DISRUPTIVE FORCES & CRITICAL SUCCESS FACTORS | **INSURANCE**

Risk Revolution

From Claims to Connections: How Insurers Can Win the Future with Innovation and Ingenuity.

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In the face of constant change and increasing uncertainty, the insurance industry finds itself at a critical juncture. As insurers contend with technological advancements, regulatory complexities, climate challenges, and evolving customer expectations, the road to success is fraught with obstacles. However, those that can adapt swiftly and strategically stand to gain a significant competitive advantage.

Whether it's tailoring products to meet industry-specific risks, leveraging AI to forecast catastrophes, or offering personalized policies, the future belongs to the agile and innovative. The question is—will enterprises keep up, or be left behind?

Based on industry research and insights from global executives across the insurance industry, the top five disruptive forces are:

1 Achieving Speed to Quality: The New Competitive Edge

Speed and quality have become paramount in the insurance sector, driving insurers to make faster, better-informed decisions to stay relevant and competitive. Achieving "speed to quality" means mastering the art of quick yet robust decision-making. This necessitates that insurers must innovate and streamline processes, especially in areas like underwriting and claims processing, where automation and advanced analytics can drive both speed and precision.

The impacts of speed to quality are numerous and have a direct corollary to an insurer's bottom line. According to J.D. Power's 2022 U.S. Auto Claims Satisfaction Study, customers whose claims were handled within a week reported higher satisfaction than those whose claims took longer. Success will require insurers to embrace automation and data analytics while refining risk assessment models. The emphasis should be on enhancing operational efficiency, maintaining accuracy, and maximizing customer satisfaction, all while making swift, data-backed decisions that align with evolving risk landscapes.

According to research from Bain & Company published in *Insurance Asia*, insurers who integrate digital tools and analytics into claims handling can improve productivity up to 30%, optimizing resource allocation and boosting customer satisfaction. The integration of automation in claims processing can lead to cost reductions of 25% while enhancing overall customer experience and loyalty, as seen in studies from Bain.

2 Delivering Excellence, Cost-Effectively

Balancing cost-effectiveness with high-quality, speedy service is a delicate act that can be achieved through optimizing teams and leveraging strategic resources. Automating routine tasks, for instance has led to significant productivity gains for insurers. According to a report by *Capacity*, companies that adopted insurance automation experienced a 55% increase in productivity, an 80% increase in accuracy, and quadrupled their average revenue savings in 2023 compared to 2019.

These improvements enable frontline employees to focus on more meaningful work and enhance customer interactions. Additionally, mapping out workflows through service blueprinting can help leading insurers reduce costs while improving service quality and response times, as it allows companies to identify redundancies and optimize each step in the customer journey.

Moreover, insurers that strategically align operations with automation and resource optimization report 25% higher operational efficiency, reports KPMG, helping them adapt to rapid changes without incurring additional costs. To achieve this, insurers can utilize offshoring, outsourcing, and service blueprinting, which maps out a structured approach to optimize workflows. These strategies not only cut costs but also support a flexible operating model that aligns with business objectives.

By strategically supporting frontline employees with automation, insurers can improve customer service without compromising on speed or quality.

3 Navigating a Complex Regulatory Landscape with Suppliers

Regulatory complexity in the insurance industry has grown exponentially, particularly in the vendor space. As insurers increasingly depend on external suppliers for technology, data, and services, they must manage regulatory risks while ensuring supplier compliance.

The challenges are especially pronounced in markets with strict regulations, such as Europe, where the General Data Protection Regulation (GDPR) requires rigorous compliance checks for third-party vendors.
A study by the International Association of Privacy Professionals (IAPP) and EY found that large organizations allocated an average of $1.3 million to GDPR compliance efforts.

Furthermore, the costs and risks of non-compliance can be severe and substantial, with fines reaching up to €20 million or 4% of annual global revenue (whichever is higher), making it crucial for insurers operating in Europe to enforce strict data compliance with vendors.

To address this, insurers should adopt a proactive approach, embedding regulatory checks into supplier onboarding processes and creating ongoing compliance assessments. As illustrated, failing to secure regulatory compliance with suppliers can lead to significant legal and financial repercussions, making it imperative for insurers to adopt an "always-compliant" approach to vendor management.

4 Managing Effective Change with AI and Emerging Technologies

Change is no longer a periodic event; it's an ongoing requirement for survival. Yet, as noted by industry experts, the insurance sector has historically struggled with implementing large-scale transformations effectively. The failure rate of IT projects is notoriously high, with costs often exceeding budgets and timelines.

According to the Standish Group's CHAOS report—an influential research publication that examines the success and failure rates of IT projects worldwide—31% of all IT projects are canceled before completion, with an additional 52% facing budget overruns and delays.

To drive effective change over the next five years, insurers must first step back and focus on creating the conditions necessary for transformation to succeed. This begins with a clear vision, strong leadership, and a commitment to aligning every layer of the organization toward shared goals. With those peices in place, AI investments stand a higher likelihood of generating a meaningful impact.

According to market research firm ARIQX, AI and emerging technologies can reduce processing times by up to 50% and improve risk assessment accuracy by 30%. Additionally, a study by *MIT Technology Review* found that companies utilizing AI in customer service experienced a 25% increase in customer satisfaction scores and a 30% reduction in service costs.

However, the key is not only adopting new technologies but also ensuring they are used effectively to unlock their full potential. This requires a clear implementation roadmap, as evidenced by Gartner research, which notes that only 30% of AI projects advance beyond the pilot phase, highlighting the necessity for robust planning and change management strategies to be successful.

$6.75T

Insurers worldwide collected approximately $6.75 trillion (USD), or about EUR 6.2 trillion, in premiums in 2023, marking the fastest growth within the industry since 2006. By 2030, global insurance premiums are projected to reach approximately $10 trillion.

When properly planned and deployed, insurers have a greater probability of realizing a return on their AI and technology investments.

Responding to Environmental Impacts and Climate Risks

As climate change intensifies, so do the risks associated with it. The World Economic Forum ranks climate change as one of the top five global risks, warning that failure to mitigate it will exacerbate environmental and financial instability. Over the next five years, insurers will grapple with rising claims from natural disasters and climate-related losses, making it imperative to reassess risk models and adapt products.

Climate risk is not only an environmental challenge but also a financial one, with the potential to impact insurers' bottom lines significantly. According to Swiss Re, natural catastrophes and climate-related disasters cost the insurance industry approximately $120 billion (USD) in 2022 alone, with the trend of rising costs expected to continue as extreme weather events become more frequent. Additionally, Munich Re's data shows that climate-related events account for nearly 75% of insured losses globally, highlighting the significant impact of climate risk on insurance costs.

These impacts are also leading some insurers to shift to climate-sensitive models and policies. S&P Global found that 70% of insurers have started incorporating climate change considerations into their risk assessment models—a number likely to increase over the decade— recognizing the financial risks posed by extreme weather events.

Lastly, insurers are tasked with developing products that encourage sustainable practices, such as insurance policies that support green energy and renewable projects. For instance, many insurers are increasingly partnering with governments and industry to build climate resilience, such as through public-private partnerships that support infrastructure against flooding and other climate risks. This shift aligns with the industry's broader role in fostering societal resilience.

$10T

The amount in insurance coverage necessary to support the $19 trillion in investments for the transition to net zero, underscoring the industry's role in addressing climate change.

Critical Success Factors

In a 1984 Sloan Management Review article titled, "An Assessment of Critical Success Factors," A.C. Boynlon and R.W. Zmud wrote:

"Critical success factors [CSFs] are those few things that must go well to ensure success for a manager or an organization, and therefore, they represent those managerial or enterprise areas that must be given special and continual attention to bring about high performance. CSFs include issues vital to an organization's current operating activities and to its future success."

For insurance industry executives and enterprises to survive—and thrive—over the next five years, capitalizing on the following critical success factors will be key:

Don't Compromise on Data

For insurers, data is more than just information—it's the lifeblood of accurate underwriting, pricing, and customer insights. Quality data provides sharper insights into customer risk profiles, enabling faster and more precise policy decisions. Insurers who fail to prioritize data quality risk falling behind.

A report by Avenga—a global IT engineering firm specializing in custom software development—highlights that insurers adopting advanced analytics can reduce claims processing costs by up to 40% and improve loss ratios by 3-5%, underscoring the significant financial benefits of data-driven decision-making in the insurance industry.

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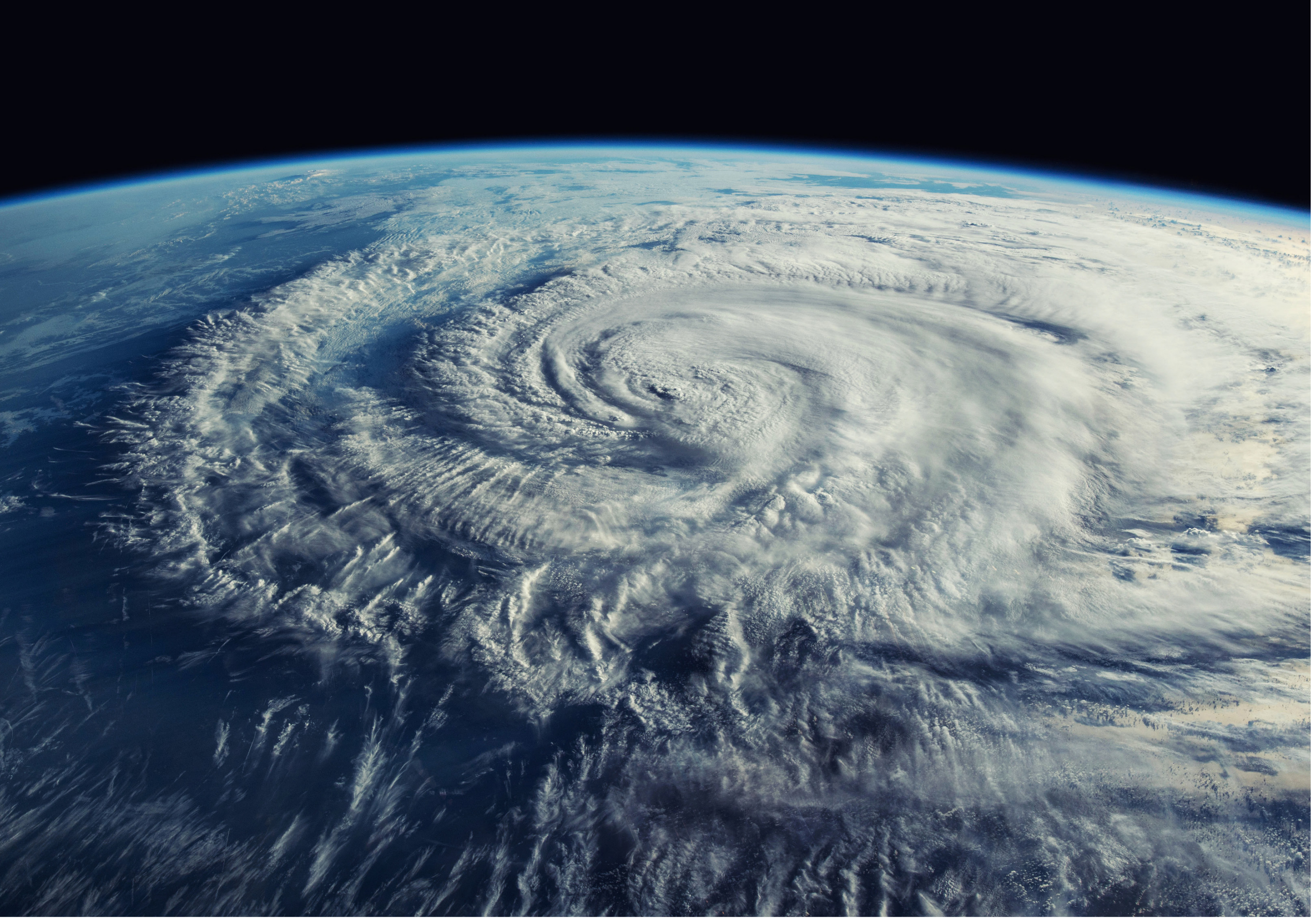
However, the key isn't simply *collecting* data but ensuring its accuracy and relevance. Insurers with robust data management practices can achieve a reduction in claim processing times and an increase in customer satisfaction scores. This improvement is attributed to more accurate underwriting and personalized services, highlighting the critical role of high-quality data in enhancing operational efficiency and customer experience.

Build a Strong Partner Ecosystem

Gone are the days when insurers operated in isolation. Today, partnerships within ecosystems are vital for survival and growth. By collaborating with tech firms, data providers, and even traditional competitors, insurers can create an ecosystem that broadens their capabilities and market reach.

While specific percentages may vary across studies, a survey by DXC Technology found that 22% of European insurers were already part of an ecosystem providing additional services to customers, and another 46% planned to join such ecosystems within two years. These collaborations aim to integrate advanced technologies, streamline operations, and offer personalized services, reflecting a significant industry shift towards modernization and improved customer experiences. This ecosystem approach allows insurers to deliver a broader range of services and products without bearing all costs.

For instance, partnerships with telematics companies enable insurers to offer usage-based auto insurance, tapping into the rising demand for personalized,



Stormy Weather Ahead
The growing frequency of natural disasters is leading to higher premiums and reduced coverage availability, increasing the risk of underinsurance in high-risk areas. By 2030, global insured losses from natural catastrophes are expected to average $151 billion (USD) annually, up from $106 billion over the past five years.

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data-driven products. Recent industry data suggests ecosystems will account for 30% of global revenues by 2025. These collaborations enable insurers to expand their offerings and tap into new customer segments, driving significant financial gains. Building a strong partner ecosystem will allow insurers to stay agile, expand service offerings, and meet customers' evolving expectations without constantly reinventing the wheel.

Be Brilliant at Change

From digitization to climate-driven policy adjustments, the need for change is relentless. However, insurers often struggle to execute large-scale transformation programs effectively. A report by the Consortium for Information & Software Quality (CISQ) found that approximately 70% of large IT projects in the insurance industry fail to meet their goals, contributing to $260 billion in costs. These failures frequently stem from inadequate project management practices and a lack of focus on the critical conditions for success. Furthermore, a report from the Life Insurance Marketing and Research Association revealed that 32% of global life insurance executives identified change management as their top internal challenge, underscoring the pressing need to improve execution capabilities across the industry.

To succeed in the face of these challenges, insurers must prioritize establishing the right conditions for transformation. This involves aligning leadership, fostering cross-functional collaboration, and ensuring clarity around objectives and outcomes. Insurers should focus on building a culture of accountability and creating robust frameworks that support effective execution. Rather than jumping headfirst into ambitious initiatives, organizations must first assess their capacity to deliver and address gaps in project management and operational readiness.

By getting the conditions for success right—clarifying priorities, eliminating wasteful initiatives, and creating strong governance structures—insurers can ensure their change programs deliver real value. This approach will enable them to navigate complex market conditions with resilience and remain competitive in an ever-evolving landscape.

Make Life Easy for Customers

Customer expectations are evolving across every industry, and insurance is no exception. With digital tools and online interfaces, insurers must make it easy for customers to manage their policies and interact with the company.

However, personalization needs vary by sector: while health insurance customers may require more hands-on support, most auto insurance customers want fast, straightforward services.

By focusing on core digital features, insurers can streamline the experience, reduce operational costs, and keep customers satisfied, while reserving more intensive support for cases that genuinely require it, such as health and life insurance.

Focus on Pricing and Reduce Spend on Unwanted Features

Price sensitivity is high in the insurance industry, and insurers must prioritize cost-effective solutions that customers actually value. A 2023 survey by ExpertBeacon revealed that 52% of auto insurance customers prioritize obtaining the best price above all else. Similarly, 50% of home insurance customers and 38% of life insurance customers consider price as the leading factor in their insurance decisions.

Insurers that can effectively control expenses and avoid spending on features that customers don't care about will have a competitive advantage. This means cutting unnecessary overhead and focusing on essentials, such as accurate risk pricing and essential customer service features. Furthermore, trimming down complex or redundant processes can lead to faster turnaround times, which improves both customer satisfaction and cost efficiency. By aligning pricing strategies with customer priorities and eliminating low-value expenses, insurers can offer competitive pricing that appeals to cost-conscious customers while maintaining profitability.

Take Five

In a time of profound disruption, the insurance industry must evolve quickly to address technological advancements, regulatory changes, customer expectations, and environmental challenges. Success will favor those who proactively transform rather than merely react. The leaders of tomorrow will invest in high-quality data, build collaborative ecosystems, embrace change, streamline customer interactions, and focus on value-driven pricing.

Each of these success factors aligns with efficiency, accuracy, and customer satisfaction. High-quality data enables insurers to anticipate customer needs, while strong partnerships support innovation and shared risk. Overcoming the industry's historical resistance to change will require a culture that values adaptability, especially in technology adoption.

To stay relevant, insurers must also prioritize customers' needs, simplify interactions, and leverage digital tools for an accessible, efficient experience. As climate risks grow, insurers have a responsibility to offer products that not only protect but also support sustainable practices.

The future belongs to those who act boldly, innovate, and build trust. By embracing these success factors with clarity and commitment, insurers can secure a leadership position in an evolving industry. The path forward demands immediate action, with opportunities for those prepared to navigate the challenges ahead. **IQ**

$20B

As existential threats from bad actors increase over the next five years, the global cyber insurance market is expected to exceed $20 billion (USD) by 2025, reflecting the increasing importance of cybersecurity coverage. Some estimates suggest that number could reach $51.5 billion by 2030.

EXECUTIVE PERSPECTIVE: INSURTECH & REINSURANCE

To better understand what will be required of insurance leaders and enterprises over the next five years, IQ spoke with Dr. Andrew Johnston, global head of InsurTech for Gallagher Re. Dr. Johnston heads a multidisciplinary practice that vets hundreds of technology candidates on behalf of Gallagher Re clients, traditional insurers, or incumbents. Dr. Johnston and his team then support reinsurance company clients select appropriate technological solutions for their businesses, in addition to providing insurance technology related consulting and advisory services. Dr. Johnston is also the author and editor of the Gallagher Re Global InsurTech Report (formerly WTW Quarterly InsurTech briefing).

DR. ANDREW JOHNSTON

Global Head of InsurTech
Gallagher Re

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***IQ*: What are the top challenges you see insurance executives—particularly within the InsurTech space—contending with over the next five years? What's top of mind for you?**

Dr. Johnston: First, understanding the dynamics of the reinsurance market is key, especially for newer companies trying to break in. I assumed you were referring to InsurTech companies when you asked, so these are often young firms that haven't been around for long. If you're not a seasoned reinsurance executive, it can be tough to grasp how the market shifts from year to year. For instance, if you've never experienced a hard or soft market, it's difficult to know how to prepare your business for those conditions. Knowing the landscape and what a decade of reinsurance market changes looks like, and how to future-proof your company, is a top concern.

Second, many InsurTechs will need to work with multiple reinsurance partners, which means establishing success criteria that works for all parties. This can be tricky, especially in a market where you're working on thin margins while your partners, with larger capital reserves, can afford to take bigger risks. It's natural for InsurTechs to want to follow their partners' lead, but that's not always the best approach. Knowing how to stay scalable and relevant to different partners while being prudent is a big challenge.

Talent acquisition is another issue. There are some extremely skilled people in the industry, but it's highly competitive. For an InsurTech, hiring top insurance and reinsurance talent can be an expensive process. This challenge, though, isn't unique to InsurTech.

Then, there's the fast pace of technology. You might build your business on cutting-edge tech in 2024, but that tech could become outdated quickly. InsurTech executives need to stay aware of this. Insurers and reinsurers are becoming better at adopting and dropping technology based on their needs, so staying relevant is critical.

Finally, for InsurTechs working in the natural catastrophe (Nat Cat) space, climate change is putting pressure on the models used for pricing and underwriting risk. This impacts long-term profitability. Additionally, the funding environment has changed. Back in 2021, it was easier for InsurTech executives to raise capital than it is now.

***IQ*: As an intermediary, how is Gallagher Re's InsurTech practice helping insurance carriers mitigate and manage some of the risks you've mentioned?**

Dr. Johnston: Let's break this down into two parts. First, let's talk about the risks involved in working with outside tech vendors. At Gallagher, we help insurance companies vet InsurTech companies. Since our criteria for successful partnerships with InsurTechs align closely with those of our clients, we're in a fortunate position to provide objective advice on their selection process. Whether it's using new technology or supporting a digitally-enabled risk originator, we've been advising on these decisions for about 10 years now. In that time, we've likely worked with around 3,000 different vendors. Now, regarding the primary risks you mentioned, especially for carriers, we're always updating models and working with InsurTechs that bring fresh perspectives on issues like climate change. We constantly aim to develop innovative products that can support our clients in these areas.

As a global intermediary, we have the advantage of seeing what works and what doesn't at scale. This gives us valuable insights into where companies are still profitable and allows us to advise on successful strategies used by others in the market.

In terms of mitigation, that's a big part of what we do—helping insurers buy structured reinsurance to protect their balance sheets from downside risks.

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Gears & Levers of the Future
According to Dr. Johnston, InsurTech companies that have thrived are those that balance insurance expertise with technological mastery. While this may sound simple, finding and maintaining this balance requires understanding both tech and insurance-related nuances to succeed.

We cover everything from helping with technology selection to the reinsurance purchasing process.

***IQ*: What is the role of AI in the reinsurance value chain? How can AI-driven innovations help reinsurers better assess risk and reduce uncertainty in their portfolios?**

Dr. Johnston: AI definitely plays a part in improving risk assessment, but it's also about reducing operating expenses. AI is a broad term that covers many technologies, all designed to mimic human cognitive processes. Right now, we're still in the "art of the possible" phase, where companies are testing out ideas and trying to see how AI can enhance their businesses.

What sets AI apart from other technologies is that it can be trained on data and has a specific purpose right out of the box. This gives it more immediate value compared to traditional technologies. The long-term potential of AI is enormous, but for now, we're still figuring out where it fits best.

In the long run, AI will excel at tasks it was originally designed for—detecting patterns, spotting anomalies, and speeding up predictable workflow processes. However, I'm skeptical that AI will ever fully replace the human experience in more complex areas. Trying to replicate human decision-making could be a costly experiment that may not pan out as expected.

Where AI is already proving valuable is in automating routine processes. For example, AI is great at scanning thousands of claims quickly and using pattern recognition to flag potential fraud. Once a suspicious claim is identified, it's still handed off to a human for review, but the process is much faster. These types of AI applications are already showing a strong return on investment.

As for chatbots and similar AI tools, I don't think they'll completely replace human-to-human interactions, but as an industry, we're still exploring how far they can go.

***IQ*: In Gallagher Re's Q2 InsurTech report, you noted that funding had reached a quarterly high. From an outsider's perspective, that seems like an exciting time for those in the InsurTech space.**

Dr. Johnston: Yes, and to clarify, the peak of InsurTech funding was in 2021. However, in the last 18 months, Q2 was the highest-funded quarter. Over the past year and a half, funding has hovered around the $1 billion mark, but in Q2 it rose to $1.27 billion.

That said, in 2021, we saw $16 billion invested in total. So, while current funding is up from recent levels, it's still down from the heights of 2021.

What's really interesting is who's doing the investing. Insurers and reinsurers are now investing more heavily than ever, particularly in early-stage rounds. This suggests they are more confident in picking winners and are willing to take greater financial risks on these investments. We're also seeing an increase in mergers and acquisitions as the valuations of many InsurTechs have dropped, reflecting the lower funding levels. Some companies that were valued much higher three years ago are now available for acquisition at a discount, which has spurred more activity in the M&A space.

To me, this all indicates that the InsurTech sector is evolving and maturing. Insurers and reinsurers are more comfortable and confident working with these companies, and they remain optimistic about the long-term impact of this technology. They also feel more qualified to select the partners who will succeed in the future.

***IQ*: Looking ahead to the next five years, what do you think will be required from InsurTech companies to secure funding, especially in such a challenging global economic environment?**

Dr. Johnston: It's all about ROI. In the early days, InsurTechs had more freedom to experiment and test different growth strategies because capital was more readily available. Investors were more patient. But now, for companies to continue raising capital, they need to deliver returns faster and show real value creation. The era of "technology for technology's sake" is over. Technology now has to meet predefined success criteria, like improving efficiency, driving growth, or expanding into new markets. The technology itself is no longer the main focus—it's the results it delivers that matter. InsurTechs that can clearly articulate their value in traditional terms, like profitability and long-term growth, will thrive. Back in 2021, some companies tried to sell concepts like blockchain to insurers without a clear path to ROI.

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We're past that now. Moving forward, the companies that can quickly demonstrate profitability and sustainable value will be the ones that succeed.

***IQ*: We've talked about strategy and tactics within the industry, but what qualities will be required of individual leaders and executives in InsurTech?**

Dr. Johnston: I think the key qualities are humility and a willingness to collaborate within the insurance and reinsurance community. Historically, many companies entered the space with a mindset to disrupt the incumbent landscape. Those that tried this approach quickly realized how expensive and difficult it is. The more successful InsurTech companies have been led by founders who understood early on that adding value to the broader industry is crucial. Being a part of the industry's complex network, and providing value to multiple stakeholders, leads to long-term success. It requires a mindset focused on teamwork, partnerships, and creating win-win situations, rather than trying to take market share through disruption.

Additionally, the InsurTech companies that have thrived are those that balance insurance expertise with technology expertise. While this may sound simple, it's actually quite challenging. Companies that find this balance, maintain a conservative approach, and understand both tech and insurance are positioned to succeed.

***IQ*: What is your overall outlook for AI in the InsurTech space? What do you imagine the future will look like five years from now?**

Dr. Johnston: Overall, I'm optimistic about AI's role in our industry. However, I want to reiterate what I said earlier: AI is a broad term that includes many different types of technology. While some of these technologies will thrive, not all will perform equally well.

The key is prioritizing clear business use cases and then selecting the appropriate technology to meet those needs. It rarely works when great technology is developed first and then people scramble to find a problem for it to solve.

I believe AI will benefit processes that are predictable, labor-intensive, and don't require a high level of expertise or sophistication—these are the tasks most ripe for automation. One concept I'm particularly excited about is the idea of a "bionic underwriter"—a human underwriter supported by AI technology. We're just at the beginning of seeing how this could evolve, but the potential is very promising.

That said, much like the term "InsurTech," I think it's important to be disciplined about the language we use. We need to be clear about the specific technology we're talking about and its true benefits. If you can't explain the use case without relying on buzzwords, it's probably not the right application of that technology.

It's a fascinating time in the industry, and I do believe AI, or certain versions of it, will add long-term value. But we should be careful not to rush into spending billions on vanity projects, a mistake we saw with some early InsurTech ventures. Hopefully, the industry has learned some important lessons from that experience. **IQ**

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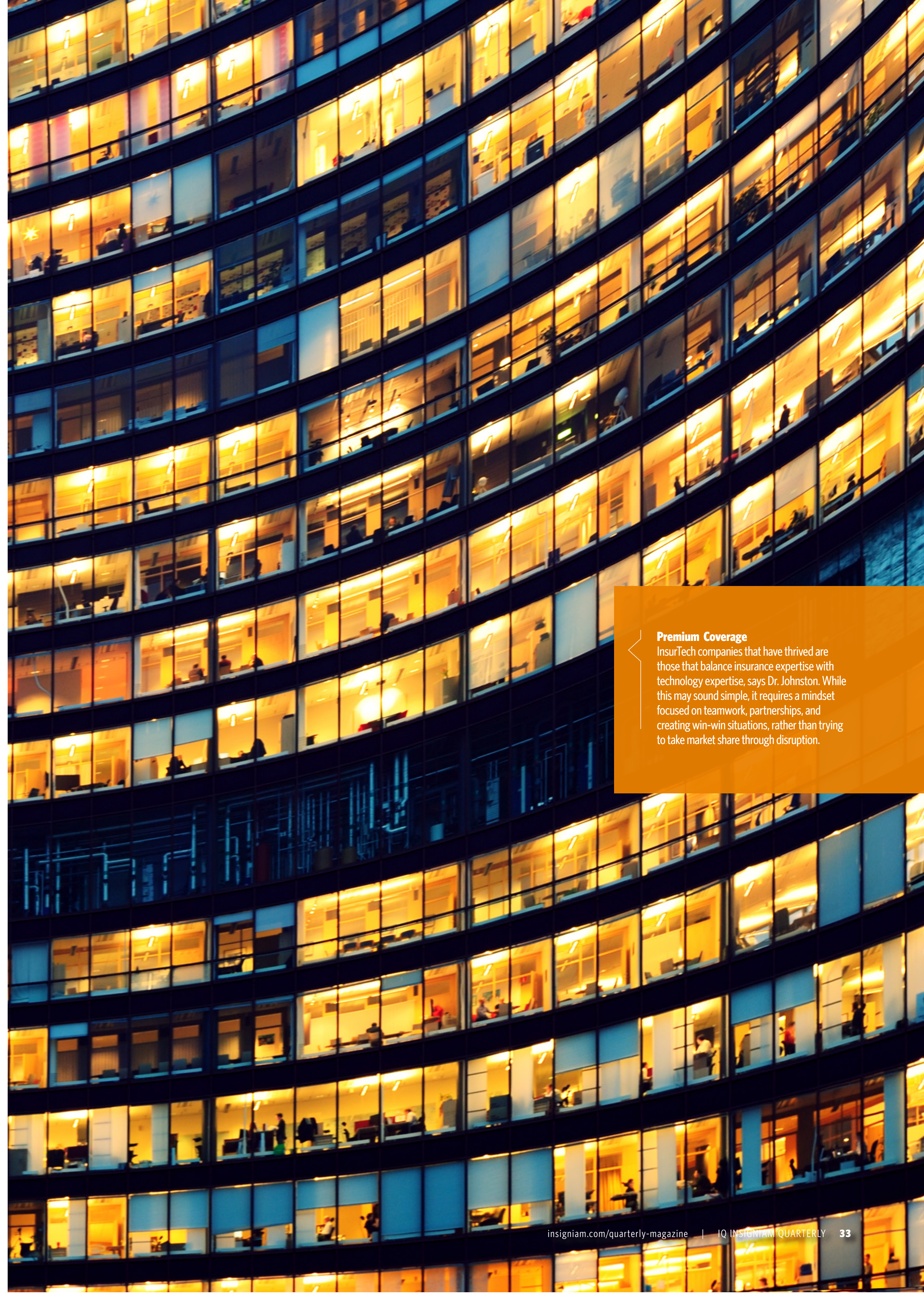

Premium Coverage
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