



## Insurtech – Future of Digital Insurance

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### ABSTRACT

The emergence of Insurtech has brought about a transformational shift in the insurance market by combining technology innovations.[1] Fintech, or technology-driven innovation in the financial sector, has grown in prominence in recent years and is resulting in more practical and effective financial services. The insurance sector is constantly changing in a digital world to keep up with the shifting demands of its clients. [2] This paper highlights the significance of technical breakthroughs and creative approaches in influencing the future of the insurance sector, offering insightful information about the transformative force of Insurtech. [1] The study aims to uncover the potential and problems faced by incumbent insurers because of new, tech-savvy firms entering the insurance market. [2]

**Key words:** Insurtech, policies, insurance, artificial intelligence

### INTRODUCTION

Historically, the insurance industry has been a fundamental component of the world economy, offering financial security against unforeseen circumstances. Nonetheless, the introduction of Insurtech—a word used to describe the incorporation of technical advancements in the insurance industry—has resulted in a significant restructuring of the sector in recent years. The entire insurance ecosystem has seen substantial changes because of this transition, which influences consumers, insurance businesses, and the sector.[1]

Over the past 300 years, the insurance sector has not seen many innovations because of its complexity, the industry's high level of regulation, and the profitability of incumbents. Customer satisfaction is declining, which suggests that insurers are not living up to expectations. However, the insurance industry is currently going through an ecosystem "disruption" because of new technology. The digital revolution started later but was significantly more intense in this sector of the financial industry when it came to the capital markets and banking industry. [2]

### DEVELOPMENT

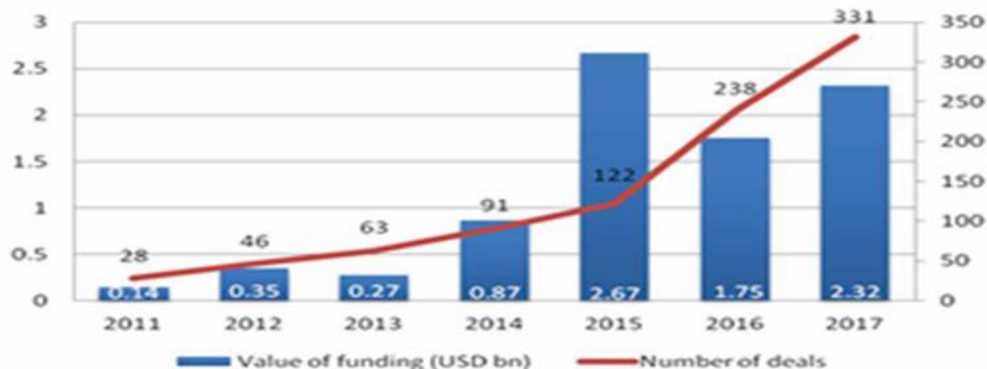


Figure 1: InsurTech financing trend (2011-2017)

Large venture capital investments have been made in Insurtech businesses recently. With financing expected to have surpassed USD 2.67 billion, 2015 set a record. Over one-third of this sum (USD 931 million) is associated with Zhong An, the country's first insurance exclusively operating online that was established in 2013. The erratic nature of larger agreements causes the total amount of Insurtech capital to fluctuate from year to year, but since 2011, it has grown consistently at a compound annual growth rate of 49.4%. The value of funding increased by 32% only in 2017 over 2016, while in the previous two years, the number of deals has nearly tripled. [2]

Approximately 63% of all Insurtech deals in 2016 were realised in the non-life sector, and 78% in personal lines, even though Insurtech companies are participating in all major insurance business lines. Start-ups focusing on marketing and distribution attain a steadily increasing and dominant share (53% in 2017) in the number of deals when it comes to the insurance value chain positioning. Claims management is another area where start-up activity is increasing. [2]

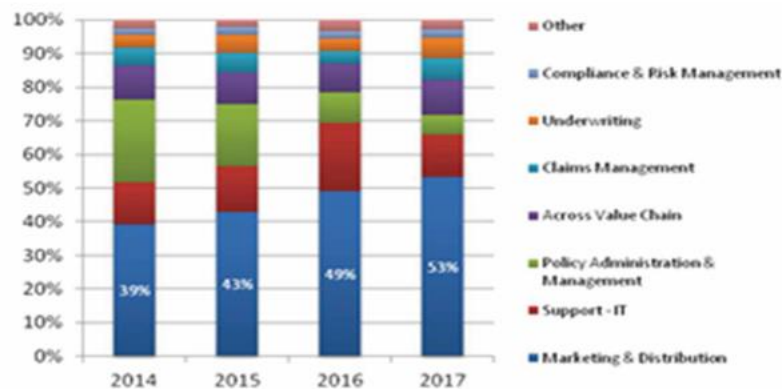


Figure 2: Number of insurtech deals per insurance value chain segments

### ADVANTAGES

Customers can now take advantage of numerous perks that were not previously offered by traditional insurance thanks to Insurtech. [3]

- **Personalized Policies:** - Using Insurtech, policies can be customised to meet the specific requirements of each individual consumer. Customers can choose the kind of coverage they require, alter their coverage, and determine their deductibles with Insurtech. Customers will only pay for what they require thanks to this degree of personalisation, which lowers the cost and increases accessibility to insurance.[3]
- **Improved Customer Experience:** - The customer experience has been greatly enhanced by Insurtech by making it quicker and more effective. Consumers no longer need to leave their homes to purchase insurance plans, process claims, and get rewards.[3]
- **Lower Costs:** - Because Insurtech keeps administrative costs low and passes those savings down to clients, it has upended the old insurance paradigm. Because of their lean business models, Insurtech companies can offer coverage at a reduced cost. [3]
- **Access to Data:** - Data analytics is used by Insurtech companies to gather and examine information about claims, risk factors, and client behaviour. With the use of this data, insurers can provide more individualised coverage by developing risk profiles that are more accurate.[3]

### CHALLENGES

Creating Insurtech software presents a few difficulties that need to be carefully considered: -

- **Security:** - One of the most important issues facing Insurtech software developers is security. Cybercriminals find insurance firms to be a lucrative target due to the sensitive client information they gather and retain, including financial and personal data. The development of Insurtech software is constantly at risk from data breaches and cyberattacks that could jeopardise client information.[4]

- Integration: - When creating Insurtech software, developers also must deal with integration. Insurance businesses employ a variety of legacy systems, and it can be difficult and time-consuming to integrate these with modern technologies.[4]
- Cost: - When creating Insurtech software, cost is an important consideration that needs to be made. Insurtech businesses frequently have a limited budget, and developing and maintaining software can be costly.[4]
- Compliance: - Another major obstacle in the development of Insurtech software is compliance. Insurance businesses operate in a highly regulated sector, and software needs to abide by several rules, such as financial and data protection requirements.[4]

### FUTURE

The landscape of Insurtech is being shaped by numerous breakthroughs and trends.

- Vehicle telematics: - Pricing for policies is being determined by insurers more and more by behaviour than by demographics. You can collect information about your driving habits and distance with vehicle telematics. Insurtech businesses frequently employ telematics data to offer customised driving advice, safe-driving incentives, or potential cost savings on your auto insurance policy. [5]  
Telematics technology is usually integrated via a smartphone app or a gadget that attaches to your car's diagnostic port, thanks to the advances in IoT. These tools, which are typically free, help drivers make safer and more intelligent decisions when driving. [5]
- Big Data Technologies: - The paper "Unleashing the Value of Advanced Analytics in Insurance" by McKinsey claims that throughout the past 15 years, major advances in computer technology and the proliferation of new digital data sources have expanded and reinterpreted the core disciplines of insurance. [5]  
The foundation of the insurance industry's value creation has been the ability to accurately estimate risk and price products properly for generations. Insurance companies may now offer policies that are more closely matched to the risk posed by an individual rather than the demographic group they fall into since big data technologies give them access to larger data sets and more detailed information about specific clients. [5]  
Big Data can also assist insurers in creating more individualised plans. [5]
- Artificial Intelligence & Machine Learning: - In the insurance sector, artificial intelligence and machine learning are still in their infancy, but they will soon become essential for leveraging data-driven insights. Furthermore, a lot of tasks might be automated by these technologies, greatly simplifying the work of insurance agents. [5]  
AI may be used to assess call volume, cause, and the kind of customers most likely to call at a given time of day to the call centres, which are normally the first point of contact between the client and the insurance, according to a Fintech Magazine article. Comprehending these enormous datasets is essential to reducing wait times and guaranteeing that the most competent customer service representatives are available when needed.[5]

### SOLUTIONS

Robust cybersecurity measures, smooth integration with legacy systems, economic development plans, and stringent regulatory compliance are all necessary to address Insurtech concerns. Insurtech development may be made secure, effective, and compliant by using cutting-edge encryption, modular software designs, scalable cloud solutions, and frequent audits. This will increase the overall efficacy of digital insurance services.

### CONCLUSION

By combining cutting-edge technologies to deliver customised policies, improved client experiences, and lower costs, Insurtech is revolutionising the insurance industry. More effective, customised insurance solutions are being made possible by advancements in telematics, big data, artificial intelligence, and machine learning, despite obstacles include maintaining data security, connecting with legacy systems, controlling development costs, and satisfying regulatory requirements.

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