

# Digital transformation pivots to underwriting

In a tight economic environment, insurers and their insurtech partners are starting to move toward underwriting as a target area for transformation.

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# Digital transformation pivots to underwriting

## Introduction

There's good news and bad news: First, the COVID-19 pandemic has largely receded. Unfortunately at the same time, economic conditions related to inflation have become hostile to insurers and insurtechs alike. Insurers have been forced to raise rates to cover skyrocketing claims costs. Driving the latter are several factors: A slowly recovering supply chain, the lack of adequate staffers to address claims and repair and an increased severity of catastrophic events. In this environment, insurers are starting to make small but significant changes through their digital strategic choices.

Carrier and broker respondents to Digital Insurance's **State of Insurance Digital Transformation 2023** survey are increasingly citing "minimizing risk" as a primary digital transformation goal. On the insurtech side, companies are flocking toward underwriting, likely in reaction to carrier partners looking to upgrade a critical component of the value chain in hard economic times.

What's notable about the reaction to these changing conditions is that insurers, agents and brokers are not reducing their commitments to digital transformation. Our metrics around appetite, budget and priorities for innovation at these organizations are practically unchanged from last year. Resources are still being devoted to technology, despite many organizations' focus on financial outlays. Eighty-five percent of carriers and brokers say they are actively recruiting for digital roles, with the most-sought tech employees being data scientists — pricey but crucial employees for digital transformation.

As the mission changes, certain North Stars are still hanging on. Customer experience, for example, is still the most-cited priority for digital transformation, identical to last year. And, while money will continue to change hands, predictions indicate that less money will be invested in insurtech with most rounds going to bigger, more established companies as the sector turns over amid re-prioritization. The rest of this report's findings about the state of insurance digital transformation follow.



### Why read this report?

While the COVID-19 pandemic has left center stage in terms of the insurance industry's focus, it has been replaced with challenging inflationary conditions impacting costs and claims. Despite this environment, insurance industry professionals remain committed to digital transformation, with a focus on customer experience. In this report, we examine the current challenges and priorities of brokers, carriers and insurtechs and how these have changed since last year's survey was done.

## Key findings

- Insurers are largely staying the course on digital transformation. Customer experience is the top priority by 48% of carrier and broker respondents for the second straight year; 85% rank it in the top three.
- Distribution and product development stole some share from last year's second top priority of underwriting: 14% of respondents cite underwriting and distribution as their No. 1 digital transformation priority, dropping from 27% last year for the former and rising from 6% last year for the latter. Product development rose from 10% to 13% year over year as the top priority.
- Insurtechs seem to have responded to last year's push toward underwriting by providing more solutions: 67% of insurtech respondents say they are targeting underwriting with their product or service compared to only 28% saying the same last year. This leads the way by 13 percentage points more than customer experience (54%), which was cited as the largest percentage in last year's survey.
- Only about half (56%) of insurers think their organizations are adequately staffed to meet their digital transformation goals. The top target for insurance companies is data scientists, with 52% looking to fill that role. Also ranking high as targets: application developer/microservices (51%), information security (49%) and database administration/cloud management (40%).
- When it comes to insurtech investment, the industry expects that money will shift to later-stage companies and bigger individual rounds. However, respondents expect an overall reduction in total funding, with only 18% expecting more than \$10 billion total for 2023 compared to 37% in 2022. A third (32%) of respondents expect funding to not even reach the \$5 billion level this year. Funding is also expected to shift from personal lines P&C to health and commercial P&C.

## Research methodology

Arizent, publisher of Digital Insurance, conducted this survey to explore the current state of digital transformation in insurance. More specifically, the research looks at where insurance companies and insurtechs, among others, are placing their bets with regard to the digital transformation journey of the industry.

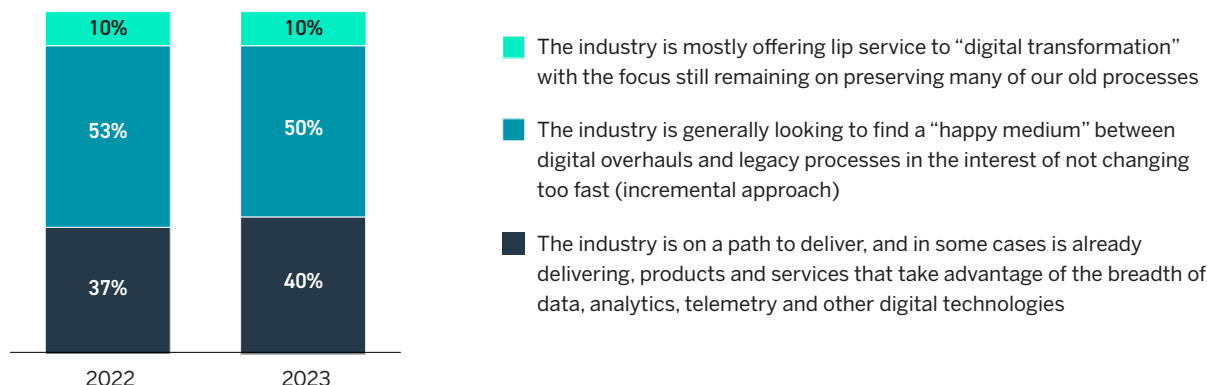
This survey was conducted online in March 2023 and was completed by 139 respondents: 100 from insurance carriers or brokers and 39 from insurtechs or tech vendors. By size, carriers split out as: more than \$10 billion in premiums (27%); between \$1 billion and \$10 billion in premiums (47%); and less than \$1 billion in premiums (27%). Much of the data focuses on the carrier/broker slice.

## Not quite a great reset

Perhaps the biggest surprise in this year's survey was how consistent it was year over year (see Figure 1). On a surface level, contours of the technology-financial relationship seem very different from a year ago: Cryptocurrency was ascendant at the time this survey was in the field in 2022, housing prices were still on their way to a peak and the current inflationary cycle was still open-ended.

**Figure 1: Insurance industry's approach to digital transformation, 2023 versus 2022**

Question: What do you think best defines the insurance industry's current approach to digital transformation?



Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Total Respondents 2023 n=139; 2022 n=124

Today, the impacts of inflation have made their way through an insurance-rate-renewal cycle. Cryptocurrency's crash took it right off the front pages of financial publications. Housing has leveled off, though costs still remain high. And higher interest rates were already shaking up the tech and startup ecosystem even before the collapse of Silicon Valley Bank. But through it all, insurers remain committed to digital transformation and its promise. Carriers and brokers are slightly more likely this year than last to rate the industry's, and their own company's, progress on digital transformation highly (see Figure 2).

**Figure 2: Organizational progress on digital transformation, 2023 versus 2022, carriers and brokers**

Question: How would you rate your organization's progress on digital transformation?



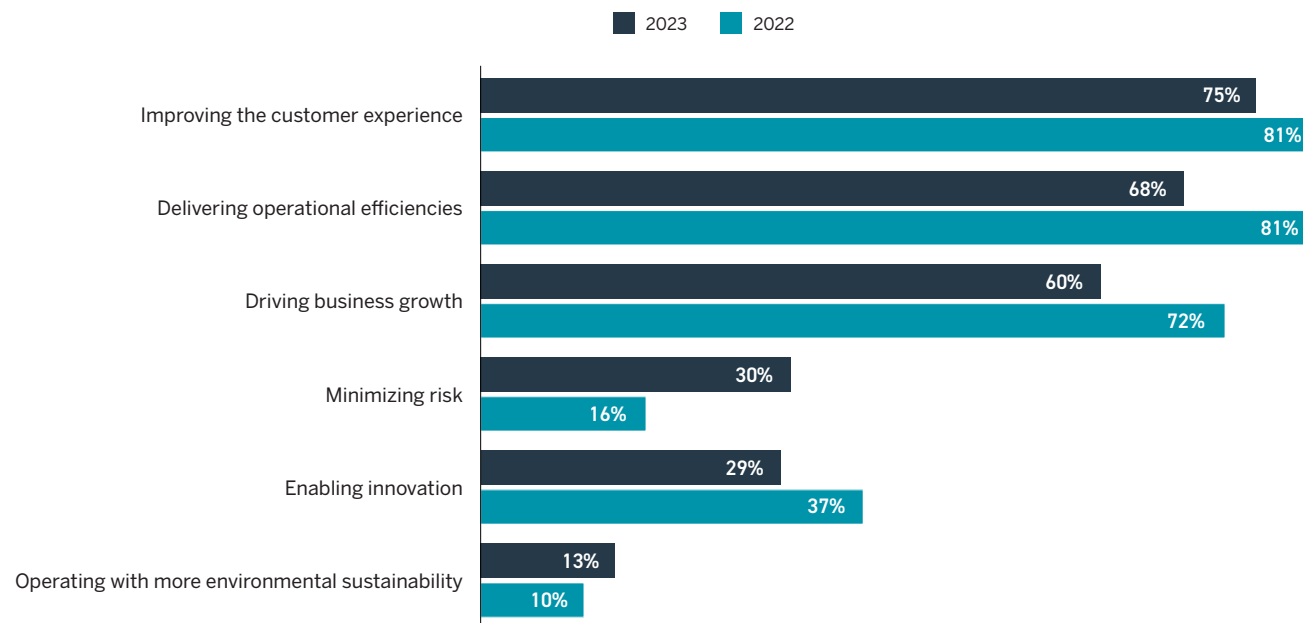
Percentage(s) under 10 are not indicated  
Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Carriers/brokers 2023 n=100; 2022 n=67

## THE STATE OF INSURANCE DIGITAL TRANSFORMATION 2023

The new, more uncertain economic reality does show through in our data. Just less than a third of carriers and brokers (30%) cite “minimizing risk” as a digital transformation priority this year (see Figure 3). That’s double the amount from 2022. There is no major shift away from any other priority, indicating that minimizing risk is more of an overarching theme to strategy at insurance companies this year.

**Figure 3: Primary digital transformation goals, 2023 versus 2022, carriers and brokers**

Question: What are your organization’s primary digital transformation goals for the coming year?



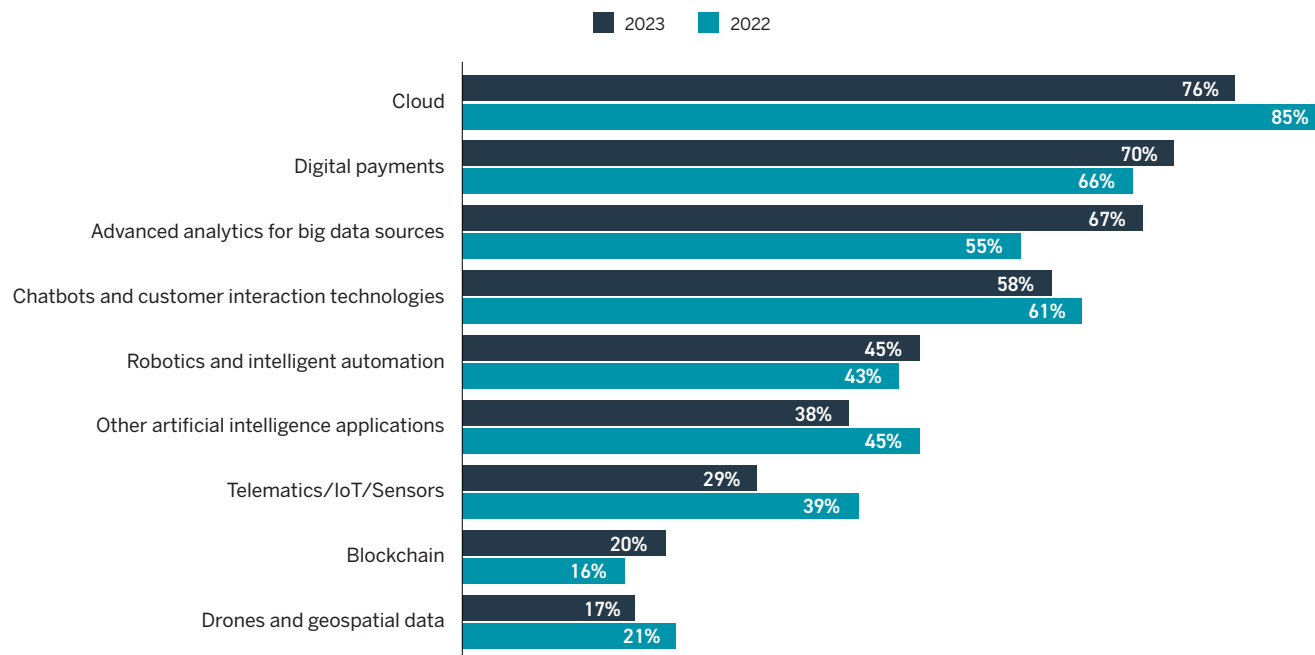
Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Carriers/brokers 2023 n=100; 2022 n=67

After all, there are several changing vectors of risk in the insurance industry. In personal auto, claim severity is up: a combination of post-pandemic driving behavior slipping; more complex, computerized vehicles on the road; and supply chain issues raising the price of replacement costs. For homeowners and other property lines, severe weather events are impacting more policyholders than ever, concurrent with supply chain issues.

And so, along with minimizing risk as a more common priority in 2023, we find a nearly identical increase in pilots and plans around advanced analytics for big data (see Figure 4). With so many factors contributing to claim severity, insurers are likely looking to revamp their analytics efforts from the early days of big data to match the challenges of today. Concurrently, there is a perceptible dip in telematics, internet of things (IoT) and telemetry. This indicates that insurers may be pausing new deployments in favor of analyzing the data they’ve gleaned from IoT efforts over the years or putting a data groundwork in place before launching new ones.

**Figure 4: Technologies piloted/implemented/planned, next 18 months, 2023 versus 2022, carriers and brokers**

Question: Which technologies has your company piloted/implemented and/or has plans to invest new/incremental resources in over the next 18 months? (net used or planned)



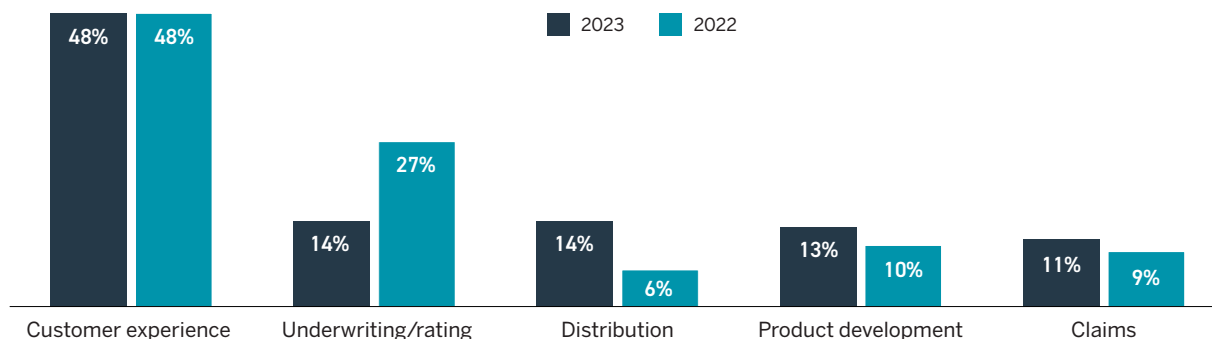
Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Carriers/brokers 2023 n=100; 2022 n=67

## It's still a customer's world

Amid upheaval in the economic realm and a slight shift in priorities, there's still one unbroken truth from last year to this year: The insurance customer is royalty. As we see in the previous section, customer experience is still the primary motivator for digital transformation. Breaking down these numbers further, we find that 48% of carrier and agent/broker respondents rank it No. 1, which dwarfs the second-place tie between underwriting and distribution (see Figure 5). That 48% is equivalent to the number of first-place votes customer experience received last year.

**Figure 5: Top business areas targeted for digital transformation, 2023 versus 2022, carriers and brokers**

Question: Which of these business areas are the biggest target(s) for digital transformation at your organization? (ranked no. 1)



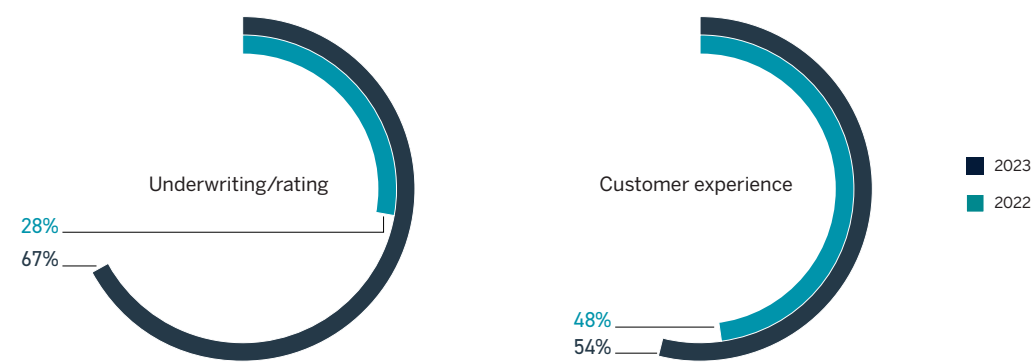
Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Carriers/brokers 2023 n=100; 2022 n=67

But looking below the top, we see that underwriting lost considerable market share. Last year, a quarter of carriers and brokers — perhaps anticipating the challenges the industry would face this year — ranked underwriting No. 1. However, among insurtechs, we do see a shift toward underwriting in some of our data this year.

With underwriting a clear-cut priority for a considerable number of insurers last year, it seems that the insurtech sector has responded. Only 28% of insurtechs said their product or service targeted underwriting in 2022; in 2023, that number has increased to 67% (see Figure 6). Perhaps this is an indication of how rapid response can close gaps in the insurance industry. With so many insurtechs flocking to underwriting, it may have fallen down the priority ladder for carriers only because the options were available to them and there was less urgency to find solutions. Also this year, more insurtechs say they are providing advanced analytics for big data sources at the same time that more insurers say they are seeking those kinds of solutions (see Figure 7).

**Figure 6: Business areas being targeted with products/services, 2023 versus 2022, insurtechs**

Question: Which of these business areas are you targeting with your product or service?



Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Insurtechs/vendors 2023 n=39; 2022 n=25

**Figure 7: Next generation technologies, 2023 versus 2022, insurtechs**

Question: Which of these next-generation technologies are you providing?



Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Insurtechs/vendors 2023 n=39; 2022 n=25

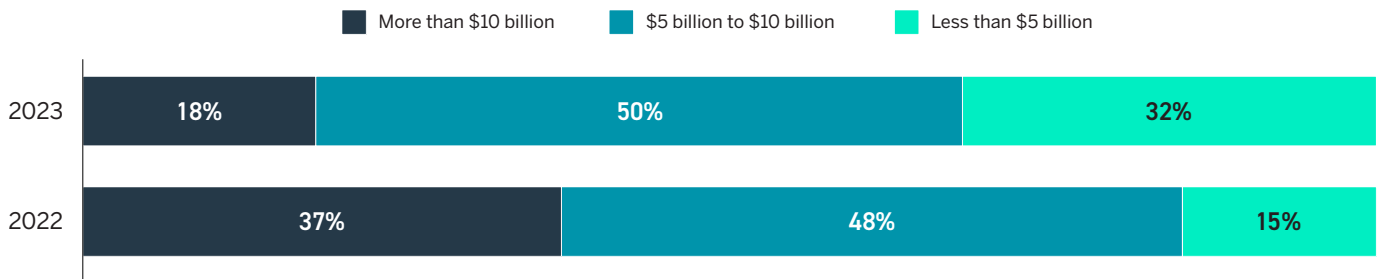
The shifting insurtech landscape

After several years flush with new entrants and venture money, economic conditions for insurtech founders and startups have changed significantly. One manifestation of that is in reticence to take legacy carriers head on. Insurtechs are less likely to be seeking a path to being a full-stack insurer or MGA, with only 8% of respondents saying that is their goal this year versus 20% last year.

In 2023, respondents are more likely to expect less than \$5 billion of investment in insurtech than they are to expect more than \$10 billion (see Figure 8). This is a reversal from last year. And they expect the companies that do get money to be later-stage startups accepting larger rounds (see Figure 9). In short: Less money will be available and what is there will go to companies that have already proven themselves.

Figure 8: Expected investment in insurtech, year ahead, 2023 versus 2022

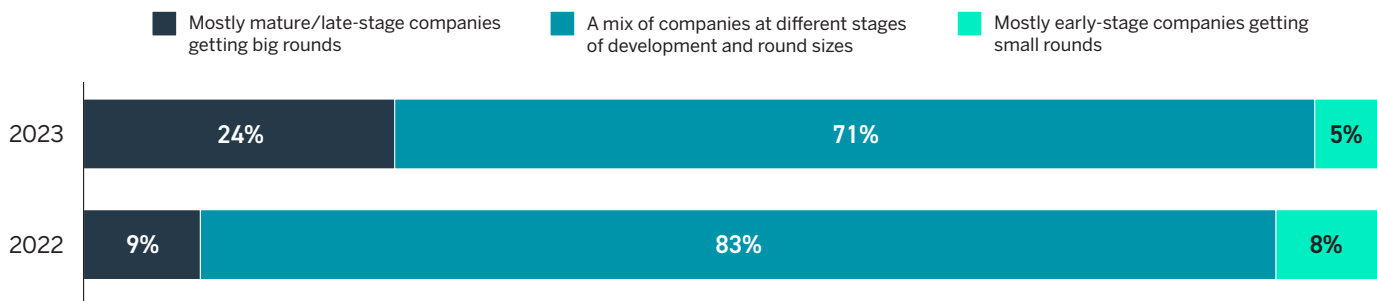
Question: How much money do you believe will be invested in insurtech in the year ahead?



Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Total Respondents 2023 n=139; 2022 n=124

Figure 9: Expected funding based on stage of insurtech, 2023 versus 2022

Question: What stage of insurtech companies do you think will get funded in the year ahead?



Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Total Respondents 2023 n=139; 2022 n=124



The post-COVID era

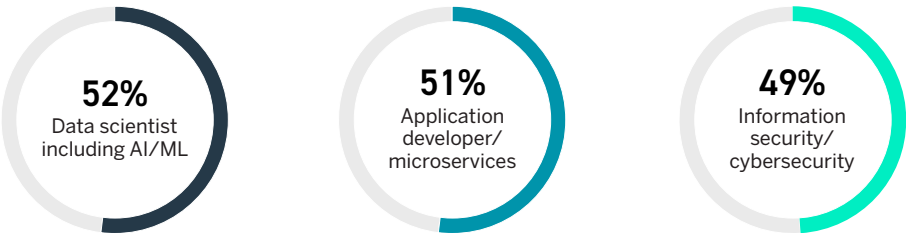
As noted, the COVID-19 pandemic is no longer the proximate influence on insurance digital transformation strategy. One-in-five respondents are back to full-time, in-person work. That was the percentage of totally virtual organizations last year; this year that number is down to 9%.

We looked at several macro factors that could impact insurance digital strategy. Among carriers, the top concerns are around staffing and budgets, with hot-button items like inflation, supply chain and environmental, social and governance (ESG) farther down the list. Two-thirds of insurers and brokers say staffing is a factor impacting their strategy. Only two in 10 strongly agree that their organizations are adequately staffed for their innovation plans.

In terms of who they are looking to hire, 52% of carriers say they are hiring data scientists — the most sought-after position (see Figure 10). This is closely tailed by application developers and information security professionals. Insurance brokers are far less likely to be hiring data scientists — only 11% say they are — but the positions they are seeking otherwise are mostly in line with their carrier counterparts (see Figure 11).

Figure 10: Top technology roles, carriers

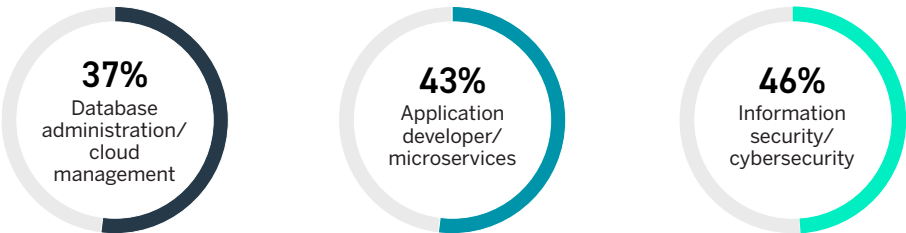
Question: What types of technology roles is your company seeking to fill?



Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Carriers seeking to fill digital/IT/tech roles n=63

Figure 11: Top technology roles, brokers

Question: What types of technology roles is your company seeking to fill?



Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Brokers seeking to fill digital/IT/tech roles n=35

Internal retraining is the most common way carriers and brokers are trying to meet their staffing needs, with 54% saying they do it. The next most popular tactic is targeting high performers at other insurance companies (34%) or in other industries (29%). Thirty percent say they have partnerships with colleges and universities to build a talent pipeline.

ESG concerns are mounting with larger carriers, but ESG overall is not having a major impact on digital strategy (see Figure 12). Just 35% say they have sustainability goals from new technologies/digital launches, while 25% say outright it is not part of their digital strategy.

**Figure 12: ESG's role in digital strategy, carriers and brokers**

Question: How does ESG inform your organization's digital strategy?



Source: Arizent, State of Digital Insurance Transformation Research, 2023  
Base: Carriers/brokers n=100

### Conclusion

- The COVID-19 pandemic is no longer the proximate driver of insurance digital transformation strategy, but energy for innovation in the sector remains strong.
- This is despite a changing landscape for startup funding, where purse strings are tighter and actionable, operational solutions are demanded by carriers and funders. On the plus side, this is pulling insurers, brokers and insurtechs into tighter alignment on a vision for the future of insurance. Insurtechs are less likely to try to challenge legacy carriers, instead finding willing partners on new initiatives — as long as there's meat on the bone.
- While insurance innovation and tech-staffing levels and budgets seem to always be low, this is more of an indication of how seriously transformation is being taken across the industry. Carriers aren't shortchanging their departments. Most insurers are actively hiring some of the highest-value jobs in technology in order to better prepare for a customer-driven digital future. It would be more of a cause for concern if innovation and transformation goals were less ambitious.
- This survey was fielded during the rise of conversational AI and large-language models, and as a result may not fully represent the curiosity around insurance applications for these emerging offerings. One can expect that next year, as that technology continues to evolve, there will be plenty to say about its impact on insurance. But that will all have to be tempered with a look at the ethical underpinnings of using such tech in evaluating and responding to risk.



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