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December 2023

10 Trends Shaping the Future of Insurance in 2024

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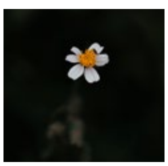

Confidentiality Statement

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Executive Summary

Without the insurance industry, the economy would grind to a halt. Insurance stimulates the economy by helping consumers and businesses manage risk and uncertainty. Insurance manages uncertainty and potential for loss with risk management and financial protection products and services. Insurance helps consumers and businesses undertake higher-risk, higher-return activities, powering growth and change.

With change comes new opportunities and challenges. Customers demand new products to manage their risks; new experiences that make it simple, fast, and efficient to buy insurance; new channel options that expand reach and ease of buying; and new value-added services that extend the value of the insurance product. Embracing this change requires a higher level of sophistication and commitment to digital transformation than many insurers are accustomed to. Insurers of tomorrow cannot be built on the business model and technology of today.

While most insurers have been on a continual quest to optimize the business, their efforts have often been incremental and short-sighted. Many replaced their core systems over the last 10 years as part of a transformation strategy, but most were on-premise with significant customization. This has resulted in upgrade challenges, increased costs, limitations on digital capabilities, difficulty in launching new products, and lackluster user experiences for employees and customers.

It's time for a redo.

Insurers must move beyond the legacy and internal mindset of "this is how insurance is done," to one that recognizes the world has shifted and we must as well. Insurers must accelerate their digital business transformation because technology and new operating models provide a foundation to adapt, innovate and deliver at speed as markets shift and change continues its relentless path forward.

Now is the time to reshape the business model and technology foundation. By moving the business to next-gen cloud intelligent core platforms with embedded technologies like APIs, microservices, AI/ML models, generative AI, and digital, they will drive down operational costs and increase premium growth…bending the cost curve and creating competitive differentiation.

Signals about what the future holds are in play and intensifying. Market economics of inflation, supply chain challenges, rising interest rates, and low unemployment are not abating. Declining profitability, increased catastrophe losses, rising loss ratios, increased claims costs, rising reinsurance prices and tightening capacity, lower disposable incomes, and a growing loss of talent from an acceleration of retirements, are all converging, creating a massive wedge for change.

Time is of the essence. Waiting is not option.

"Time is really the only capital any human being has, and the only thing he can't afford to lose."

– Thomas Edison

Insurers' Top of Mind Issues

Looking toward 2024, the insurance industry will continue to face these challenging market economics, which will continue to impact overall operations. Adding to this is the continued impact of legacy systems, both in terms of increasing operational costs and lost market opportunities.

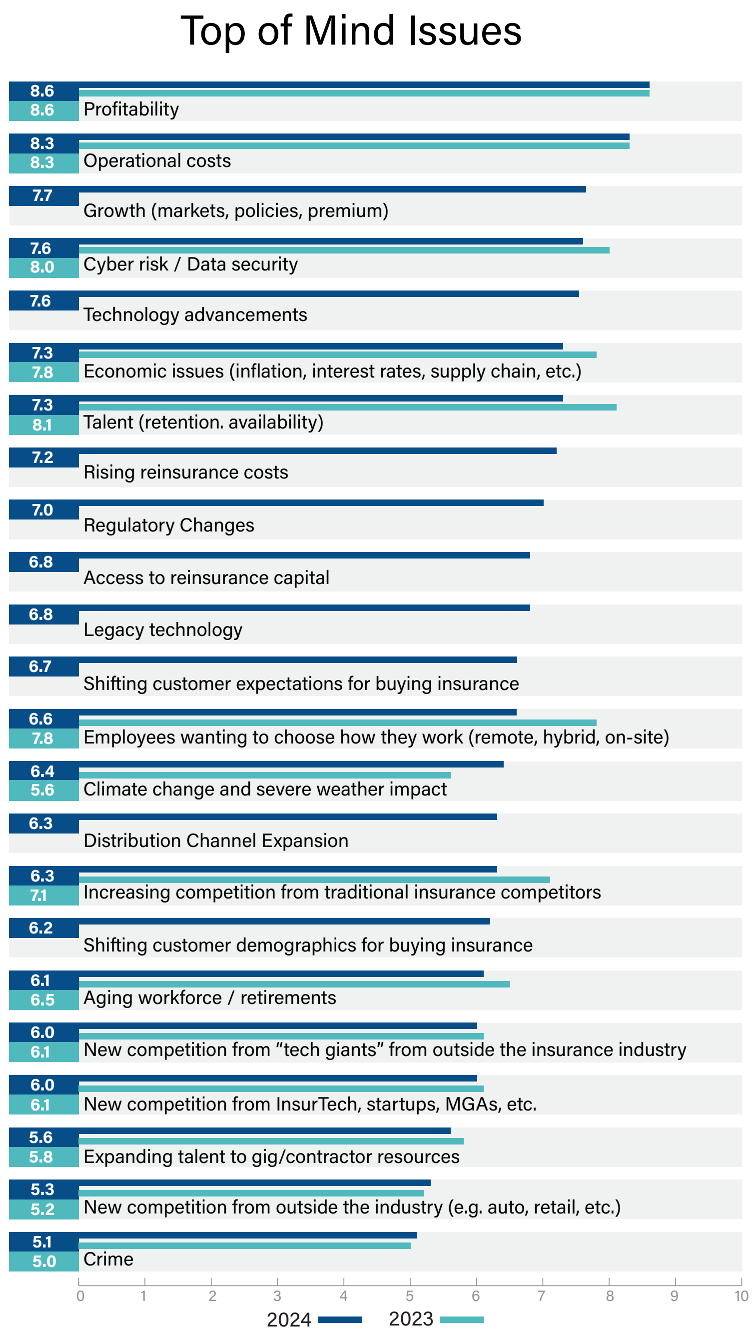
Insurers are increasingly looking at their product portfolios, which states they are operating in, and what markets they are focused on. During 2023 we saw major insurers stop selling new policies in markets, pull out of markets altogether, and sell product portfolios to manage overall profitability. At the same time, we saw insurers bring new products to market, expand into new product segments like E&S, and establish new partnerships to sell products. For some it was a pulling back. For others it was accelerating market opportunities. Regardless, the market and competitive landscape is changing … sometimes dramatically.

As a result of a challenging 2023, it is not surprising that top of mind issues for 2024 have shifted in many areas. In an early preview of our Strategic Priorities for 2024 research, we expanded the scope of top of mind issues given the market challenges and shifts during 2023 as reflected in Figure 1.

Within the top 12, only five are the same as last year, while seven new issues highlight the shift in thinking. Remaining at the top are profitability and operational costs, with cyber risk/data security, economic issues and talent remaining in the top 12, though decreasing in importance. In contrast, the seven new top of mind issues reflect the changing and challenging market with a focus on growth, technology advancements, rising reinsurance costs, regulatory changes, access to reinsurance capital, legacy technology, and shifting customer expectations for buying insurance.

Figure 1

Insurers' top of mind issues, 2024 vs 2023



These top-of-mind issues reflect challenges insurers are now facing in terms of both their business model and technology foundation likely being out of step with the market demands and challenges.

The AM Best report, *US Property and Casualty Downgrades Outnumber Upgrades in First Half 2023*, highlights the challenges.[1] The report specifically states that P/C insurers face a number of challenges continuing into 2023. Economic inflation, despite a decline in the first half of the year, continues to drive up loss costs, and uncertainty about climate risk, secondary perils, social inflation, and rising reinsurance costs, lingers. AM Best expects market trends to continue to have a negative impact on US personal lines insurers. Commercial insurers also face headwinds but are in a better position due to solid risk-adjusted capitalization from companies' conservative investment profiles, sound reserve position, and enhanced risk management discipline.

AM Best maintains a stable outlook for the L&AH sector in their report, *First Look: Six-Month 2023 US Life/Annuity Financial Results*, highlighting healthy balance sheets, favorable premium trends, rising interest rates, and a focus on risk management.[2] However, the industry is still working through inflationary headwinds and recession risks and is maintaining a cautious approach to mortality due to COVID-19.

"Carriers that are slow to address challenges or do not have the means, expertise, or technological capabilities to keep pace with changes in the environment will likely face ratings pressure."

Carriers that are slow to address challenges or do not have the means, expertise, or technological capabilities to keep pace with changes in the environment will likely face ratings pressure. This is where the AM Best Innovation Rating that looks at technology investment becomes increasingly important.

Insurance Market Macro Environment

The insurance market is facing many headwinds, driven by heightened volatility in financial markets, economic activity, and increased risk environment. Navigating this uncertainty is not for the faint of heart. It requires leaders to diligently execute on their strategy and adapt where they need to remain relevant and competitive in this fast-changing market landscape.

Leaders are rethinking their operating model and technology foundation to make their products and processes more cost-effective, while also digitalizing them to attract the next generation of buyers, Millennials and Gen Z. Insurers must reevaluate costs, looking to move from fixed to variable. They must rethink their business operations continuity and scalability and how to accelerate technology adoption to drive operational effectiveness, enhance customer experiences, expand market reach, bring new products to market, and more.

Swiss Re's Sigma 5/2023 report, *The economics of digitalization in insurance: new risks, new solutions, new efficiencies*, notes that over the last five years, they measured protection gaps as integral to their insurance resilience indices, and they have found positive correlations between the different resilience indices and their new Insurance Digitalization Index. Notably, countries ranking higher in digitalization are typically also more resilient with respect other areas of protection gaps. They suggest digitalization can be a force for closing insurance protection gaps. Gains from better underwriting, risk mitigation, risk measurement and more through digitalization should improve the accessibility and affordability of insurance.[3]

For insurers to remain financially strong and grow, they must focus on both operational and innovative areas for investment that accelerate their journey to the future.

Growth, Profitability, and Losses - Oh My!

According to the latest projections by the Insurance Information Institute (III) and Milliman, the P&C insurance industry will not return to profitability until 2025, with a combined ratio forecast of 102.2 for 2023, following 102.4 in 2022. This projection was made before hurricane season started which may further exacerbate the situation. As a result, many carriers are pulling back in states and lines of business to curb the losses. Increased repair and replacement costs, increased risk and lower than approved rate increases are all contributing to the dilemma.[4]

For the L&AH insurance industry, AM Best's *Market Outlook* in March 2023 indicated a stable outlook due to rising interest rates boosting net yields and relieving potential reserving concerns. However, the industry is still working through inflationary headwinds, risks due to recession, and the impact of COVID on mortality rates. High inflation has eroded consumer savings, resulting in lower or nominal premium growth. However, higher interest rates are creating tailwinds for annuities and pension risk transfer opportunities.[5]

Overall, the economic slowdown is lasting longer than expected and the now firmer-for-longer interest rate environment will likely cut into 2024 recovery momentum as noted in the July 2023 Swiss Re Sigma report, *World Insurance: Stirred, Not Shaken*. The report further notes that persistent inflation remains the top risk for insurers. Economic slowdown will drag on the market, with total global premiums (non-life and life) forecast to grow at a below-trend 1.1% and 1.7% in real terms in 2023 and 2024, respectively.[6]

Doing nothing is not an option. Rethinking the business model and technology foundation must be the starting point and focus.

InsurTech Market New Dynamics

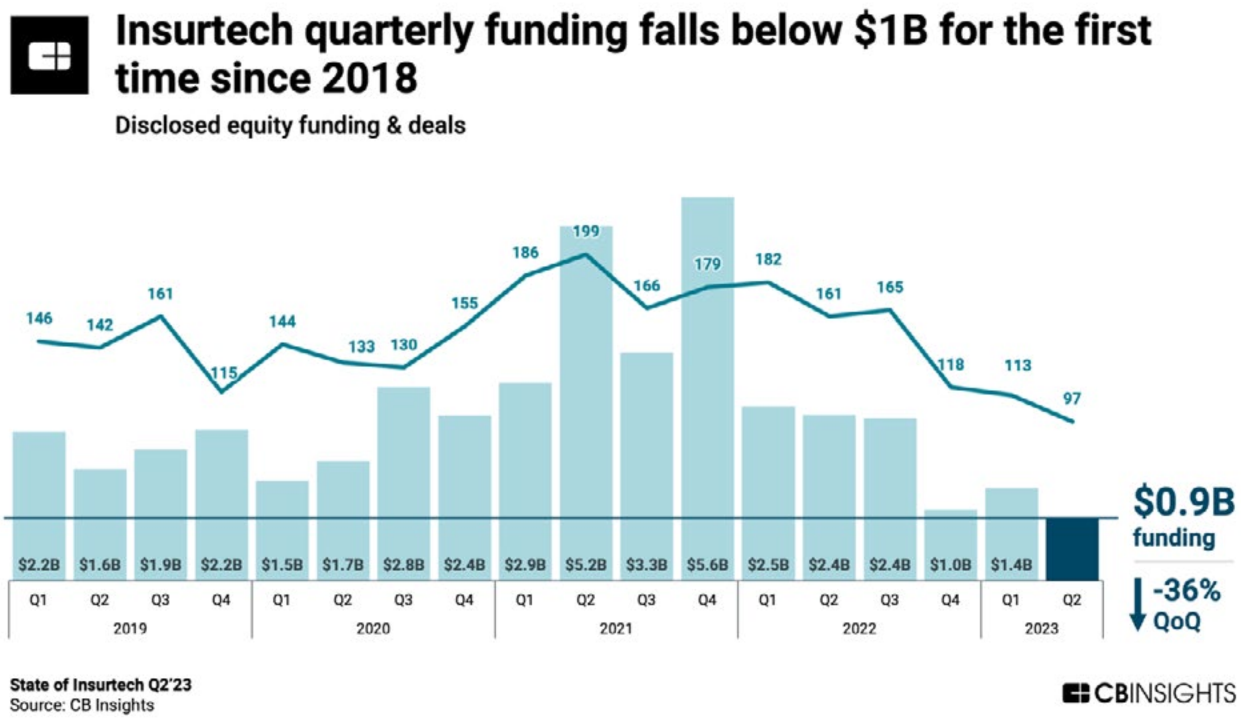
The August 2023 CB Insights report, *State of InsurTech Q2 '23*, found that following a spike in funding in Q1'23, global InsurTech funding decreased 36% quarter-over-quarter in Q2'23 to $0.9B. Furthermore, deal count fell for the third straight quarter, slipping below 100 for the first time since 2017. [7]

Other key report highlights include:

1. Global InsurTech funding falls below $1B for the first time since 2018.
2. Mega-rounds (deals worth $100M+) remain rare, with just 1 deal done in Q2 '23. At the peak of InsurTech funding in 2021, the number of mega-rounds typically exceeded 10 per quarter and made up about half of total funding.
3. InsurTech M&A exits grew 45% quarter over quarter, reversing a recent slowdown.

Figure 2

Insurtech quarterly funding trend



With the increased interest rates and macro-economic headwinds, InsurTech viability and financial strength are increasingly top of mind for insurers who are selecting new technology. For many InsurTechs, it has been a rude awakening that profitability and positive cash flow are now king, rather than growth at any cost. As a result, many InsurTechs are seeking additional investments or M&A, but at much lower valuations than 12-18 months ago.

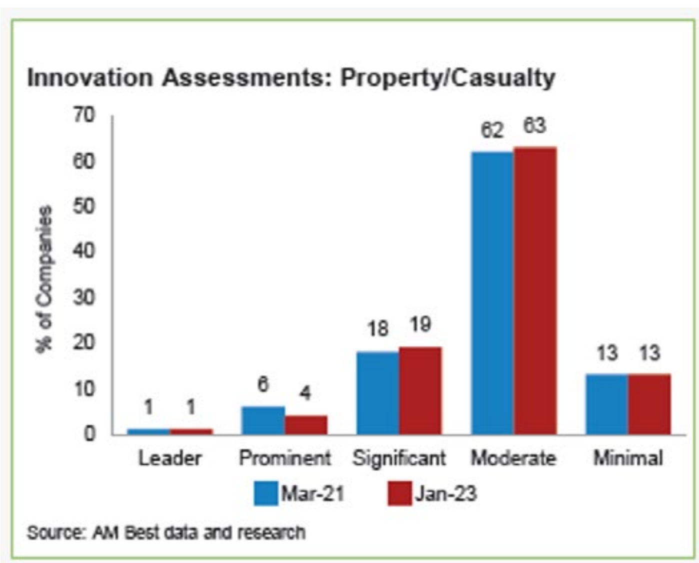
Insurers are now scrutinizing the technology companies they are selecting in terms of financial stability and profitability that can create the cast to drive R&D investment for continuous innovation. Why? So insurers can stay at the forefront of change, rather than at its mercy.

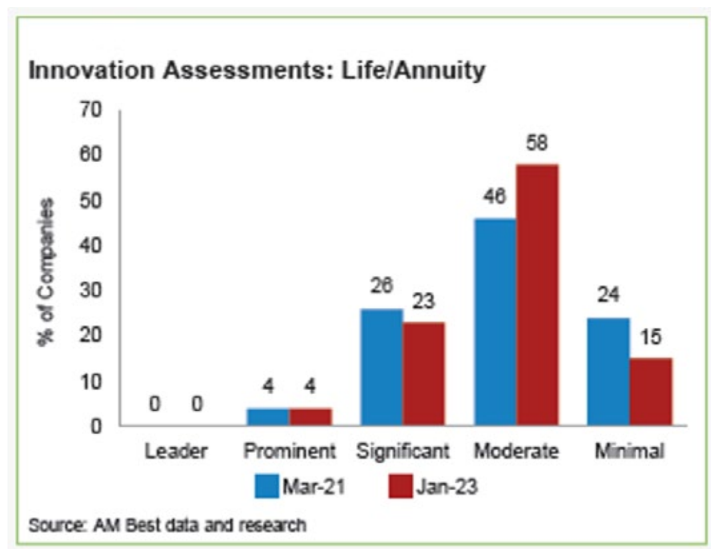
Regulatory Implications

The August 2023 Best's Special Report, *Insurer Innovation Accelerated by COVID-19 Continues Post-Pandemic*, highlights that the evolving risk environment has accelerated insurers' shift to digital technology and product innovation. The innovation assessments are across five ratings: Leader, Prominent, Significant, Moderate, and Minimal. The report notes that reinsurers represent the largest share of innovation Leaders (9%). In contrast, 76% of the P&C ratings were in the bottom two levels, moderate (63%) and minimal (13%), while 81% of L&AH insurers were at moderate (58%) and significant (23%).[8]

Figure 3

AM Best Innovation Assessment results





To meet the rapidly shifting market, risks, and customer changes, insurers must accelerate their pace and scale of innovation to remain relevant.

One area of innovation, Artificial intelligence (AI), has risen to the top of insurance leaders' focus with the launch of ChatGPT and other generative AI solutions. It is an area of massive opportunity, but one that regulators are now assessing. The NAIC released their model bulletin in July 2023 on regulatory expectations for the use of AI systems by insurers. The bulletin encourages implementation of a board-approved written AI Systems Program that addresses governance, risk management controls, internal audit functions and third-party AI systems with a goal to mitigate risks of harm to consumers through decisions made or supported by AI systems.

Likewise, the National Institute of Standards and Technology (NIST) issued its AI Risk Management Framework in January 2023, which incorporates trustworthiness considerations into the design, development, use, and evaluation of AI products, services, and systems.[9]

While new regulation will be required, it should not slow the pace and potential use of AI or any technology that can accelerate digitalization and innovation to meet the rapidly changing customer and risk needs in the market.

Future of Insurance: Strategic Initiatives for 2024

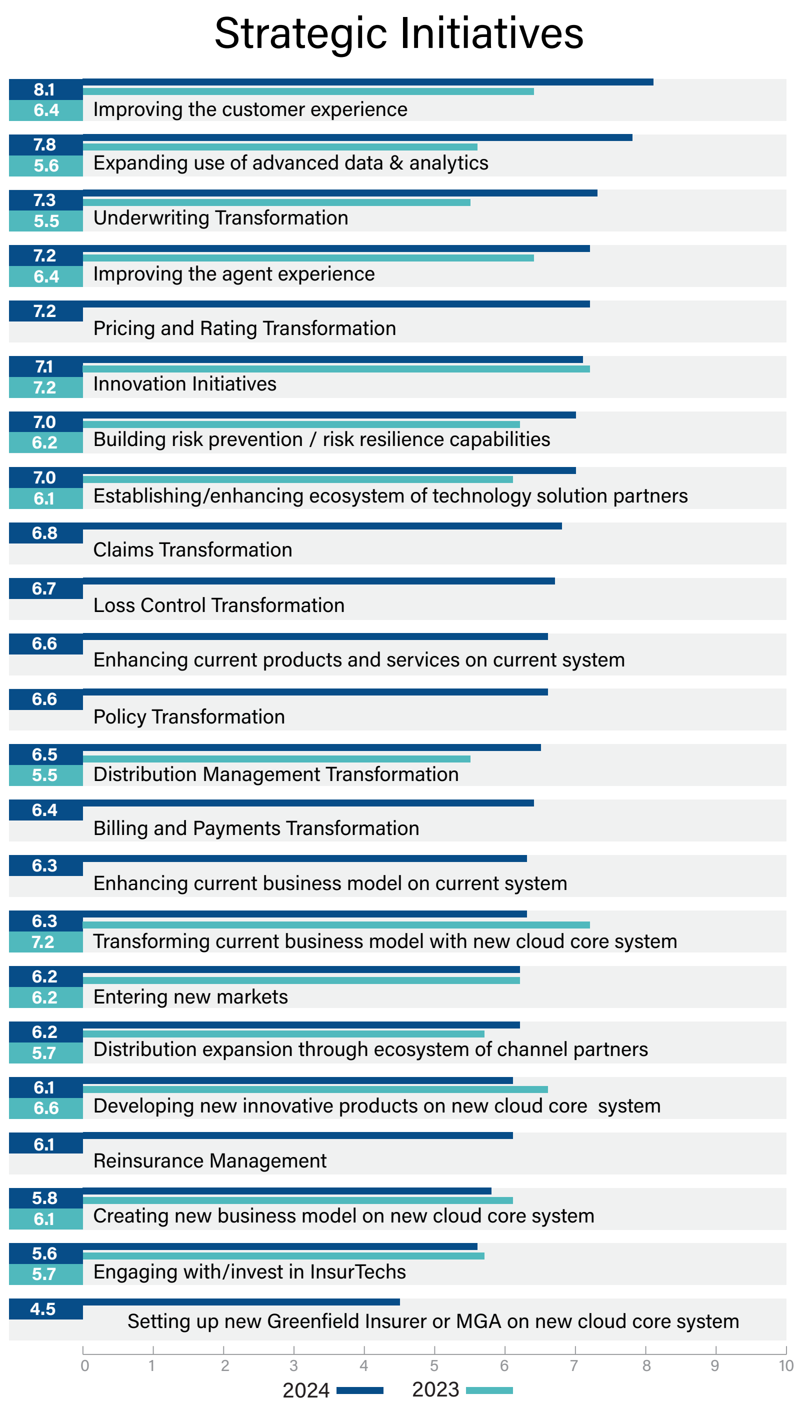
In the May 2023 BCG report, *Most Innovative Companies 2023: Reaching New Heights in Uncertain Times*, it notes that for the third straight year, companies that both prioritize innovation and make sure that they are ready to act are widening the gap over less capable competitors. The report highlights that leaders at these firms are consistently delivering new products, entering new markets, and establishing new revenue streams. The laggards struggle to make headway beyond incremental improvements. The report notes that despite global economic uncertainty, innovation rose as a top corporate priority in 2023, with 79% of companies ranking it among their top three goals.[10] This is consistent with our 2023 Strategic Priorities research, with insurers placing innovation as a top 10 strategic priority.

However, given the challenges and changes during 2023, we are seeing a significant shift in our 2024 Strategic Priorities research as compared to the 2023 results shown below in Figure 4. Within the top 12, 5 are new areas of focus and the other 7 have seen significant shifts in ranking, reflecting the impact of the market changes and macro-economic challenges.

Rising to the top are those areas that have direct influence or impact on profitability (underwriting transformation, pricing & rating transformation, claims transformation), growth and loyalty (customer experience, agent experience, enhancing current products and services on current system), risk management (risk prevention/risk resilience capabilities, loss control transformation) and innovation (innovation, ecosystem of solution partners).

Figure 4

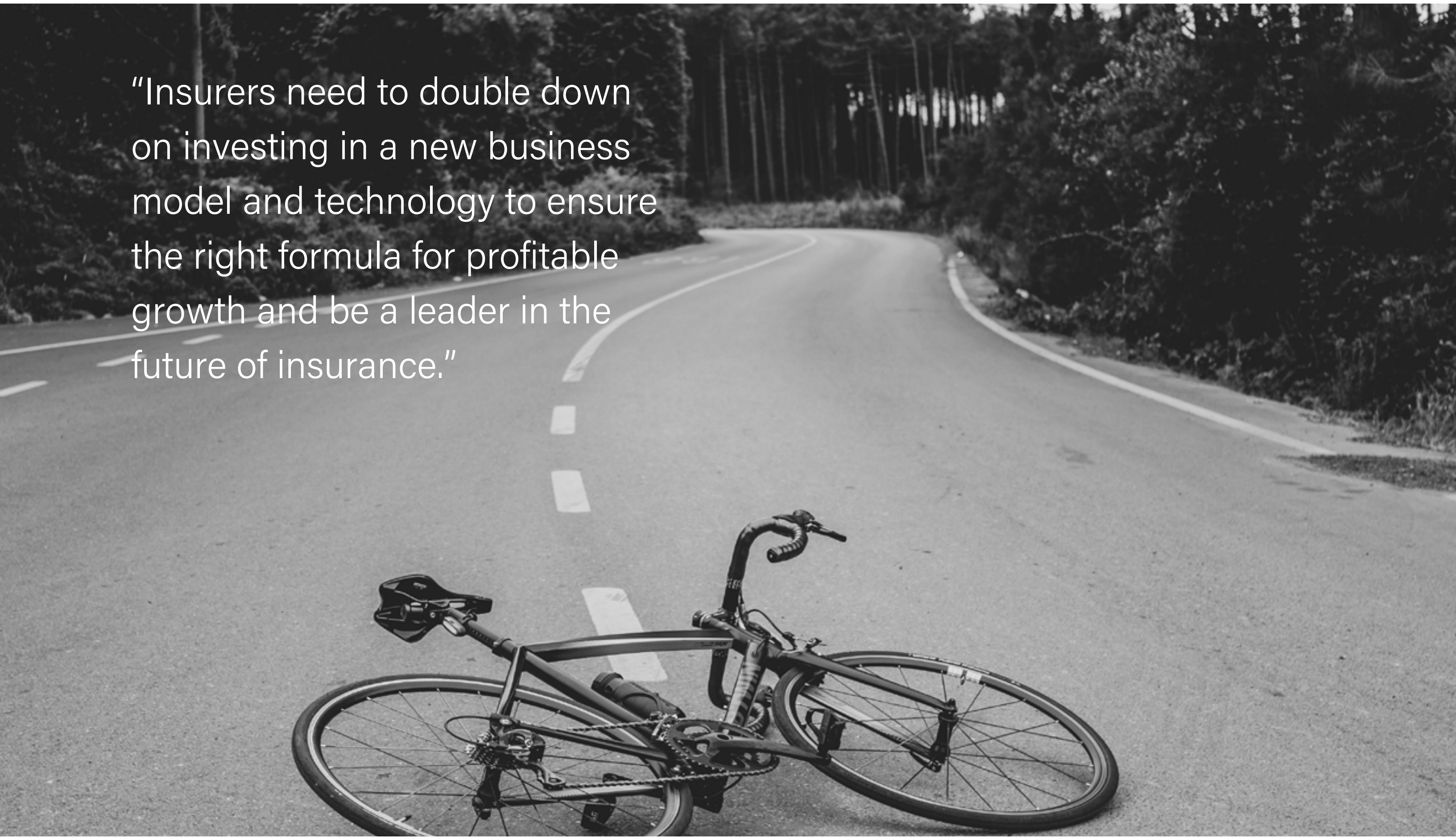
IInsurers' strategic initiatives, 2024 vs 2023



However, due to a combination of factors, many insurers still operate with traditional, historical practices and technology, keeping them in a legacy environment that does not allow them to adapt or keep pace with changes in the market, customers, and risk. The slow, steady 3%-4% of DWP technology investment is incremental at best and not sufficient to meet the pace of change and demands in today's marketplace. With the macro-economic impact to insurers businesses, we are already seeing budget pressures emerging with budget cuts. Even if there are no cuts to technology spend, staffing cuts will impact insurer's ability to execute technology and transformation projects. This will further slow the pace of business and technology transformation.

As loss and expense ratios have increased and growth has slowed due to the macro-economic factors, the importance of optimizing and innovating the business model and technology with new products and services, new channels, and new partners has increased.

Insurers need to double down on investing in a new business model and technology to ensure the right formula for profitable growth and be a leader in the future of insurance.



Future of Insurance: Trends for 2024

Strategic discussions on how insurers will prepare for and manage the changes needed in their business models, products, channels, and technology are more important now than ever. New signals are continuing to emerge that expand the future trends framework and add further fuel to the pace of change. Pausing or pulling back now will only create a widening competitive gap, placing insurers' businesses at risk.

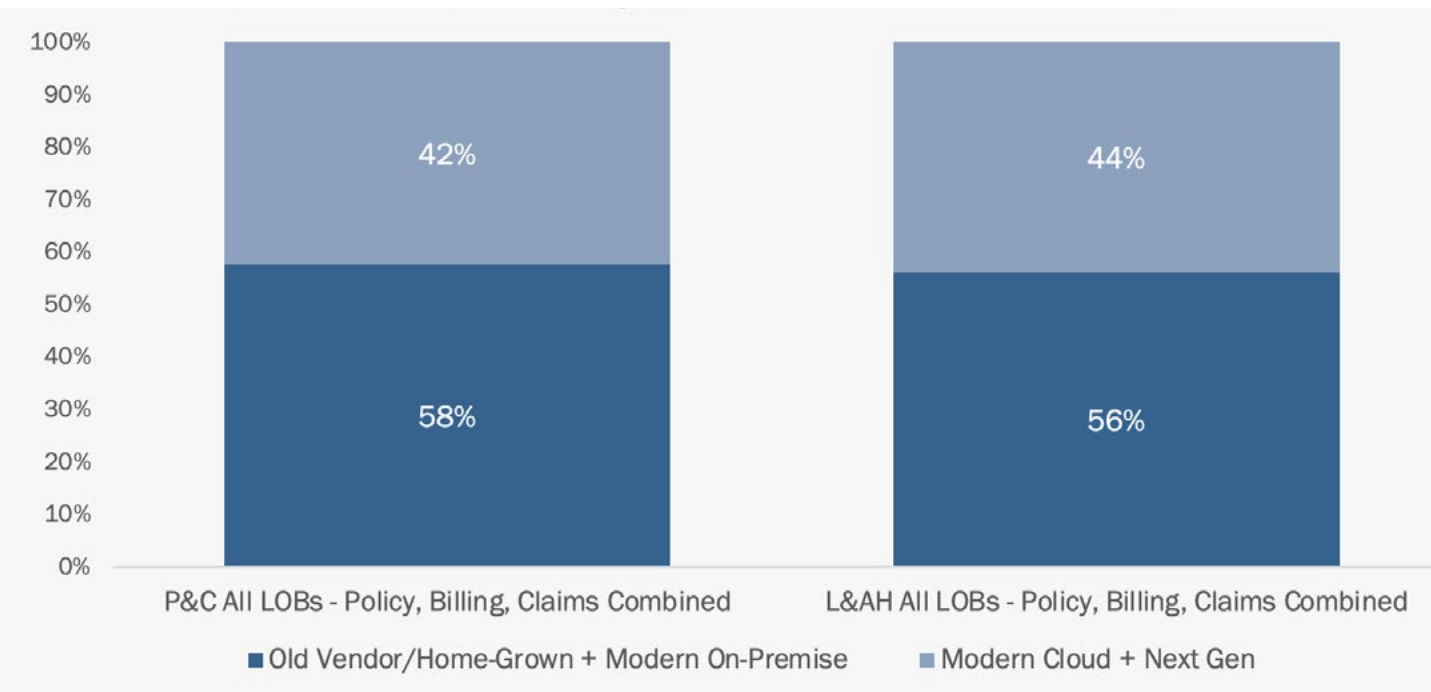
The following trends reflect those areas of priority insurers should consider and focus on to create a path forward for scalable and sustainable change.

Trend 1: Legacy Debt Comes Home to Roost – Deteriorating the Business

Over the last 10-15 years, we have seen a shift in core systems, both in terms of technology and business capabilities, from monolithic core on mainframes to on-premise modern core components that were the start of modernization and transformation programs. But most of these programs were painful and expensive, often running over many years and costing tens to hundreds of millions of dollars due to the highly customized, on-premise implementations that have been difficult of nearly impossible to upgrade. In addition, too often the older systems that were to be replaced remained in place due to the cost to convert to the new system.

Figure 5

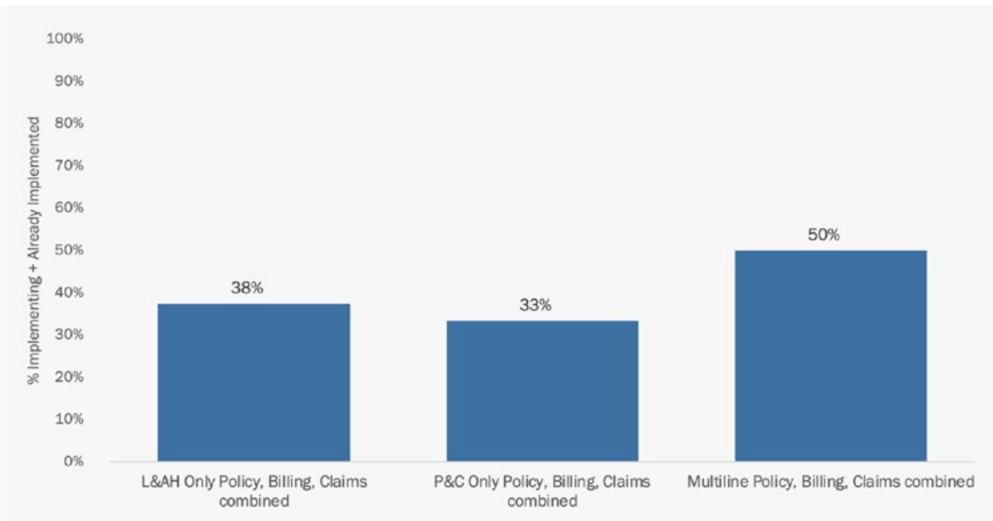
Proportion of Core Systems on Legacy/Modern On-Premise vs. Modern Cloud/Next Gen



The result has been that legacy never went away, remaining the same or slightly growing. In our Core Systems Report based on a 2019 survey to insurers, both P&C and L&AH had 56%-58% of their core systems as non-platform, meaning they were old vendor, home-grown or modern on-premise, as shown in Figure 5 above. In our current survey conducted in Q4 2023, only 38% and 33% of L&AH-Only and P&C-Only carriers, respectively, said they were implementing or had implemented replacements or upgrades of legacy or modern on-premise core systems to next-gen cloud-native technology, as seen in Figure 6, reflecting no movement or slight decline in dealing with core as compared to four years ago. Interestingly, 50% of multi-line carriers (both P&C and L&AH) showed improvement as compared to the others. The lack of movement in replacing core with next-gen cloud solutions is now coming home to roost in the growing operational and business challenges.

Figure 6

Replacement/Upgrade of legacy or modern on-premise systems

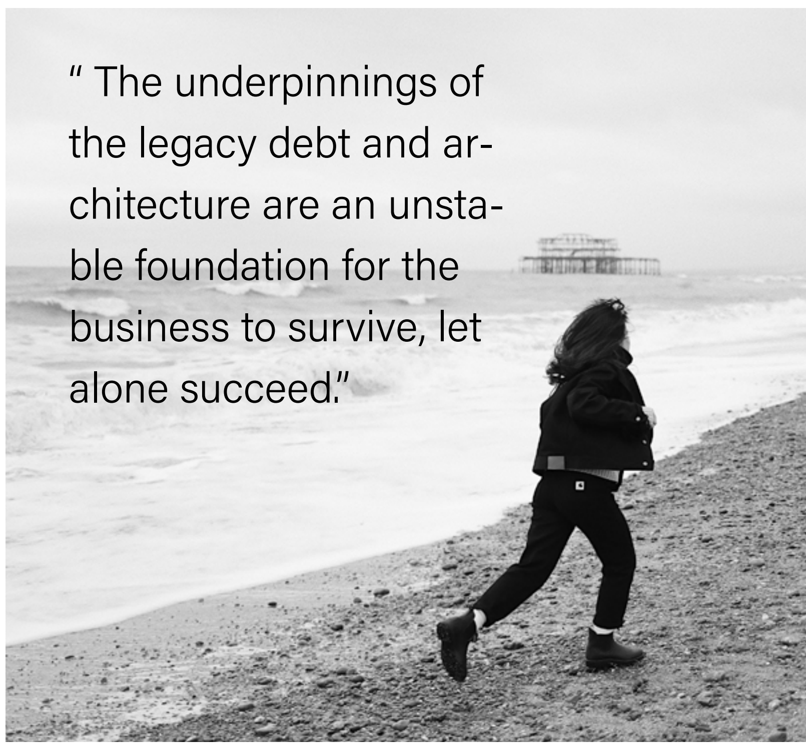


The cost and impact of legacy debt is now catching up and pulling organizations down. With retirements increasing and loss of institutional knowledge and skills, coupled with a new generation of employees who will not work with legacy technology, legacy debt is becoming a significant operational risk. Even worse, these patchwork legacy solutions struggle to leverage the data held to provide meaningful, actionable insight or ingest new data sources to improve decision-making.

Spending tells a story. While insurers recognize that they must address operational costs, they continue spending on legacy with a patchwork of enhancements to try to address today's market demands. But too often, it is throwing good money after bad and not moving forward to the future.

Industry leaders are changing the rules of insurance by leveraging the powerful next-generation intelligent core platforms to launch a new business operating model with new products and then converting business that is part of the future to enable speed and scale.

Insurers must develop a comprehensive strategic response that balances today's business with what is needed to compete today and, in the future, because the underpinnings of the legacy debt and architecture are an unstable foundation for the business to survive, let alone succeed.



Trend 2: Robust Growth in Excess & Surplus Lines and MGAs

Managing general agents in the US market saw very strong growth in 2022, well in excess of the broader property/casualty insurance market growth, according to Conning's 2023 annual MGA report. With direct premiums written rising 24% as compared to 2021, MGA growth outpaced the overall P&C market by 10.5% with $85.5B in 2022. In addition, the E&S market grew 17.5% in 2022 following 28.8% growth in 2021, highlighting a red-hot market for MGAs and E&S.[11]

Supporting this growth is the access to capacity and capital from new funding approaches including insurance-linked securities, collateralized reinsurance, reciprocal exchanges, insurers, reinsurers, and private equity. The growth is a recognition of the opportunity for MGAs to help insurers and reinsurers grow their premium, expand into new markets and geographies, leverage underwriting expertise, and leverage a new business model and technology foundation that offers greater speed to market capabilities. This is a key reason why MGAs are attracting top talent, from underwriters to technology professionals.

Consider this sample of announcements for new E&S ventures: Beazley to launch an E&S company and moving the business off their Lloyds paper;[12] W.R. Berkley launched a new business to establish "a sustainable market for mid- to large-sized, complex risks";[13] Millennial Specialty Insurance launched a new program targeting cat-exposed high net worth market; and many others.[14]

With the growing volatility of risk, insurers pulling out of markets, and increased insurance exposure across many lines of business, MGAs and E&S products are uniquely positioned to meet these challenging demands. They are innovating and creating new digital business models that provide new products and experiences for customers, particularly for those in volatile risk markets.

With the projected continued volatility and significant market challenges, strong growth in both MGAs and E&S will likely continue to outpace overall P&C growth for the foreseeable future, offering insurers solid alternatives for market expansion and growth.

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Trend 3: Channel Expansion and Ease of Doing Business

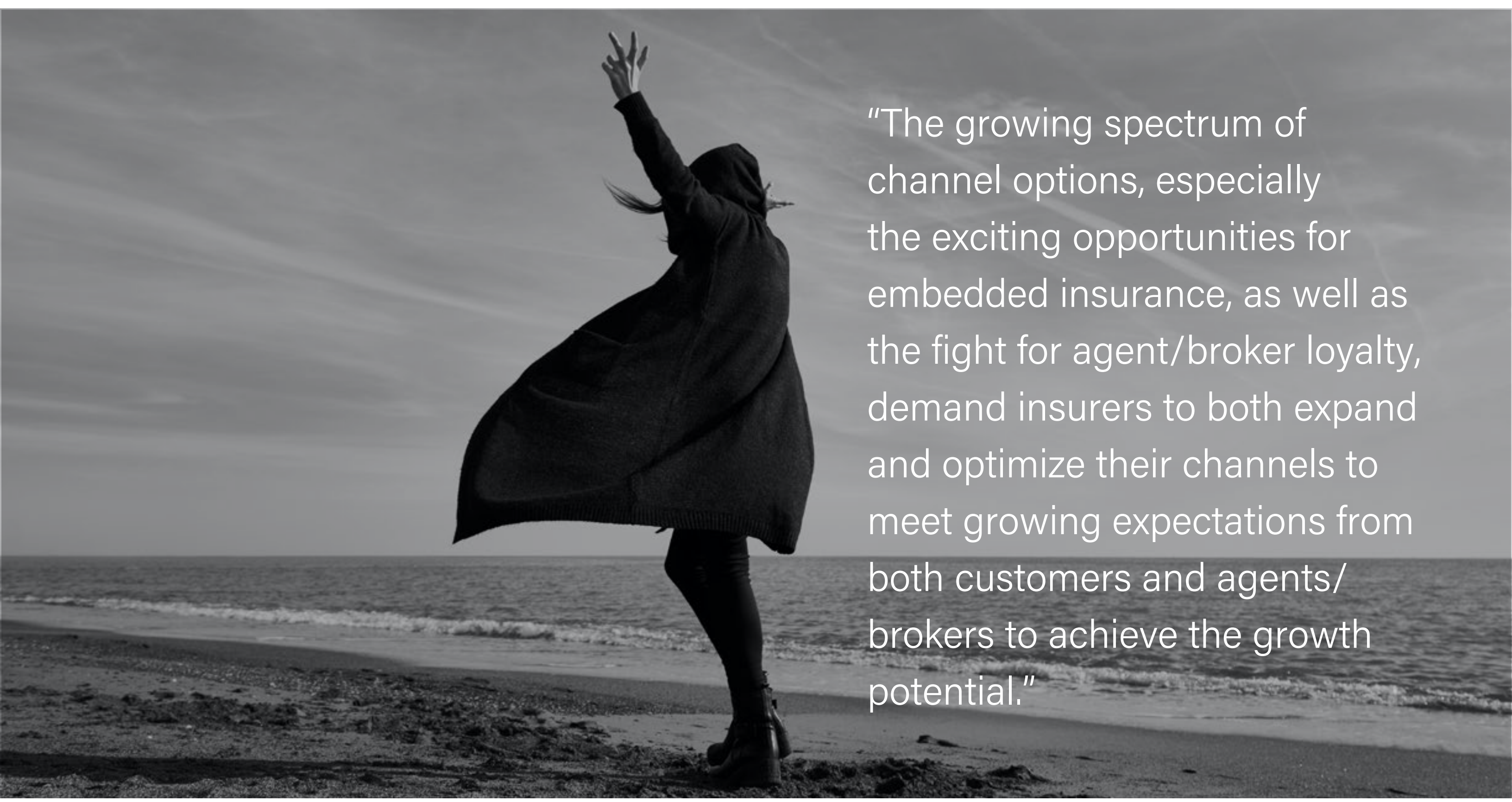
While agents and brokers remain a dominant channel, new channels, such as marketplaces and embedded insurance, are gaining a lot of attention and traction. Insurers looking to compete will find it challenging to do it alone. Creating an ecosystem of interconnected channels, using a range of digital capabilities, and connecting with customers when and how they want to, requires collaboration.

In today's interconnected world, insurance must play across a wide spectrum of distribution options, expanding channels and partners to reach customers when, where, and from whom they want to buy insurance. These options form a distribution ecosystem that expands reach, but requires a partnership approach, particularly for embedded channels.

While expansion is important, ensuring "ease of doing business" with any of the channels is equally important from a growth and retention perspective. In particular, insurers face looming issues of an aging workforce, rising customer expectations and changing needs, and the need for next-gen technology, including agent portals and comparative rating capabilities. Agents have high expectations for how insurers will support them today and have even higher expectations for how insurers will support them tomorrow.

In the Majesco-commissioned Celent research report, [Reshaping the Distributor Insurer Relationship](), it notes that to become the agent's preferred insurer, the insurer has to have great services, good pricing, and differentiated products, as well as policies, procedures, and technology that make it easy to do business.[15] Investments in digitization have two potential sources of return for insurers. Reduction in costs due to the ability to automate processes is a significant potential source of value—but only if it improves the agent's ability, desire, and ease of doing business with an insurer therefore driving growth. And increasingly, ease of doing business means more than providing self-service transactional capabilities, but also includes enabling agents to manage reporting, onboard new agents, manage licenses, and manage compensation.

The growing spectrum of channel options, especially the exciting opportunities for embedded insurance, as well as the fight for agent/broker loyalty, demand insurers to both expand and optimize their channels to meet growing expectations from both customers and agents/brokers to achieve the growth potential.



Trend 4: Product Innovation to Close the Protection and Customer Expectation Gap

Today's customers expect and need different products to meet their risk needs, help close the protection gap, and align to their financial parameters. They also want more than just the risk product; they want access to value-added services and an experience that humanizes and manages the process.

Part of the humanizing aspect is offering niche, personalized products that require product innovation. These products need to use more of the customer's personal data, including telematic data, that reflects their risk and behaviors. It includes risk prevention and mitigation capabilities to help customers avoid loss, dramatically redefining the customer experience and loyalty parameters. Traditional product-oriented strategies rarely meet these new expectations.

In our consumer and SMB research in 2023, we consistently found a gap between insurers and customers in terms of interest in new products for L&AH individual and group/voluntary benefits and for P&C personal and commercial lines of business. A customer expectation gap reflects the difference between what customers expect, want, and need, as compared to what insurers are delivering.

This is why IoT and telematic products, on-demand/Gig economy products, parametric insurance, microinsurance and embedded insurance are of high interest, particularly for Gen Z and Millennials, but also selectively with the older generation of Boomers and Gen X. With inflation eating into disposable income and claims costs driving up insurance premiums, there is a real concern that the protection gap will expand for many consumers and businesses.

Both the protection and customer expectation gaps need to be as small as possible for insurers to create long-term customer growth, value, and loyalty. It demands a customer-centric strategy that understands the unique generational segment differences in behaviors, lifestyles, and more, that drive insurers' decisions about products, both traditional and innovative. Doing so will help improve underwriting profitability with more personal data-driven risk assessments and will also help drive risk avoidance or mitigation. It's a win-win-win approach.

There is limitless potential to deliver personal data-driven products and services that create greater value to customers and reverse and close the protection gap for people and businesses, making it relevant, affordable, and accessible.

Trend 5: Pricing, Rating and Underwriting Speed and Flexibility

Underwriting is at the heart of the insurance business. In the face of rapidly changing risk factors, it is increasingly crucial to have capabilities for evaluating individual risks, the exposures in an entire portfolio, risk appetite, and ultimately, profitability. But with rising loss ratios and different risk profiles for individuals and businesses, insurers need more flexibility in changing their pricing and rating for underwriting.

The inflationary, profitability, and competitive conditions in the insurance marketplace will require insurers to evaluate aspects of their pricing, rating, and underwriting, including improved speed-to-market capabilities. Pricing and rating engines will increasingly play a critical role to deliver rapid updates and new products to market for both P&C and L&AH, from IoT-enabled products to Gig economy, on-demand, and telematic products, to name a few. The demand for more regular updates for pricing, from real-time to weekly, monthly, or quarterly rather than annually, will become mainstream.

At the core of pricing, rating, and underwriting is data. While insurance has always been a data-driven business, access to new data sources, embedded AI/ML models, and flexible pricing and rating solutions that can quickly deliver personalized or updated pricing will be central to insurer's new business models.

The most innovative and profitable carriers focus their product management efforts on products with pricing and rating flexibility and efficiency that deliver speed to market and customer value.

Trend 6: Data & Analytics Goes Supersonic

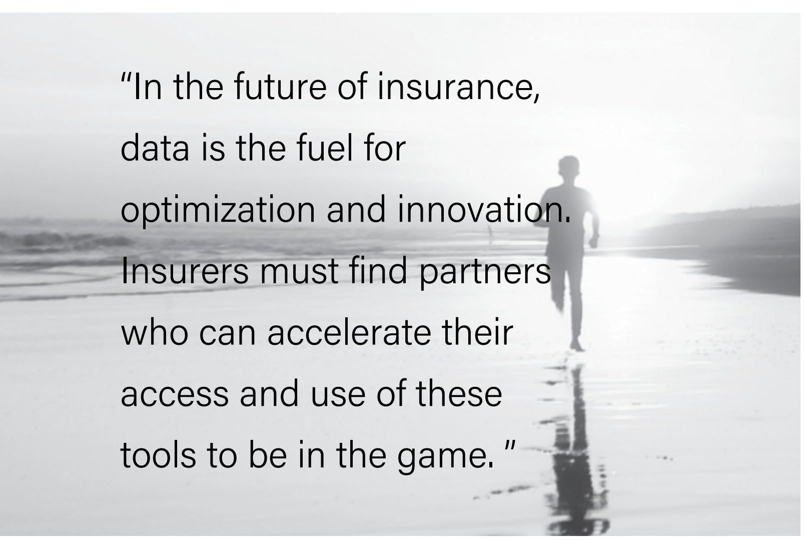
Data and analytics are and have always been a stalwart for the insurance industry for decades, through business intelligence and predictive models. The rapid adoption of AI/ML models and now the emergence of generative AI (GAI) has turned data and analytics from a long-term strategy of incremental investment into a near-term reality and a must-have that is upending and accelerating the focus and adoption of advanced data and analytics.

Data and Analytics have gone supersonic!

GAI is viewed as or even more impactful than the Internet. In the March 2023 RBC report *Imagine: Software & Internet Implications of Generative AI and ChatGPT – Moats and Boats*, they note that GAI is tech's 4th exponential capacity creator and believe it will exponentially expand technology's capabilities on top of the previous three in aggregate: Internet, SaaS/Cloud, and Mobility. RBC believes that GAI will be a tailwind for cloud-native market leaders who are quick to embrace GAI and use their data and market leadership as a competitive advantage, but in contrast, will be negative for those who are on-premise and slow to embrace it.[16]

New technologies, demographics, and behaviors are driving the explosion of data and will power the growth and leadership positions for insurers over the next 10 years. Advanced analytics, from AI/ML models and NLP to generative AI, are all crucial to succeeding in this future.

In the future of insurance, data is the fuel for optimization and innovation. Insurers must find partners who can accelerate their access and use of these tools to be in the game.



Trend 7: Risk Resilience Takes Front and Center

Risk doesn't always show itself, yet it is an ever-present companion for insurers. Risk is growing and becoming more complex. Gone is its predictability. Risk events are becoming more frequent. New risk layers, such as climate, societal, and technology risks, add new considerations and complexity.

Resilience is essential to living in a world filled with risk. It can be described as the ability to return to the status quo after an event with negative impact, whether to assets like our businesses, homes, or vehicles or for our own personal or employee health and wellbeing. Risk resilience focuses on the ability to avoid or minimize risk, decreasing the need for and intensity of recovery efforts.

The concept of risk resilience is closely aligned to the old adage of "control what you can control." It is now front and center for insurers as they consider new risk management strategies as a crucial component of their underwriting and customer service strategy. While most insurers are focused on improving risk assessment, many more are expanding to also focus on loss prevention and mitigation, creating risk resilience for customers.

Leading insurers leverage technology such as IoT devices, advanced analytics, digital loss control assessments, and value-added services to not only assess and monitor risk, but to proactively respond to it with mitigation services and actions. From concierge services, to monitoring water hazards and the safety of employees, to helping people live healthy lifestyles, leading insurers are shifting to risk resilience strategies that not only drive better business outcomes but also cultivate customer loyalty.

With risk resilience, customers experience prevention before they need protection — whether it be for businesses, homes, vehicles, assets or employee health and wellbeing. Even better, risk resilience technologies communicate and educate. Every claim and pre-claim event becomes a teachable moment to help avoid future losses.

Risk resilience through prevention and mitigation is becoming the marketing love language of insureds — eclipsing claims payouts, rehabilitation, repair or restoration to drive profitability and customer loyalty.

Trend 8: Claims 2.0 - A New Claims Operating and Technology Model

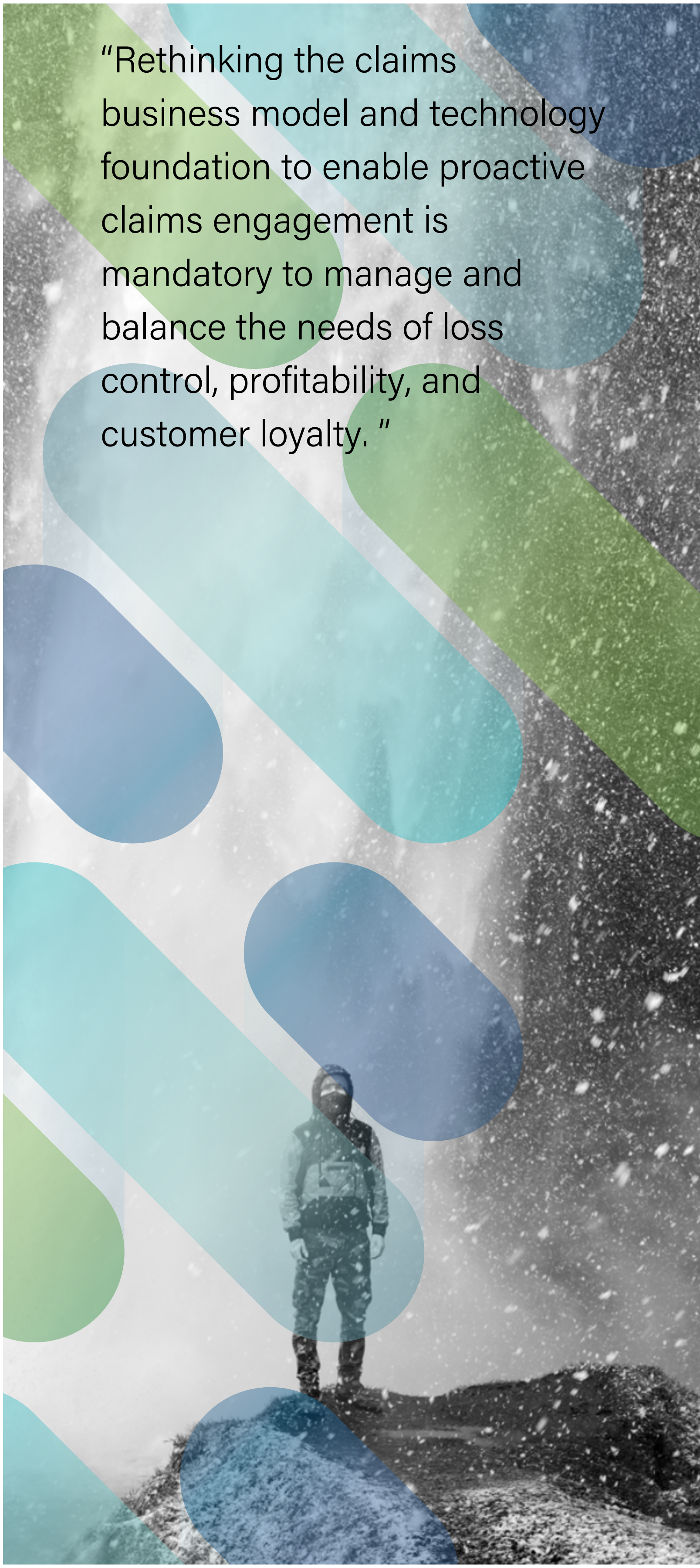
Claims management is at another inflection point. Claims must become both more customer-centric and more digitally and technologically advanced. As the most important touchpoint in the customer relationship – "the moment of truth" – claims organizations must prioritize capabilities and technologies that will deliver on their promise, enhance their reputation, and retain and delight customers.

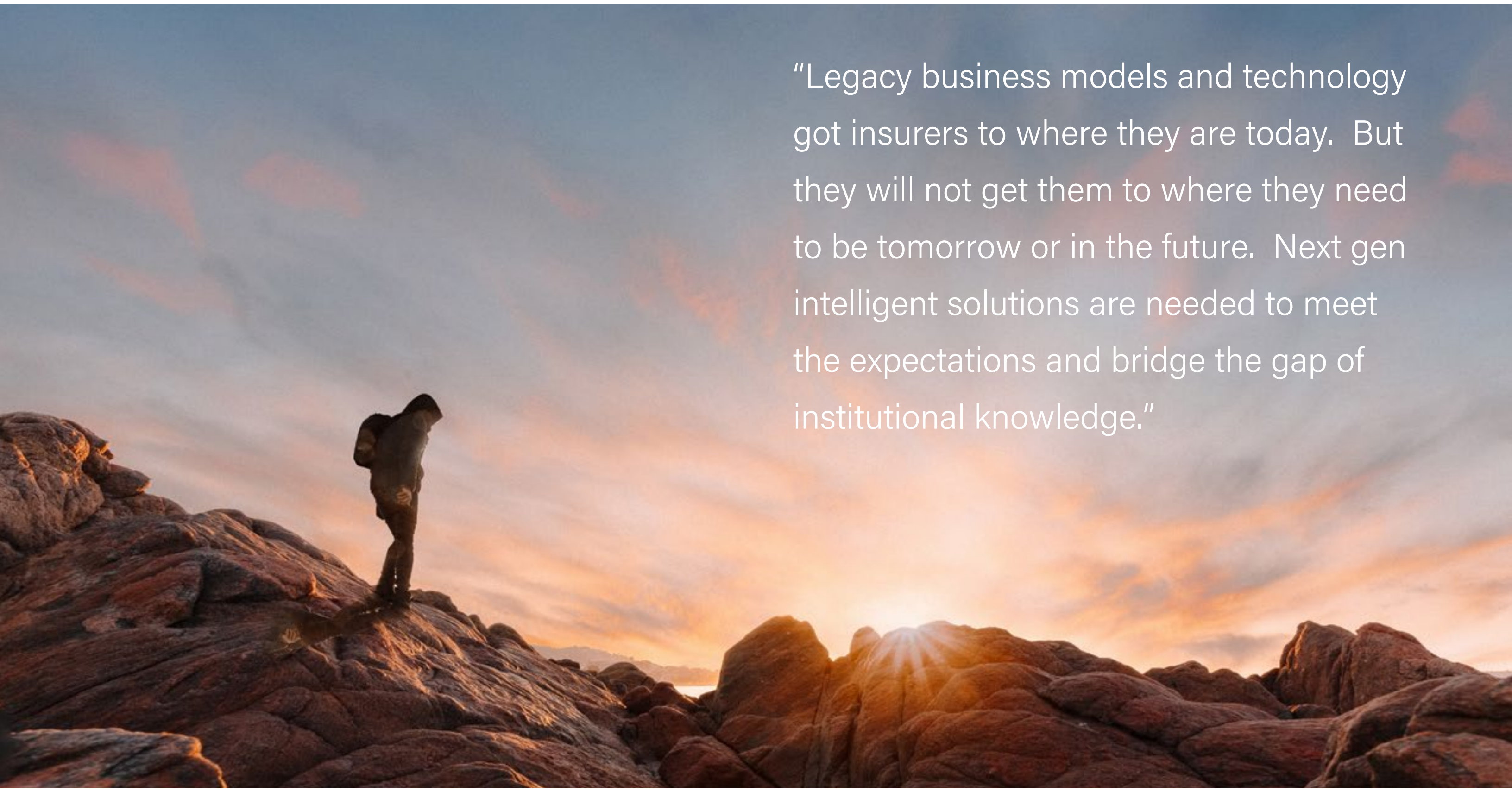
With inflation, rising claims costs, increased customer expectations, rising catastrophic events and more, there is an unprecedented urgency to recalibrate the claims process to be transparent, simplified, and customer-centric. Claims 2.0 will move claims from a reactive back-office function – even if on modern technology – to one that creates competitive differentiation with personalized, innovative, and uncompromising customer service, with multifaceted talent and an operation capable of driving strong customer and financial results.

But not all claims are the same. Differentiating between simple and complex claims is crucially important to deliver operational efficiencies, but also to meet customer expectations. Automatically paying out claims immediately for simple ones reallocates the time necessary for the complex cases, which are often the ones impacting the financial results.

Leading claims organizations will combine and harness the best features of AI/ML and human intelligence—embedding analytics into business processes to enhance employee productivity, customer experiences and manage claims costs more effectively. From social media apps to text messaging, video, mobile apps or embedded apps, like in a vehicle, insurers will proactively provide customers with rich, real-time, relevant data and information. The embedded AI/ML capabilities will create more organizational capacity to reallocate and focus resources on claims prevention through risk resilience activities.

Rethinking the claims business model and technology foundation to enable proactive claims engagement is mandatory to manage and balance the needs of loss control, profitability, and customer loyalty. Claims 2.0 requires a next-gen native cloud intelligent claims solution and access to a rich partner ecosystem to seamlessly anticipate, engage, and meet customer needs with technology and data and analytics.





Trend 9: A New Era of Employees

Since COVID, the insurance industry has endured a fair share of challenges, from the pandemic and move to hybrid work, to the Great Resignation. A 2021 report by the U.S. Chamber of Commerce states: "According to the U.S. Bureau of Labor Statistics (BLS), the number of insurance professionals aged 55 and older has increased 74 percent in the last ten years, leading the BLS to estimate that over the next 15 years, 50 percent of the current insurance workforce will retire, leaving more than 400,000 open positions unfilled."[17]

Talent acquisition will focus on Millennials and Gen Z who have higher expectations around the use of technology, putting further pressure on insurers to move to next-gen solutions. The following data points highlight the challenges insurers face:

- Eight out of 10 millennials report having limited knowledge and understanding of the employment opportunities available within the insurance industry, according to a survey conducted by The Institutes.[18]
- 44% of millennials do not find a career in insurance interesting, despite the fact that insurance offers great opportunities to work in a variety of avenues: underwriting, data and analytics, technology, and more – all things that would seemingly appeal to this generation.[19]

With the combination of retirements and loss of institutional knowledge along with Millennial and Gen Z expectations, insurers are seeing firsthand the impact of legacy technology within the business. Younger talent coming in through recruiters ask for a digital profile of the company they're applying for because they want to know what kind of technology they use. There's a big gap in the technology aspect of where we've been as an industry versus the expectations of new employees and associates coming into the industry.

Legacy business models and technology got insurers to where they are today. But they will not get them to where they need to be tomorrow or in the future. Next gen intelligent solutions are needed to meet the expectations and bridge the gap of institutional knowledge.

Trend 10: Next Gen Architecture – A New Foundation

Elevating insurers' business operation with a next-gen, intelligent technology foundation built on a robust next-gen architecture is now a must-have to compete in today's marketplace.

To meet the digital demands of both today and tomorrow, embracing a next-gen architecture is essential. It is a paradigm that signifies a groundbreaking leap in software design, fueled by the pillars of modern innovation: cloud-native, API-first, microservices and containerization, headless, and embedded analytics.

- **Cloud-Native Architecture**
  Leverage the full potential of cloud computing to enable scalable and containerized application creation and deployment. Experience enhanced scalability, elasticity, and automation, empowering your business to adapt swiftly to changing demands.
- **Open API Standards Compliance**
  Seamlessly integrate with third-party services using adherence to Open API standards, ensuring superior interoperability and easy collaboration.
- **Fully Headless Architecture**
  Embrace a completely headless approach for enhanced flexibility and adaptability. Respond swiftly to evolving market demands and user preferences, staying ahead of the competition.
- **Microservices and Containerization**
  Benefit from isolated and portable application encapsulation, seamless scalability with micro-services, enhanced resource efficiency, rapid deployment and rollbacks, DevOps enablement, infra-structure agnosticism, and improved security through reduced attack surfaces. Drive innovation, ef-ficiency, and competitiveness in today's fast-paced digital landscape.
- **Embedded Analytics in Core**
  Integrated advanced analytics, including business intelligence, AI/ML models, and Generative AI creates an ***intelligent*** core that propels insurers into the future of insurance innovation and customer-centric experiences with an ability to launch new products, value-added services, personalized experienes, and innovative channels.

Next-gen intelligent core offers best practices out of the box to accelerate speed to implementation, decrease overall total cost of ownership, provide quicker speed to market upgrades and speed to market of new products, and more, to keep the company at the leading edge.

Insurers' ability to create an interconnected intelligent tech foundation will deliver both growth and customer relationship opportunities.

Strategy and Execution Matter

Many insurers are grappling with the question of whether they can undertake the business transformation and investment they need. It entails significant efforts, including people management, cultural shifts, and substantial capital investments in an already capital-intensive business. Thus, it prompts the consideration of potential opportunities that align with a commitment to investment and an opportunity to set a different pace and trajectory.

The ten trends outlined in this report highlight crucial areas that must receive focus and investment by insurers. As insurers embark on these substantial investments, it's important to question whether they are defensive or offensive in nature. Are they making these investments to survive or to achieve scalability? The success of these investments relies on attaining operational effectiveness, growth, and innovation across the business.

Insurers must accelerate their digital business transformation because technology and new operating models provide a foundation to adapt, innovate and deliver at speed as markets shift and change continues its relentless path forward. The rising importance and adoption of platform technologies, Cloud, APIs, new/non-traditional data sources, and advanced analytics capabilities are now crucial to growth, profitability, customer engagement, new products, channel reach, and workforce changes.

Right now, decisions are being made that will determine which companies will emerge as winners in the next three to five years. Winners will be sought after as partners and employers due to their ability to achieve scalability, agility, and their pivotal role in leveraging technology. These leaders will be prepared for the next major disruption, leaping forward from the competition.

These leaders are nimble, creative – ***and bold*** – in order to flex to the pace of change, market, risk and customer trends to remain competitive, relevant, profitable and growing.

Time is of the essence. Waiting is not option. It's time for a redo.

About the Authors

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