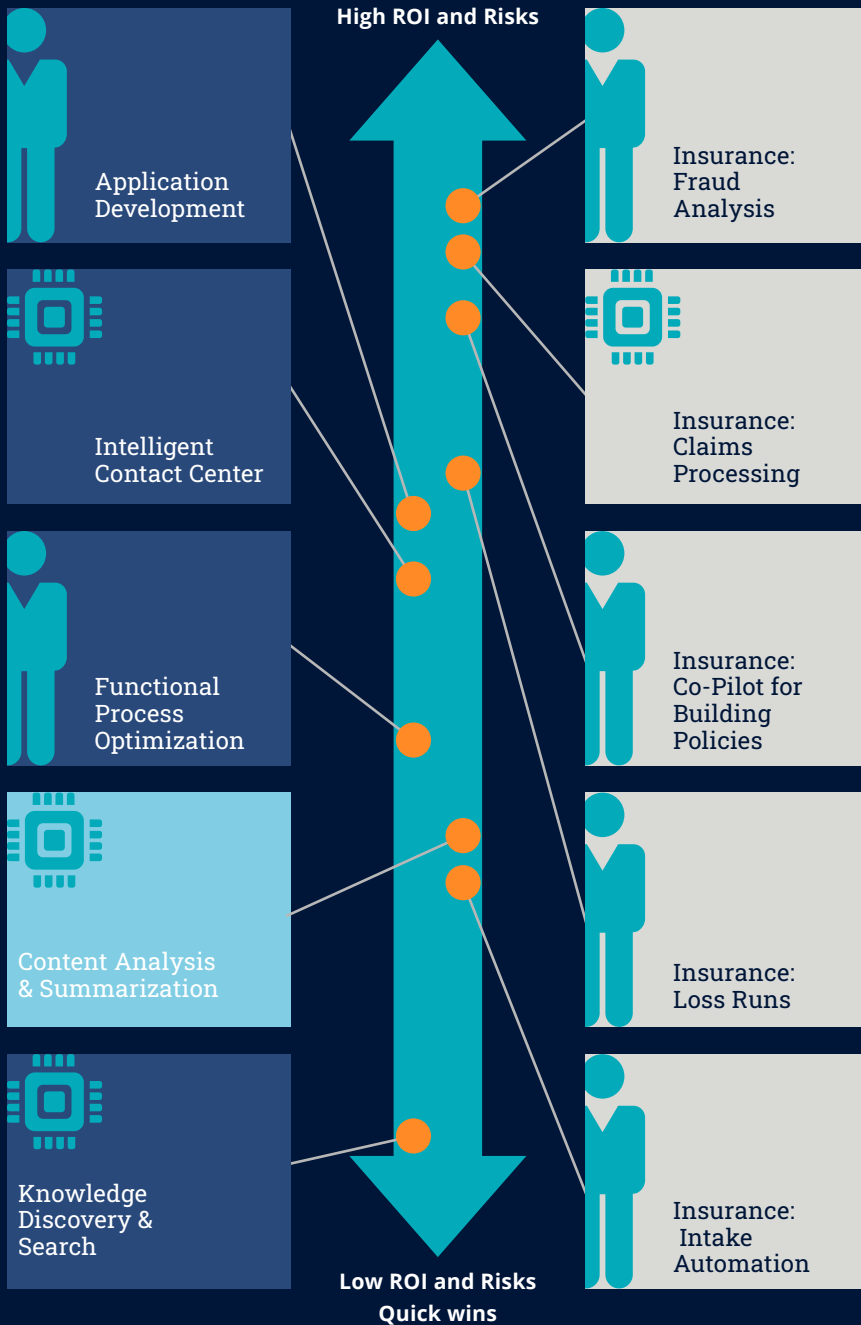
By leveraging GenAI's capabilities, insurers can create more engaging and interactive customer experiences, ultimately leading to better customer satisfaction and loyalty.

Loss runs: GenAI has the potential to revolutionize the way insurers approach "loss runs" estimations and risk mitigation. By generating synthetic data, insurers can access a vast amount of data to train their models and make more accurate predictions. This can be particularly useful in dynamic underwriting, where insurers must adjust their real-time risk assessments.

With GenAI, insurers can create scenarios that simulate real-world events and test their models against them, allowing them to identify gaps and improve their risk mitigation strategies. Overall, using GenAI in the insurance industry can significantly enhance insurers' capabilities and improve their ability to provide their customers with the protection they need.

Intake automation: GenAI can automate information gathering by pre-filling insurance claims forms based on images captured by the customer. This can significantly reduce the time and effort required to complete the claims process, improving accuracy and reducing errors. By leveraging the power of AI, insurance companies can streamline their operations and improve customer satisfaction, ultimately leading to increased business success.

ROI and risks of GenAI application




GenAI can increase accuracy and reduce the number of false positives by generating synthetic data to train fraud detection algorithms.


While AI has been assisting in identifying claim types and extent of damage, GenAI can generate automated responses for claims inquiries.

AI has been supporting personalized recommendations, and also can create highly personalized content that complements personalized policies.

GenAI can be used for synthetic data generation for loss run estimations and to support dynamic underwriting and risk mitigation for insurers.

GenAI can be used to automate information gathering, for instance, by means of pre-fill claims forms based on images captured by customers.

 Human involvement in decision making with AI assistance

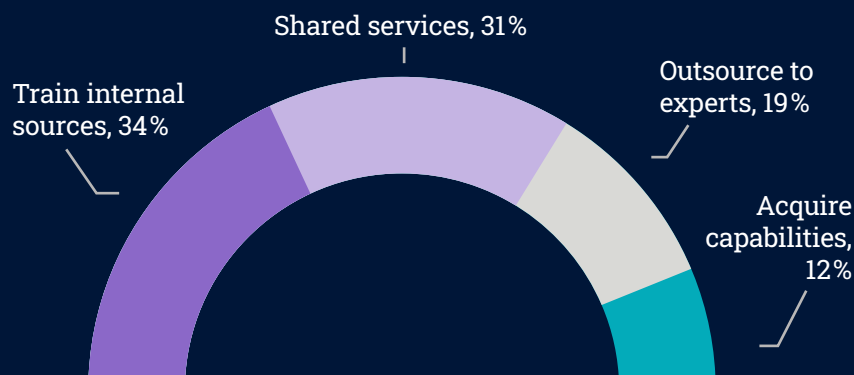
 Primarily AI-driven with minimal or no human involvement

How insurers plan to build AI capabilities in the next two years

Many insurance companies consider building technology resources in their internal organization as a critical driver of their agenda. As the competition for top tech talent heats up, most insurance companies are looking to rearchitect their workforce to create a sustainable and specialized technology workforce over the next few years, with AI capability development a top priority.

Success in building AI capabilities will require strategic partnerships with technology service providers to seamlessly access the spectrum of talent and iron out talent supply issues. Insurers must co-invest in technology talent and capabilities with their strategic partners to improve their operations, increase efficiency and stay ahead of a rapidly evolving industry. This can lead to increased business success and greater customer satisfaction.

Building internal AI capabilities



65% of respondents plan to build internal AI capabilities in the next two years through training or building shared services

FUTURE STATE INSURANCE – ISG RECOMMENDATIONS

Insurance carriers will progress at a glacial pace toward becoming entirely data-driven and tech-enabled. On the distribution side, new market entrants such as platform or product providers will increasingly compete with insurers for market share, while on the operational side, service providers and AI will be in the driver's seat. Insurers should be open-minded and implement innovation in general and AI in particular to stay relevant and profitable.

Insurance executives need to regularly identify the business and IT capabilities necessary and cohesively collaborate with those who can strategically support them. This will also enable them to help carriers accomplish their goals.

Insurance companies must constantly innovate all aspects of their business to remain relevant. By utilizing strategic

managed services, insurance companies can gain more efficient access to digital capabilities, process knowledge and specialized talent.

All these require a continual holistic approach to digital change, and strategic partnerships with insurance service providers, marketplaces and InsurTech. Insurance enterprises need reliable strategic partners willing to put "skin in the game" to ensure the success of experimental approaches. Partners should help develop and implement an innovative operating model by continuously investing and providing skilled and talented business and technology staff to ensure secure operations. They should also help test innovation at scale to future-proof their clients' businesses and differentiate their offerings in this competitive market.

CONCLUSION

Top-line performance, operational resilience and profitability will continue to be the biggest challenge for insurers in Europe.

Faced with unpredictable market conditions and a growing number of market players in the form of platform providers or InsurTech, insurers in Europe must take a comprehensive approach to maintain their customer base and long-term viability. While other options are available, embracing new technology may be an efficient way for insurers to achieve their most critical goals.

Many insurers in Europe indicated they would adapt to shifting macroeconomic conditions by enhancing integration across corporate systems, introducing dynamic pricing models, or modifying existing underwriting procedures using technology.

Furthermore, sophisticated analytics, automation, AI-powered insights, pricing and rate modelling platforms and other insurance-focused technologies can help insurers improve customer retention, attract new customer segments or geographies and improve operational efficiency.

The capacity to respond swiftly to changing situations necessitates a robust technology strategy. Innovative insurance technology may now give insurance companies the basic approach they need to prosper in the short term – and beyond.

ABOUT THE ISG INSURANCE PRACTICE

Our expertise for your business, operations and technology transformation

The ISG insurance practice specializes in business-technology strategies, partner-ecosystem advisory, cost optimization, IT modernization, digital and cloud transformations. We work with Life and Annuity (L&A), Property and Casualty (P&C), Health and Reinsurance companies in the private and public sector. Our advisors cover quote to claim. We advise in new business, underwriting and claims management, as well as policy administration that includes provider and platform selections. We help insurers review and redesign operating models, insourcing, outsourcing and rightshoring of IT and business processes (ITO & BPO), vendor consolidation, application & infrastructure rationalization, and future workplace.

Strategize and execute your partner ecosystem roadmap

ISG is a global and European leader in providing partner-ecosystem advisory and benchmarking services to guide our clients to successfully bid, negotiate or renegotiate contracts. With the emergence of digital technologies, we created our robust sourcing methodology for private and public tenders to help you achieve appropriate vendor/provider relationships to address newer business and IT models, such as Agile, DevOps and AI. Plus, our tools can help you manage your ongoing third-party relationships and risks and serve as a solution accelerator for all transformational roadmaps.

ISG maintains up-to-date information about emerging technologies from diverse sources, including directly from top business process and technology service providers, third-party administrators, InsurTech and platform suppliers. This enables us to provide deep, unbiased insights about the provider ecosystem for automations, transformations and traditional models.

We are prepared to invest in the success of our clients. With ISG, you can identify the root causes of cost, productivity and service quality issues, and design a roadmap to achieve excellence and sustainable results.

For more information, please visit our website:

[Insurance | ISG \(isg-one.com\)](https://www.isg-one.com)

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ABOUT ISG



ISG (Information Services Group) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 900 clients, including more than 75 of the world's top 100 enterprises, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,600 digital-ready professionals operating in more than 20 countries – a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data.

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