SPOTLIGHT

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Insurers are venturing into the digital business era. Generative AI appears poised to act as a powerful conduit for hastened digital monetization — if insurers are forward-thinking enough to go beyond mere productivity gains.

Forging the Path into the Digital Business Era in Insurance: Exploring Generative AI's Impact

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Introduction

The insurance sector has again demonstrated resilience, with year-end global sector results in 2023 surpassing market experts' projections. However, this achievement is being met with cautious optimism among insurance executives. Many believe a looming recession could still be on the cards for the near future, with 78% anticipating potential economic downturns in the next 6–12 months (source: IDC's *Future Enterprise Resiliency and Spending [FERS] Survey, Wave 5,* June 2023). Despite these uncertainties, the dominant strategy for insurance providers is not to reduce IT budgets; instead, digital spending is increasingly viewed as an integral catalyst of organic growth. IDC has observed a profound transformation in the IT spending dynamics of the industry to the extent that 2024 marks the conclusion of the digital transformation era and heralds the onset of the digital business era. This shift is evident as we observe the aggregate IT spending on digital technologies like cloud, mobile, and artificial intelligence (AI) surpassing spending on nondigital technologies like mainframe and client-server architecture. This change underscores the essential move from the imperative to transform into a digital business to the current, more critical need to profitably run a digital business due to the pervasiveness of digital technology within the organizational fabric.

AT A GLANCE

WHAT'S IMPORTANT

Generative AI is a focal point in global insurance digital strategies. IDC's spending guide forecasts an 80% CAGR in IT spending for GenAI use cases from 2024 to 2027. Interpretative and predictive AI use cases are also expected to see a 28% CAGR during the same period. Budget allocations will include reshuffling resources and net-new spending.

KEY TAKEAWAYS

Insurers are leveraging GenAI to achieve advantages, focusing on productivity gains in key areas like data management, IT, and cloud operations. The increasing expenditure is putting pressure on C-suite executives, leading them to seek guidance from IT leadership on effectively harnessing GenAI to expand their digital revenue share.

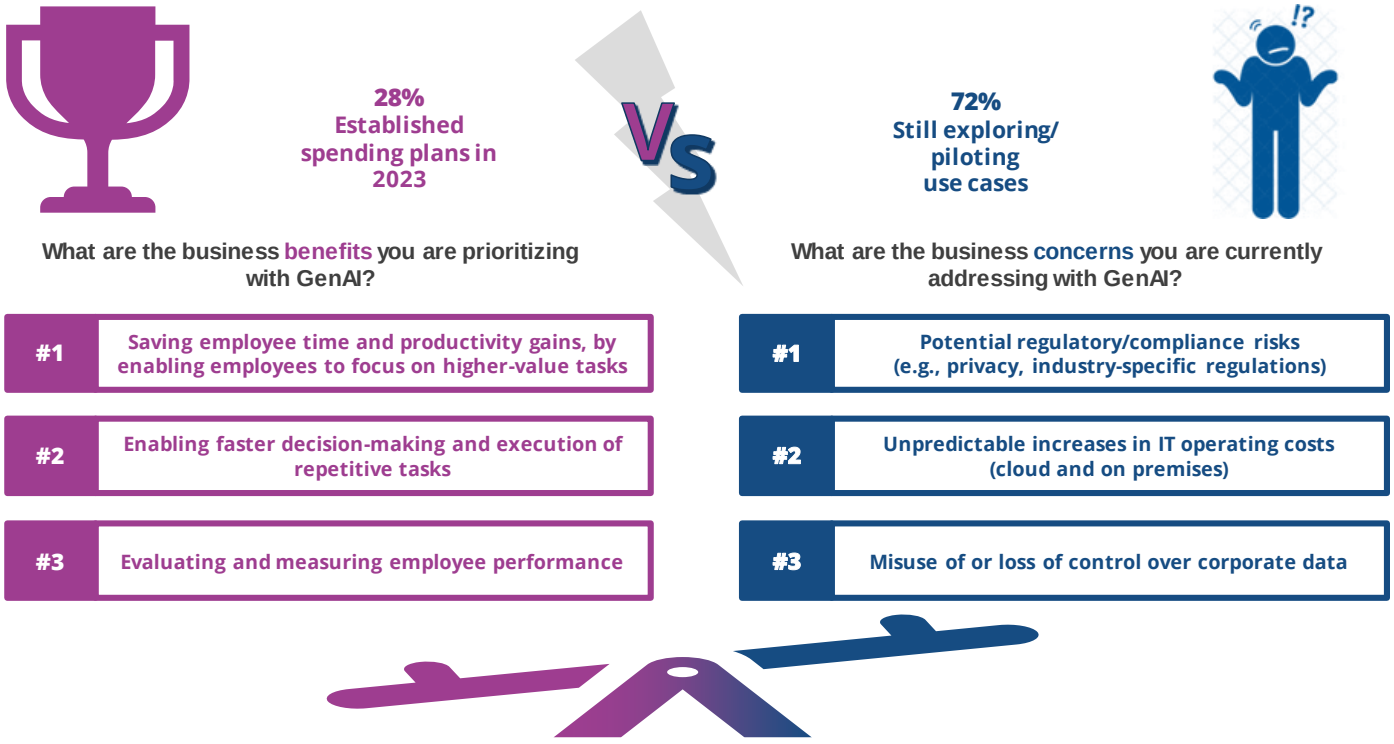
As a result, CEOs everywhere are under more pressure than ever to present a vision for their digital business road map that will guide how their company plans to monetize its widespread adoption of digital technologies. However, C-level executives appear inclined toward shortcuts, mostly emphasizing short-term, productivity-focused digital projects to achieve rapid profitability. This is due to a combination of factors, including departmental lack of cooperation, the uneasy and compartmentalized adoption of technology, and generalized fear of regulatory compliance stumbles. As a result, they unintentionally block the full realization of value from adopting emerging technologies, leading to what we may accurately label the "productivity trap."

Amid an array of emerging technologies, none exemplifies the productivity trap quite like generative AI (GenAI). While such technology might unlock new groundbreaking applications, thanks to its unparalleled user experience, its adoption challenges are compelling insurance carriers to limit its use to productivity-focused programs, underestimating its potential for innovation and value creation beyond operational enhancements.

This paper seeks to guide business and technology leaders in overcoming the productivity trap of deploying GenAI by illustrating its role in the sector's long-term digital maturity path (see Figure 1). Throughout the various milestones of the industry's digital business road map, encompassing digital adeptness, ecosystem enablement, and AI nativity, the report explores how GenAI can function as a flywheel. By breaking the digital business deadlock across each stage of the road map, GenAI will catalyze the unlocking of organic growth and the creation of new revenue streams.

FIGURE 1: ***Unraveling the GenAI Insurance Adoption Tactics***

Q *What is your organization's current state of evaluating or using GenAI?*



Source: IDC's Future Enterprise Resiliency and Spending Survey, Wave 5, June 2023

Insurers Are Caught in the Productivity Trap

At its core, the insurance industry operates on a deeply procedural model. Unlike sectors such as manufacturing or retail that produce tangible, concrete products, insurers transact extensive documents laden with digits, handwriting, and image data to transfer risk in exchange for a premium. IDC defines GenAI as a branch of computer science that involves unsupervised and semi-supervised algorithms that enable computers to respond to short prompts to create new content using preexisting information represented in text, audio, video, images, and code. Notably, both the insurance industry

and GenAI share a conspicuous resemblance in their operational essence. They both necessitate diverse inputs (e.g., application forms, proof of identity, proof of ownership, statement of value, loss history, inspection and medical reports, contracts, and agreements) to yield seemingly insights-driven decisions, which manifest in the form of additional documentation (such as policy contracts, evidence of insurance, policyholder handbooks, endorsements or riders, and policy schedules). Given this procedural alignment, IDC argues that GenAI presents insurers with significant value-generation opportunities. However, it carries considerable risks and potential losses without proper leverage.

Insurers have acknowledged the inherent duality of risk and opportunity, resulting in what could be described as a prevalent sense of analysis paralysis. According to IDC's June 2023 *Future Enterprise Resiliency and Spending Survey, Wave 5,* 72% of global insurers are still in the exploratory phase of adopting GenAI, carefully assessing potential use cases for value generation. Some 28% of insurance companies have actively embraced implementing GenAI-powered applications. However, their motivation primarily revolves around optimizing specific segments of their operational models, with a strong focus on realizing time savings and efficiency gains to expedite the completion of repetitive tasks.

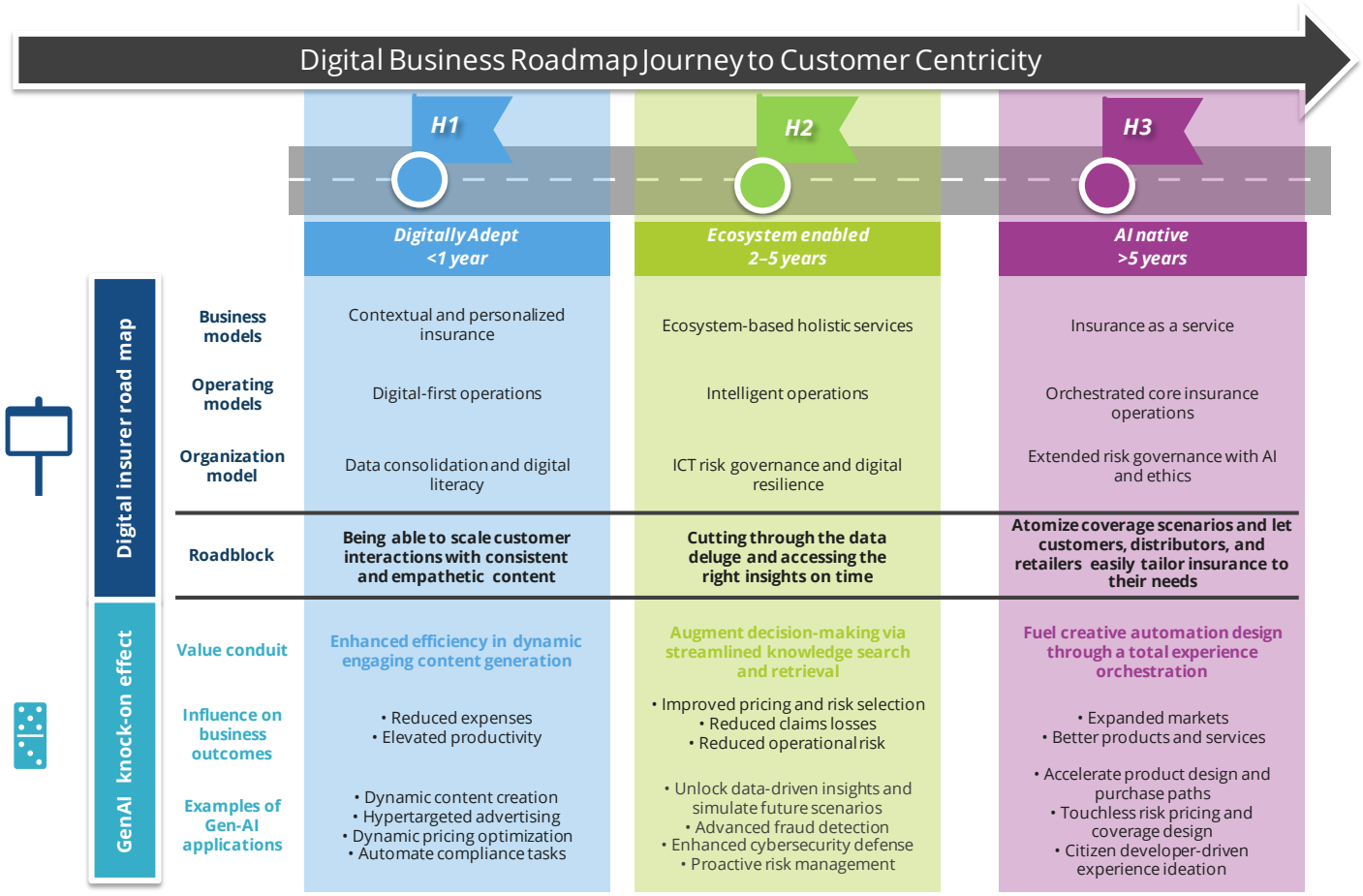
Given historical patterns that emphasize the infrequency of productivity-led benefits outweighing potential risks associated with adopting new exponential technologies, it is only natural for insurers to exhibit some hesitation. A year after the introduction of OpenAI's ChatGPT, the effective deployment of such technology within the insurance industry remains uncertain, and achieving tangible business outcomes seems elusive.

Exploring the Impact of GenAI on the Insurance Digital Business Road Map

Insurance companies should strategically plan their digital initiatives by making informed predictions about the foreseeable future of the insurance business and conducting assessments of their desired positioning. Only then should they develop an understanding of which technologies might help them thrive in the evolved landscape by identifying potential frictions that might arise along the way. This approach applies to any technology, and GenAI should not be an exception to that rule.

Drawing on IDC's proprietary data surveys and insights from discussions with C-level executives, IDC envisions the industry's evolution post the digital transformation era as a three-phased trajectory with incremental advancements: digitally adept, ecosystem-enabled, and AI-native insurance (see Figure 2). Each stage provides a unique incremental snapshot of digital business maturity, shaped by underlying implications across business, organizational, and operating models. Building on a brief elaboration of this industry outlook, IDC elucidates the role of GenAI in this vision, specifically highlighting its capacity to eliminate friction and streamline the overall transition. For each stage, we provide insights into encountered challenges and explore how GenAI capabilities can support them, offering examples of GenAI applications.

FIGURE 2: ***Digital Business Road Map in Insurance Assessing the Impact of GenAI***



Source: IDC, 2024

Horizon 1 (Short Term — <1 Year): Digitally Adept Insurance

Most customers still regard their insurance as time-consuming and bureaucratic; far from the ultrafast resolution turnarounds, modern digital retailers have conditioned them to expect. This also holds true for distributors (e.g., independent and captive agents and brokers) who increasingly expect to conduct business on the move.

The initial phase of the insurance digital business road map, known as digitally adept insurance, sees global insurers actively enhancing their digital capabilities throughout the value chain. The goal is to achieve agility and customer experiences that reshape traditional business models, emphasizing virtual interactions and adopting innovative revenue models like pay-per-use and dynamic pricing. However, the proliferation of digital touch points poses both rewards and risks. While maintaining vital contextual and personalized interactions is crucial for customer satisfaction, the rapid surge of points of contact may pose challenges in upholding regulatory compliance. Ensuring authorized data usage and preventing misselling or inappropriate assessments of customer literacy and risk appetite become paramount in this scenario.

GenAI is a promising solution to counteract the risks associated with virtual omnipresence. GenAI's proficiency in managing high volumes of human-like customer interactions allows insurers to scale customer service operations without compromising service quality or regulatory compliance. Leveraging its real-time content generation capabilities, GenAI tailors dynamic and engaging content to individual customer needs, maintaining consistency across touch points and operating 24 x 7, with tone-adjusting capabilities based on the conversational style requested by the customer.

This ensures comprehensive and transparent product education, accurately capturing customer expectations of risk coverage scenarios and underlying behavioral information. Seamlessly communicated information to all customer-facing professionals ensures a cohesive organizationwide messaging strategy, regardless of the customer's chosen engagement channel. The personalized approach extends to generating emails, direct messages, product brochures, pamphlets, quote summaries, comparison charts and educational materials, and personalized recommendations with customer testimonials and case studies.

Horizon 2 (Medium Term — Two to Three years): Ecosystem-Enabled Insurance

The evolving risk environment, marked by geopolitical tensions, societal vulnerabilities, demographic changes, and emerging challenges like cybercrime and climate incidents, is reshaping the mortality and morbidity of income at an unprecedented pace. As a result, traditional insurance carriers' portfolio offerings often do not adequately cover evolving risk coverage needs.

The second phase of the digital business road map in insurance underscores the importance of collaborative efforts to tackle these challenges, recognizing that no insurer can address them effectively alone. Insurers' competitiveness and brand positioning will significantly depend on their collaborative networks with traditional and nontraditional partners. Together, they will shape hybrid value propositions. The aim is to move beyond commoditized portfolio offerings by introducing various services that extend beyond coverage protection. IDC's prediction, as outlined in *IDC FutureScape: Worldwide Insurance 2022 Predictions* (IDC #EUR148299821, October 2021), anticipates that by 2025, half of the global insurers will offer real-time risk management and claim prevention services through digital partnerships.

Managing a substantial influx of data presents a significant challenge in ecosystem-enabled insurance, where robust data sharing is pivotal among all participants. The transformative potential of GenAI becomes evident as it leverages its sophisticated capabilities in knowledge management. This encompasses the automation of content summarization, metadata mapping, and data tagging. GenAI streamlines the archival process for structured and unstructured information and imparts context and structure, facilitating efficient data organization. Moreover, it accelerates the knowledge search and retrieval process by applying pertinent tags to data, considering factors like the nature of collaboration, risk levels, and customer needs. This approach enables effective navigation through the ecosystem's intricate landscape of shared data, substantially reducing decision turnaround times.

Horizon 3 (Long Term — Three to Five Years): AI-Native Insurance

In the future insurance landscape, the industry is dedicated to bridging the protection gap by prioritizing customer accessibility and ensuring a streamlined path-to-purchase experience. IDC foresees a substantial shift by 2028, with over 20% of global insurance gross written premiums migrated to embedded distribution models, emphasizing the transformative nature of this trend (see *IDC FutureScape: Worldwide Insurance 2023 Predictions,* IDC #US47802922, October 2022).

AI assumes a central role, heralding a paradigm shift and unlocking previously unattainable growth opportunities. The move toward "AI-native insurance" involves AI being infused into every layer of the organization's application architecture, dramatically impacting the total organizational experience. This includes:

- **Front end:** This involves the interaction with customers and distributors. AI guides policyholders in seamlessly integrating coverage into their purchasing journeys and aids digital distributors in incorporating risk coverage or management services within their comprehensive offerings.
- **Back end:** AI-powered augmentation is on the brink of revolutionizing core insurance decision-making, expanding its scope into new areas such as accelerated product ideation, intricate risk selection, advanced rate making, T&Cs formulation, product language refinement, and more complex claims assessment and loss reserves modeling. This transformation is set to dramatically reduce the time to decision, with knowledge workers primarily dedicated to validating automatically proposed decisions rather than originating them independently.

As AI's influence expands and automates more processes, leading to near-straight-through operations across the organization, there's an increasing need for line-of-business (LOB) users, rather than IT, to efficiently coordinate fast-track and low-touch underwriting and claims settlement procedures. This shift would ensure that streamlined decisions constantly align with the organization's capital capacity and risk tolerance framework. It could also proactively detect any deviations, maintaining precise underwriting standards and discipline, to achieve excellence in claims servicing, manage portfolios effectively for profitability, and mitigate reputational risks. GenAI, evolving beyond its current code generation capabilities, will be able to showcase the transformative potential of its experience ideation and orchestration features. By leveraging automatically generated feedback loops for technical model benchmarking and explainability diagnostics (e.g., precision, recall, Shapiro, and ICE plots) and economic value performance (e.g., underwriting expense and loss ratios, engagement metrics, producers' submission rejection rate, and quality score), LOB users can swiftly ideate user experiences, prototype applications, and deploy and monitor solutions using natural language prompts. This transition empowers LOB professionals to evolve into full-fledged citizen developers, retaining control over automation and intelligent application development initiatives.

Partnering for Bridging the Great Skills Divide

As global plans for widespread GenAI adoption in the insurance sector take shape, concerns about the DevOps and data science skills gap become apparent. The lack of technical skills is the number 1 challenge for insurers to effectively derive tangible value from adopting such emerging technology. Insurers acknowledge the need for external support. According to IDC's June 2023 *FERS Survey, Wave 5,* leading insurers strongly prefer partnerships with digital infrastructure providers, followed by primary cloud providers and IT outsourcing partners.

This preference is driven by insurers' eagerness to swiftly access specialized expertise and close the digital revenue share gap, particularly in adopting emerging technologies like GenAI. According to IDC's *Worldwide Insurance 2024 Predictions* (IDC #US50796823, October 2023), by the end of 2024, 33% of global insurers are projected to increase investments in external application development services. Anticipated as a strategic maneuver, this shift is poised to positively affect the agility of the digital operating model, potentially resulting in a 15% boost in digital revenue.

By leveraging external expertise, insurers swiftly address competency gaps, providing flexibility and operational risk mitigation, crucial in an industry grappling with digital talent acquisition and retention challenges. While short-term

benefits include competency gap bridging, IT outsourcing presents long-term opportunities for cross-fertilization and knowledge transfer. Aligning with the values of the insurance carrier becomes paramount.

Considering Capgemini

Capgemini is a leading global provider of consulting, technology, and digital transformation services for the insurance industry across the globe. The company addresses the end-to-end business needs of enterprises by leveraging its insurance business expertise and deep technological know-how that spans cloud, data, artificial intelligence, connectivity, software, digital engineering, and platforms.

Capgemini's insurance industry practice specializes in forecasting the factors shaping the future of insurance and helping enterprises seize change-driven opportunities with refined business strategies and repurposed operations. The company has insurance services spanning all insurance functions — distribution, product, actuarial and underwriting, operations, and claims. It also provides services for peripheral and enabling functions such as IT, finance, and HR.

To help insurers realize digital business transformation, Capgemini relies upon its deep insurance subsector and value chain expertise, reinforced by its strengths in technology and innovation. Some of the capabilities powering its solution offerings are:

- Product agility enabled by a digital core to help customers quickly launch new products and modify existing ones with new coverages and new rating variables
- Location risk intelligence that provides data-driven location or property risk insights for pricing accuracy and improved portfolio resilience, analytics-led workflow and experience offerings, and customer insights for growth (e.g., closed-loop customer insights to drive increased conversion, retention, and cross-sell/upsell)
- Human-centric insurance operations such as data and automation augmented workflows and collaboration features for back office/middle office

Capgemini also offers managed services for business applications, infrastructure/cloud operations, data apps, and more to allow insurers to focus their energies on digital business transformation.

Capgemini is among the market leaders in offering insurance data and AI services, with GenAI capabilities specific to the industry. Its recent acquisition of Quantmetry and continued investments in AI/GenAI partnerships and talent both underscore its growing expertise. The firm's specialty lies in implementing safeguards and contextualizing GenAI before fully integrating this technology into its clients' businesses at scale. For insurers, Capgemini is helping enable next-generation customer engagement through personalized experiences, enhancing operational efficiency and workforce transformation with GenAI.

Challenges

Unleashing the potential of GenAI holds great promise yet realizing its benefits entails addressing significant obstacles. According to the IDC's October 2023 *Financial Insights Survey*, key challenges in the journey of value generation through GenAI include:

- Lack of AI skills in the workforce (59%)

- Lack of processing power/IT infrastructure (53%)
- Difficulty in integrating GenAI with existing systems and processes (51%)
- Data silos and poor data governance (49%)

Drawbacks also exist to bridging the GenAI competency gap through IT outsourcing partners such as Capgemini and others. Care is needed in selecting an external partner to avoid lock-in risks, which can make it difficult or costly to switch to alternatives. *IDC MarketScape: Worldwide Application Modernization Services 2023 Vendors Assessment* (IDC #US51146923, September 2023) shows that Capgemini needs to emphasize expanding competencies across various public cloud certifications to adapt to differing workload-specific cloud deployment requirements.

Conclusion

Despite the persistent challenge of a protection gap in the insurance industry, there exists a hesitancy to fully confront this reality, often due to shortsighted and siloed strategies in adopting emerging digital technologies.

As the sector collectively embraces digitalization as a catalyst for insurance growth, insurers must stay vigilant for any new technological opportunity. This is crucial to better align themselves with a digitally empowered consumer base by challenging traditional norms and embracing innovation.

GenAI holds great promise for insurers. However, the current enthusiasm is often focused on productivity gains, limiting the realization of its full potential. IDC believes that GenAI has the potential to transcend its role as an additional deflationary lever within the digital tool set. Instead, it could help propel insurers' overall digital business maturity.

IDC believes that technology and LOB insurance leaders, following the suggestions outlined in this paper, will be well positioned to accelerate their digital endeavors to ensure the survival of their business and lead the charge in shaping the industry's future.

About the Analyst

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Davide Palanza is a research manager in the European Financial Insights team. He leads IDC's Worldwide Insurance Digital Business Strategies advisory service, with his research covering the following overarching themes: insurance and digital transformation, intelligent claims automation and fraud prevention, on-demand and micro insurance, actuarial change, contextual and value-centric offerings, and regulatory evolution and compliance.

MESSAGE FROM THE SPONSOR

Capgemini believes that we are living in a world of data economy where we are experiencing organizations combine data with Artificial Intelligence to explore new ways of communicating and working — reshaping our future. Generative AI, with its extraordinary potential, is the new contributor to revolutionize this dynamic.

As Generative AI continues to advance, early adopter insurers will benefit from reinvented business models and processes. However, ensuring ethicality & sustainability of Gen AI and contextualizing it to the enterprise context continue to be the biggest puzzles to solve to extract value out of this technology.

With our Generative AI services in Insurance, we are helping insurers around the globe unlock this puzzle and drive positive business transformation.

Learn More: https://www.capgemini.com/services/data-and-ai/generative-ai/

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