

The top insurance trends taking off in 2023

Article

The news: The tough economic environment in 2022 didn't spare the insurance industry, which saw dried-up funding, tighter budgets, and competitive pressures. This year's economic outlook isn't much brighter, but insurance firms are set to disrupt the scene with new partnerships and technological advances. Here are the top four trends we are watching in this space in 2023.

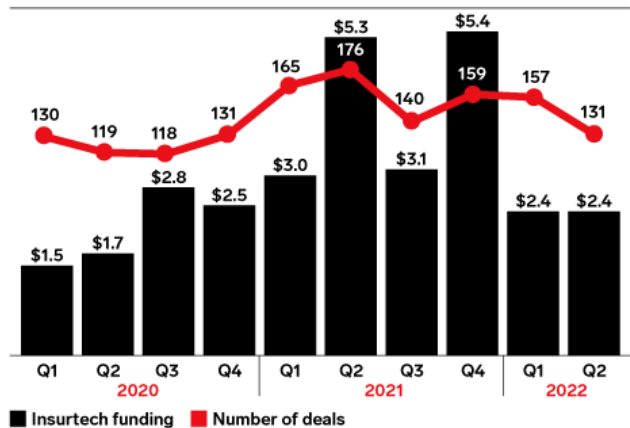
Trend 1: Partnerships form between startups and incumbents.

- Competition between legacy insurers and new entrants is fierce, and each faces unique challenges from a tough economic environment and intense consumer demand.
- Incumbents struggling with a digital transformation will look to startups that base their operations on new technologies to bring them up to speed. Meanwhile, the startups that are trying to get their feet on solid ground and reach profitability will turn to incumbents for an increased budget allowance and built-in customers.
- Incumbents also bring their brand names with them, especially in very competitive markets like the UK. Startups that link up with these established incumbents have a head start at gaining consumer loyalty. One example is **Lemonade's partnership** with UK-based incumbent **Aviva**. While Aviva is well-known in the UK, Lemonade's popularity in the US hasn't yet translated to the UK market.

Trend 2: M&A deals consolidate the market.

- Some startups spent 2022 adjusting their business models to attempt to combat challenges like a **lack of funding** and high inflation, but their efforts still fell flat. Now, these firms are prime targets for M&A deals.
- We expect firms that just can't make it through another tough year to get scooped up by startups that are further along in the growth cycle, or incumbents that see value in the technology the startup has developed. 2023 will be the year the weak are weeded out from the industry and the strong prevail.

Insurtech Funding Worldwide, Q1 2020-Q2 2022
billions and number of deals



Source: CB Insights, "State of Fintech Q2 2022," July 19, 2022

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Trend 3: AI becomes the top disruptive technology.

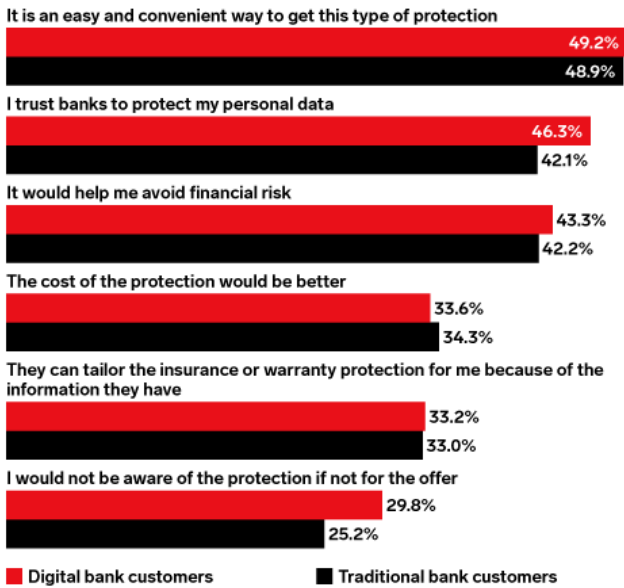
- Insurance companies will focus on reining in spending in 2023, but they will invest a healthy amount into new technology that will allow them to automate tasks, create efficient processes, and provide customers with personalized solutions.
- Artificial intelligence (AI) is the technology that will have the largest impact on insurance firms. Aside from applications like chatbots, AI can be used in the underwriting and claims processes. Instead of relying on historical models to price claims and determine appropriate rates, AI will be used to collect more data than ever to generate more accurate policy prices.

Trend 4: Top brands bet big on embedded insurance.

- The embedded insurance market is set to reach \$70 billion in premiums by 2030, according to research from insurance asset manager Conning, Inc. Consumers are craving simplicity and ease when obtaining an insurance policy, and embedded insurance is the answer.
- Some noninsurance companies are already venturing into the embedded insurance space. For example, Tesla offers insurance during the purchase process of a new car. It also leverages technology within the car to monitor driving behavior and passes along better rates to careful drivers.
- Startups that are seeking profitability will focus on low-code embedded insurance solutions to partner with major brands and offer insurance as a service as a main revenue source.

Reasons US Consumers Are Interested in Bank-Embedded Insurance Offers, March 2021

% of respondents



Source: PYMNTS.com, "Embedded Insurance Report," in collaboration with Cover Genius, June 16, 2021

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