

2023 Insurance Tech Spending Focus: Improving Customer Service

Insurance companies will increase or maintain their tech spending levels in 2023, despite economic headwinds, and those investments will focus on customers.



Introduction

Concerns about a recession won't hinder insurance industry professionals' tech spending in 2023, particularly investments designed to improve customer service and experiences. With the pandemic driving customers to shift to digital channels, insurance firms, brokers and insurtechs must offer fully digital personalized experiences. Otherwise they risk losing customers to more digitally adept competitors.

In 2023, insurance professionals primarily intend to make technology investments aimed at product development and improved customer service. This builds on the significant investment in digital transformation seen on both the workforce and customer sides, accelerated by the pandemic.

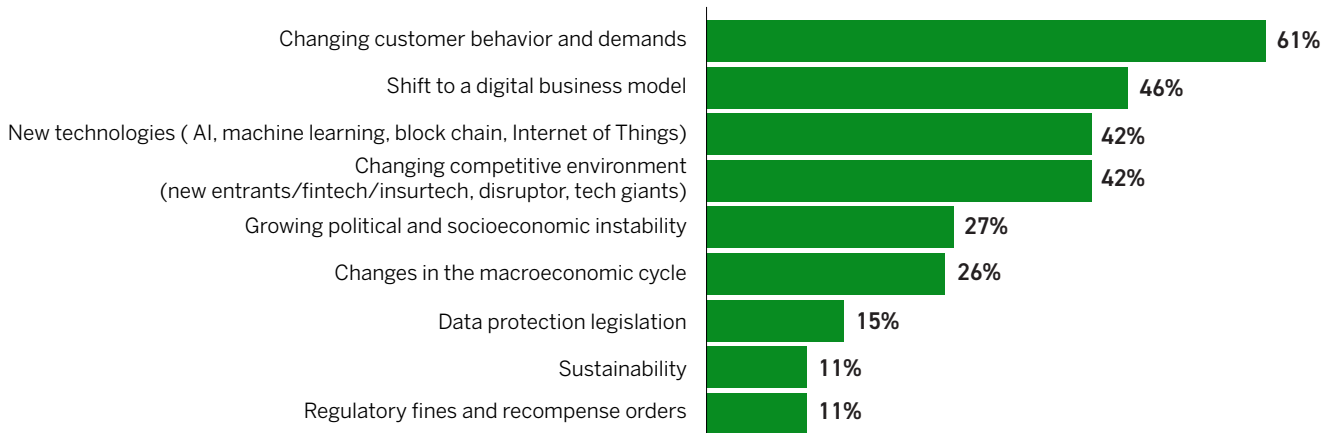
To gain insight into what industry professionals are expecting for 2023, Digital Insurance and researchers from its publisher Arizent surveyed business leaders from across the insurance sector to gain their perspectives on the top trends shaping the industry and informing business strategies. This e-book covers not only highlights from the research but also offers insights for professionals as they seek to grow, digitally transform and remain competitive.

Research highlights

The top three trends that carriers, agencies and insurtechs expect to impact the insurance industry in the next three years (see Figure 1) are:

- Changing customer behaviors and demands (61%)
- Pressure to shift to more digital business models (46%), particularly for carriers
- And, tied for third (42%) are new technologies such as AI, machine-learning, Internet of Things and blockchain, and the changing competitive environment due to new entrants such as insurtechs and tech giants

Figure 1. Top Three Trends Impacting Insurers, Next 1-3 years



Source: Digital Insurance, October 2022

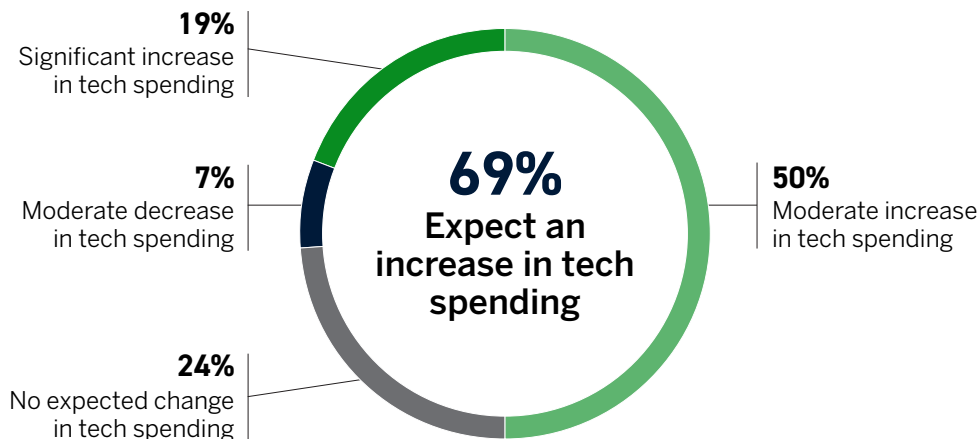
All these trends topping the list tie into the broader theme of customer experience, which industry participants see as essential to support business growth and success.

2023 threats to business growth vs. tech spending

Carriers, agencies and insurtechs/tech vendors recognize that a recession is the biggest threat to insurance industry growth in 2023 (47%) followed by inflation (21%). Economic concerns outweigh the threat from new entrants and competitors (10%), regulatory uncertainty (8%) and competition for talent (8%).

While recession is a major concern for respondents, most participants don't expect to reduce their technology spending in 2023. In fact, 69% expect to increase their tech spending, down from 77% in 2022, with carriers the most likely to expect an increase (see Figure 2). Moreover, 72% say their tech spending strategy won't change if there is a recession.

Figure 2. Tech Spending, 2023 vs. 2022



Source: Digital Insurance, October 2022

Insurance firms realize that if they reduce their tech spending due to economic concerns, they risk losing ground to competitors who maintain steady investments in customer-focused digital technology. “Based on the research findings, we see that a positive customer experience is key to attracting new customers and retaining existing ones,” says Janet King, Arizent’s VP of Research. “Insurers who fail to improve their technology and digital experience, may risk falling behind competitors and potentially losing customers.”

Compared to Digital Insurance’s 2022 survey, respondents are significantly less concerned about the competitive threat from tech firms Amazon, Apple, Facebook, Google and Tesla. In 2023, 29% of respondents say tech giants will be a competitor to their organization in the next three years, compared to 58% in 2022. However, insurtechs are more concerned about tech giants than carriers or agencies, with 42% of insurtechs fearing competition from tech giants in the next three years compared to 19% of agencies and 25% of carriers.

Barriers to growth

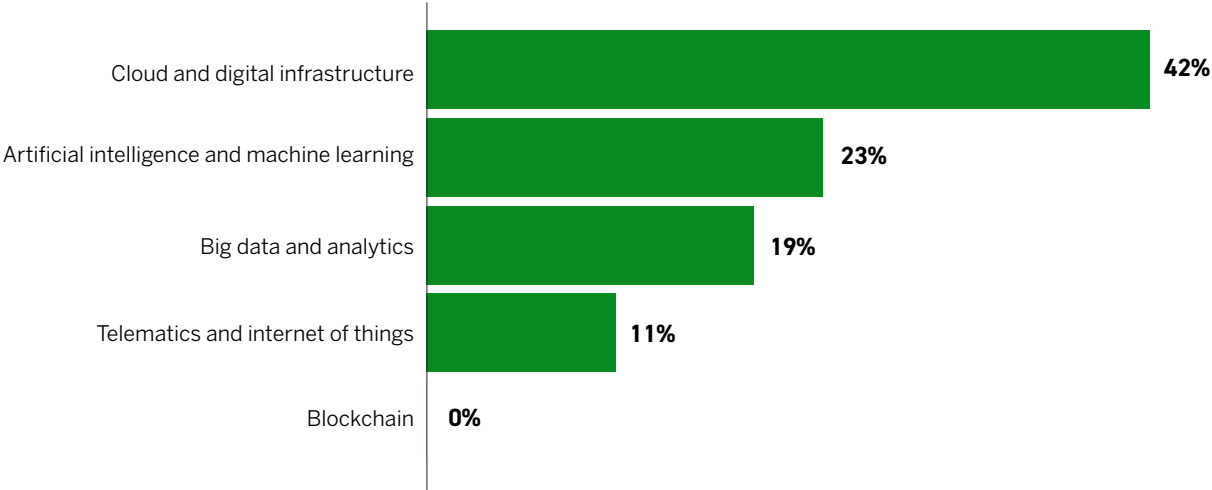
When asked what issues must be resolved to protect their company’s growth, respondents identify the ability to understand and react to customers’ needs (29%) and the ability to acquire and organize customer data as the two top issues (23%). Access to data on customers’ needs, behaviors, concerns, budgets and other key metrics is vital to an industry looking to increase personalization and enhance both in-person and digital experiences.

The ability to leverage AI and machine-learning to analyze customer data is essential so that insurers can understand and react to clients’ needs and provide personalized offers. This requires insurers to access first-party data. With Google set to end third-party data in late 2023, it is critical for insurers to develop comprehensive strategies based on first-party data.

Technology focus and usage

Customer service (27%), followed by product development (24%) and underwriting (17%), are the top priorities for insurance firms’ digital transformation initiatives in 2023. In a shift from 2022, the cloud and digital infrastructure (42%) are the clear leaders in prioritized technologies in 2023, followed by AI and machine-learning (23%), then big data and analytics (19%). (See Figure 3.) In comparison, big data was the top priority (32%) followed by the cloud (27%) and AI (18%) in 2022.

Figure 3: Number One Technology Priorities for 2023 Digital Transformation



Source: Digital Insurance, October 2022

Upgrading the digital and human experience

The pandemic led to a fundamental change in the way that carriers and other industry professionals need to engage with clients, distribution partners, and their own staff. 51% of respondents say that maximizing the customer experience is the most significant change post-pandemic, followed by technology transformation (35%).

“ Insurers are realizing value from new technologies and will continue to invest, regardless of a looming recession.”

— **Rob Baughman,**
Sr. Vice-President, NTT DATA

Customers expect fully digital experiences, according to 44% of respondents and more customized coverage options (22%). During the pandemic, consumers grew accustomed to shopping online at retailers such as Amazon, and now expect an Amazon-style experience when they buy insurance products. If an insurer doesn't provide what they need, they will look online for better offers from competing insurers or insurtechs.

And, while digital expectations are important, customers also expect more human interaction in insurance processes, according to 20% of respondents. Providing a human touch is particularly important to agencies, 34% of whom say customers want more human interactions. This poses a challenge to insurance

professionals, particularly agencies, to ensure that they humanize the experience across the entire customer journey at all their touchpoints, digital and otherwise, while still automating and digitizing their processes.

In addition, consumers are increasingly seeking greater customization of their property and life insurance packages. Insurers who can leverage digital technologies to model, manage and deliver personalized customer solutions will be able to effectively compete in the new era of insurance delivery and support.

Remote work

As respondents set strategies and make technology investment decisions for 2023, they are navigating a work environment that has changed permanently. The majority (65%) expect to implement a robust hybrid work model where people work in the office sometimes, but largely work from home. Only 8% of carriers expect to return to full-time in-office work models in 2023, compared to 28% of agencies.

Insurance professionals must factor their work environments into their tech spending plans to ensure they extract the most value from their workforce. Additionally, insurers must consider work environments as they set up their businesses to service customers most effectively. Successfully adapting to a remote work model requires not just robust infrastructure to support a virtual workforce, but the digital capabilities required to meet evolving customers' demands. Insurers can only support a remote workforce with the right technology to seamlessly share information in real-time, safeguard customers' private data, and deliver personalized customer experiences.

Conclusions

- While survey participants recognize that a recession is the biggest threat to insurance industry growth, most don't expect to reduce their technology spending in 2023.
- The cloud and digital infrastructure are the top technologies being prioritized in 2023. Customer service, followed by product development and underwriting, are the top priorities for insurance firms' digital transformation initiatives in 2023.
- Upgrading and maximizing customers' digital experience is key, as the pandemic has transformed how carriers need to engage with clients, distribution partners and their own staff.
- Customers expect fully digital experiences and more customized coverage options.
- Insurers able to leverage digital technologies to model, manage and deliver personalized customer solutions will be able to effectively compete in the new era of insurance delivery and support.
- The top trends that participants expect to impact the insurance industry in the next three years are:
 - Changing customer behaviors and demands
 - Pressure to shift to more digital business models
 - New technologies such as AI, machine-learning, Internet of Things and blockchain, and the changing competitive environment due to new entrants such as insurtechs and tech giants
- Compared to Digital Insurance's 2022 survey, respondents are significantly less concerned about the competitive threat from tech firms Amazon, Apple, Facebook, Google and Tesla.
- The majority of respondents expect to have a robust hybrid work model where people are in the office sometimes, but largely work from home.

To read the editorial report based off of this research, please visit [2023 Insurance Predictions Report](#).

Tech-Forward Strategies for the Next Generation of Insurance

1. Identify how existing legacy technologies and methodologies must evolve to address new demands from customers.
2. Leverage the cloud and emerging technologies to break through barriers imposed by legacy environments that make it difficult to develop new products and services.
 - Consider that multi-cloud computing and hybrid cloud are becoming the de facto approach to insurer transformation. Unlike an on-premises solution, the cloud is infinitely scalable, less expensive and offers rapid configuration. This elasticity enables insurers to test, validate and operationalize products rapidly.
 - Employ emerging technologies such as AI, data and analytics, machine learning and the internet of things to bring products and services to market faster. Use these capabilities to simplify and accelerate insurance underwriting.
3. Develop a comprehensive strategy for using AI and data and analytics to access first-party customer data, since Google plans to end third-party data in late 2023.
4. Take advantage of new partnerships and distribution channels, using APIs to integrate legacy architectures with providers of new products and services.
5. Consider creating an innovation group that looks at new capabilities and technologies that will enable them to disrupt the value chain.

Methodology

During October 2022, Digital Insurance and Arizent surveyed professionals in the insurance and insurtech space to obtain their insights about issues facing their businesses in 2023. A total of 105 qualified leaders and staff at various financial institutions responded, including carriers, brokers and insurtech firms.

NTT DATA About NTT DATA

NTT DATA, a global digital business and IT services leader, is the largest business unit outside Japan of NTT DATA Corporation and part of NTT Group. With our consultative approach, we leverage deep industry expertise and leading-edge technologies powered by AI, automation and cloud to create practical and scalable solutions that contribute to society and help clients worldwide accelerate their digital journeys.

For more information, visit <https://us.nttdata.com/en/industries/insurance>



About Arizent

Arizent delivers actionable insights through full-service research solutions that tap into their first-party data, industry SMEs, and highly engaged communities across banking, payments, mortgage, insurance, municipal finance, accounting, HR/employee benefits and wealth management. They have leading brands in financial services including American Banker, The Bond Buyer, Financial Planning and National Mortgage News and in professional services, such as Accounting Today, Employee Benefits News, and Digital Insurance.

For more information, please visit [Arizent.com](https://arizent.com).