



Will the Digital Evolution Bring a Business Revolution to Insurance?

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Introduction

Companies cannot operate well today without embracing technology digital transformation. New digital strategies and processes help businesses become more efficient, valuable, and scalable.

The integration of business and technology has changed the way work is done. Companies need to adopt new scalable technologies, which provide horizontal growth instead of vertical growth.

This global shift has been widely adopted. One sector that has changed is the insurance industry, which depends heavily on managing general agents (MGA) and third-party administrators (TPA). The move to transform digitally will lead to reduced dependency on these agents. It will also adversely impact outreach since direct sales contribute less than 10% to the overall insurance business.

The path to digital transformation comes with many challenges, which we'll explore in this paper.

Impact of Digitization on the Insurance Industry

Technology has made a lot of things in today's world easier. With the evolution of new technologies like machine learning and artificial intelligence, there has been a tremendous transformation in industries like software services, retail, manufacturing techniques, etc. One such industry where digitization has had a significant impact is the insurance industry.

Insurance is a vast industry, and digitalization is impacting multiple lines of business in P&C insurance. One such affected industry is automobile insurance. Consider that:



- The personal auto insurance industry could decline up to 40% of its current size by the year 2040.
- Self-driving vehicles could eliminate human error, which is the cause in 90% of the accidents in North America.
- The liability burden will increase on manufacturers because the driver will not be held responsible.

Digitization has its advantages, but the disadvantages are not always recognized. The adverse effects might not be visible yet, but the automotive industry should brace itself for a huge transformation. With car rental services and startups appearing every other day, Millennials have started shying away from vehicle ownership and opting for sharing models with aggregators like Uber, Zoom Car, etc.

Leaders in the insurance industry will have to think in new ways and change the industry's path as [more and more self-driving cars appear](#) on the roads. The logical assumption is that these cars will have fewer accidents, which will lower risk premiums and downsize the insurance industry. There has already been a reduction in car ownership due to many factors, and it is predicted that it will shrink to almost half its current amount in the coming two decades.

Adding to that, technological integrations like AI will make cars safer, which will lead to a loss of premium subscriptions. The manufacturers of self-driving vehicles will have to bear the liability for car accidents. This could lead to additional production costs and a reduction in profit margins.

IoT devices and integrated ecosystems used in the automobile sector (e.g., parking sensors and assists) have already mitigated many risks, resulting in fewer claims for insurers. Though there will be fewer claims, insurance companies will have to absorb the high prices of these next-gen sensors and features.

Increased Cybersecurity Vulnerability



Data protection legislation will toughen globally. More notifications and significant fines for data breaches can be expected in the future. Insured data may be particularly valuable on black markets as tools for extortion, fraud, and identity theft, making insurers that collect such information high-value targets for criminals.

If an insurer suffers a data breach that exposes confidential policyholder information, trust may be broken and lead to damaged reputations. We have seen a digital revolution over the last two decades, and with it has come concerns about safety, lack of privacy, and other digital anxieties. Internet scams have risen dramatically.

The insurance industry provides an essential service today, and it works with a large amount of sensitive data from customers worldwide. Unsurprisingly, it has become a prime target for hackers. More than half of insurance companies face regular threats from cyber thieves and are always vulnerable to attacks.

In the recent past, these attacks have come through email malware, phishing, application installations, carrier operators, etc. Each channel should be held liable and responsible for exposing sensitive information and subject to penalties.

Today's insurers have started adapting to bring in more revenues from new digitization initiatives. They will have to broaden their horizons by serving customers globally, integrating their services to new process flows, and blending next-gen technology. Insurance is a risky industry and is always susceptible to reputation damage. If insurers ignore security and cybercrime, they may fall victim to security breaches, which may lead to their businesses failing.

Stumbling Blocks in InsurTech

InsurTech has started accelerating the transformation of insurance companies. They are using technologies such as blockchain, big data, machine learning, IoT, etc., for designing solutions that will result in improved pricing and efficiency in the insurance market. These companies have certain drawbacks and their success, in the long run, will rely hugely on how they overcome these shortfalls.

Financial Uncertainty

Insurance has four fundamental units: underwriting, claims servicing, regulatory overhead, and distribution (actual selling). There is a significant dependency on financial investors for survival, and the absence of federal protection in case these companies go bankrupt makes it even worse.

As these InsurTechs grow, the looming question remains: **How will they manage the other parts of insurance if all the money has gone into refining one stream?** For example, are they sufficiently capable of handling claims and underwriting as the business scales? These questions are yet to be answered, and the models are yet to be proven.

A report from [The Geneva Association](#) recommends that "...policymakers should consider the role of data as a production factor and data itself as a potential barrier to market entry when assessing market power and potential anti-competitive conduct."

Selective Customer Base

InsurTech companies are mostly targeting the digitally-savvy customer base. These companies use algorithms to underwrite policies that tend to reject people who are not in good health. From a profit-making perspective, insurance companies benefit the most if a policyholder remains healthy and doesn't make any claims throughout the insurance policy's life cycle. This approach will lead to some people being left out.

Minimal Customer Support

The InsurTech companies offering a digital model may have little to no face-to-face customer support. Here traditional insurance companies will always have an edge since they are typically staffed by teams of agents committed to providing the best in customer service.

Impact on Stakeholders: Insureds and Insurers

Online platforms are designed to serve consumers, but they also invite some potential risks. Customer-provided information may not be legitimate or in their best interests, and a large number of people may not receive insurance. Maintaining the integrity of such a huge amount of data is a challenge in itself.

Reports have suggested that the big online giants like Facebook, Instagram, and Amazon may enter into agreements with insurance companies to create even more opportunities in the digital world. The fact that these digital players have large consumer bases shows that there is a risk that insurers will be dependent on a very small number of platforms to collect data. Similarly, consumers may have limited choices when purchasing insurance.

Digital transformation is posing new challenges in the areas of customer protection and competition. Social network effects and data-driven economies may lead to large platforms that may act as gateways for consumers. In return, such platforms could abuse their position by charging excessive premiums or extending their dominant position to adjacent markets.

With the shift towards digital platforms, customers are becoming heavily dependent on good connectivity to operate online. All the platforms monitor what customers like, watch and browse, and show customized ads.

There will soon come a time when people rarely see anything that triggers cognitive dissonance. We're constantly bombarded with words, images, and videos. It will be difficult to figure out which option is the best choice.

About The Authors

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References:

1. [*Tesla is already showing how the insurance industry will be disrupted by self-driving cars*](#)
2. [*Pros and Cons of the Rise of Online Insurance Platforms: Geneva Association*](#)

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