

Insurance Practice

Five takeaways from InsureTech Connect 2022

InsureTech Connect 2022 highlighted that technology-driven innovation and a greater investor focus on profitability could improve the insurance industry in the near term.

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Fully in person for the first time since the COVID-19 pandemic began, more than 8,000 insurance carriers, distributors, investors, and insurtechs gathered in Las Vegas for InsureTech Connect 2022 (ITC 2022). Despite the hit that certain insurtech valuations have taken in the past few months, the atmosphere at the event was buzzing.

As we talked to participants, we noted five important takeaways that insurers and investors should keep in mind for the coming years:

1. Data and AI are expanding beyond personal lines of property and casualty insurance but are slow to replace manual work. Last year, we noted the expansion of property-intelligence solutions¹; this year, it was again seemingly the most popular category among providers on the expo floor. The COVID-19 pandemic improved customers' comfort with using digital channels, and now many insurance carriers have shifted significantly to become digitally enabled. The industry has started adopting more sophisticated data across commercial lines beyond real estate and property in areas such as commercial auto, workers' compensation, and general liability.

Automation is more challenging, however. Many companies said they can complete a wide spectrum of actions digitally—from product customization to efficient claims processing—though many of those services have yet to be built or offered with enough accuracy to fully replace human capabilities. Claims estimating in auto insurance has been the most prominent use case for replacing manual processes with automation and AI to improve customers' experiences. Beyond auto claims, AI applications in areas such as universal workflow and liability detection are starting to emerge. As these new capabilities become more prolific, it'll be important for companies to distinguish their competitive advantage and develop clear use cases to stand out.

2. Risk prevention and resilience is moving from human-enabled to data-enabled. In certain lines of business, such as cyber and general liability, managing general agents (MGAs) and other service providers focused on providing insights that assess risk levels and make risk prevention recommendations to drive down loss ratios for insurance carriers and other capacity providers. What has historically been a very consultative process is now increasingly shifting to include data and tools to understand risk on a more granular level, focusing at times on very specific niches to deliver better results for the industry overall. This is particularly important given rising climate risk and physical risk, in addition to the risk of catastrophic events and their unforeseen effects.

3. Digitally enabling specialty commercial insurers, particularly through wholesale distribution, is the next way to improve workflows in the industry. Some companies are working with wholesale brokers to create digital platforms that make connecting retail brokers, wholesale brokers, and insurance carriers easier. Others are building digital wholesale brokers to connect retail brokers directly with insurance carriers. The goal is to improve retail brokers' efficiency, broaden access to markets, and reduce the total cost of distribution, all of which are particularly important in the current environment. Digital wholesalers aim to create solutions that are flexible and often on no-code or low-code platforms, which can help them navigate fragmentation between commercial lines and address each line of business across all 50 states.

4. The balance sheet is out, and profitability is in. This year, we noticed a significantly lessened presence from digitally native full-stack carriers that own the balance sheet. With valuations down and funding harder to

¹ Doug McElhaney, Galen Shaffer, Katka Smolarova, and Grier Tumas Dienstag, "Five themes from InsureTech Connect 2021," McKinsey, October 15, 2021.

come by, especially for the middle phases of growth, the main strategy from insurtechs has evolved from building a full stack—for example, MGAs expanding to have a balance sheet—to developing a strategic plan for growth from the get-go to become profitable faster. This approach is enabling investments with the expectation of returns in six to 12 months.

5. Cyber is seen as a looming catastrophic

risk. At ITC 2022, many investors and business executives were excited about the increasing demand and flourishing supply of propositions across distribution, MGA, and threat intelligence, which contrasts the mood on cyber at this year's Monte Carlo conference in early September. Many ITC participants offered new cyberprotection products, and MGAs were vying for capacity and equity investment. The most important conversation about cyberrisk at ITC 2022 was about the evolving

role of cybersecurity in the industry.

Many believed that cyberprotection can work as a vaccine against risk—the more companies that have protection, the more cushioned entire industries are. Furthermore, customers might be excited about cybermonitoring services as part of their policy because they can help them earn premium credits for responsible cyberrisk practices.

Opportunity in the insurance industry remains strong, whether that means moving away from manual processes or using data in better ways. Companies that innovate around these pain points are well positioned to gain traction and scale. Come ITC 2023, we expect to see even more insurance carriers, distributors, investors, and insurtechs get creative with the tools and services they have to offer.

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