Insurance Practice

Four key themes from InsureTech Connect 2023

The Las Vegas gathering showed that excitement about generative AI is still rising, profitability is more of a focus than growth, and cutting technology debt is a bigger priority than in the past.

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More than 9,000 attendees—including investors and executives from insurance technology companies, traditional insurance carriers, and other corners of the industry—gathered in Las Vegas for InsureTech Connect (ITC) 2023, one of the world's biggest events for innovation in insurance.

As we spoke to clients, absorbed insights from panels of experts, and visited booths around the event, we gleaned four important takeaways that insurers and investors should keep in mind for next year and beyond.

1. Enthusiasm about generative AI continues, with most companies planning to integrate it into their offerings

Generative AI (gen AI) holds significant promise for accelerating innovation in insurance as businesses combine mountains of data and advanced computing power in an effort to transform people's interactions with their insurance carriers and improve financial results. Overall, insurance leaders see gen AI as a transformative opportunity for the industry in the long term, likely requiring new partnership models involving insurtechs, traditional carriers, and big technology companies. However, gen AI is still in the early stages, and the potential business impacts (positive and negative) remain uncertain for many insurtechs.

No strangers to assessing risk, insurtechs and traditional insurance carriers are proactively addressing concerns about compliance and accuracy when implementing gen AI. Additionally, businesses are working to ensure that output created by algorithms is held to the same ethical standards as human-created work.

Meanwhile, the industry is striving to figure out the most feasible and impactful ways to use the technology. So far, insurance companies are using gen AI for fraud detection; creating copilots for faster employee onboarding in claims, underwriting, and customer service; and providing the means for workers to extract insights from large repositories of information through intuitive interfaces.

One major challenge of adopting gen AI is training staff, because using the technology typically still requires human involvement. Companies are also weighing which gen AI tools to build in-house and which to get from technology vendors. In the near term, insurtechs will likely take the lead in helping insurers apply this technology, but insurers are taking a long-term view on potentially developing certain capabilities in-house.

2. Businesses are renewing their focus on profitability and solving the industry's core challenges

More insurtechs these days are focused on collaborating with and supporting traditional insurance carriers—a shift from years past, when it was more typical for insurtechs to challenge incumbents in the insurance and tech industries.

This trend is propelled by pervasive profitability challenges. Indeed, many of the conversations at ITC 2023 touched on the industry's shift from a focus on growth to a focus on profitability, building on a trend we noted last year at ITC 2022. The current economic environment has presented challenges to profitability as businesses navigate complexities in managing losses and keeping a lid on expenses amid high inflation. Other effects on the industry's finances come from the increasing frequency and severity of catastrophic events, social inflation brought on by rising litigation costs and other factors, and the increasing cost of home and auto repairs.

We see a trend of companies striving to solve the fundamental challenges facing the insurance industry. Many insurtechs are focusing on the following efforts:

- *Managing claims costs.* Myriad solutions are now available to help insurers predict and prevent losses; examples include the use of telematics to collect information about a driver's mileage and habits, and the risk scoring of property, people, and drivers. In terms of managing the claims process, insurers can use aerial imagery to estimate losses at a low cost and reduce the time claims adjusters spend assessing claims in person.

- *Improving underwriting and pricing.* In parallel, there has been an increased focus on loss ratio management, including improvement of risk selection, pricing, and underwriting, given poor performance in the property and casualty industry due to inflation, higher losses from catastrophic events, and other factors. This trend includes tools for improving the accuracy and efficiency of generalized linear models and rapidly incorporating new data, such as data from aerial imagery, into risk selection.

- *Serving across functions.* Increasingly, insurtechs focused on claims and those focused on underwriting are trading places, entering each other's area of specialty and expanding their relevance. For example, claims data and analytics providers are helping insurance carriers improve loss costs through improved underwriting capabilities.

3. Coverage is evolving, with continued momentum for emerging risks and changes in reinsurance

Risks are growing more complex because of factors including technological advances, climate change, geopolitical tensions, and the aging of the world's population. These macrodevelopments are shaping the future risks for the industry to manage.

ITC participants discussed the following trends related to emerging and evolving risks:

- *Traction for cyber insurance.* We continue to see the rise of managing general agents and managing general underwriters, driven by the rising frequency and severity of cyberattacks.

- *Coverage for gen AI.* Demand is rising for coverage concerning gen AI and advanced computing. These products are meant to provide coverage for unintended consequences arising from gen AI—for example, safety risks that could be created if a model gives imprecise or misleading instructions to construction workers.

- *Changes in reinsurance.* In the continued hard market cycle, in which prices are elevated and insurers have a narrowed underwriting appetite, reinsurers are imposing higher retentions for primary carriers to manage the frequency of property losses. Reinsurers are focused on bringing similar changes in casualty lines in response to social inflation from larger settlement amounts and an increasingly litigious environment.

4. Businesses are aiming to reduce tech debt to facilitate the adoption of advanced technology

The industry is going back to basics on technology decisions. Companies are looking to strengthen their foundational data and technology infrastructure, with a focus on measuring and reducing technology debt, which has accumulated rapidly over the past decade or so.

Solving basic technology and data infrastructure challenges became less of a priority in years past, when firms felt pressure to drive growth and reduce operational costs. Today, the accelerated pace of technologies such as gen AI has forced organizations to revisit their foundational systems and take action to reduce technology debt so they can free up funding for new tech tools. Insurers with outdated systems may find it challenging to unlock value from recent technology advancements. Many traditional life insurance carriers are still working to modernize their legacy systems and make progress on moving to the cloud, for instance.

Furthermore, the lines between business and technology skills are blurring. Technologists need to understand the fundamental financial challenges facing the industry from trends such as loss ratio pressures. At the same time, business leaders must increase their technical acumen so they can develop insights into using tech capabilities such as gen AI to tackle their biggest challenges. Collaboration between business and technology leaders will become increasingly critical to insurers' efforts to create value for customers and investors.

ITC 2023 showed that businesses continue to use data and new technology to transform the insurance value chain. This trend has the potential to accelerate, given the rise of gen AI and other tech advances. In 2024, the insurance sector will likely continue to shift away from full-stack insurtechs toward insurtechs that support the industry ecosystem.

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