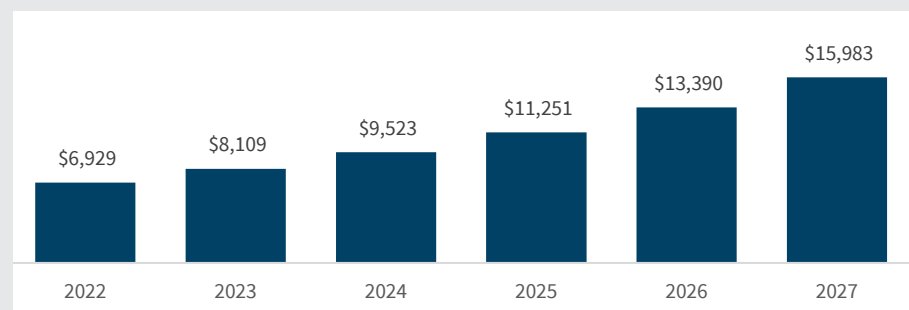# William Blair

An AI Inflection Point for Insurtech

While the need for insurers to embrace advanced AI tools is arguably greater than it is in most industries, companies in the space have lagged in the use of those tools. But the technology needed to deliver cutting-edge solutions across the insurance ecosystem appears to have finally arrived.

Industry Commentary

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Insurance has historically been reluctant when it comes to innovation, but the proliferation of more modern core policy admin systems means carriers and insurance software providers now have ready access to data needed to help train and refine LLM models. Old data siloes can now be torn down and analyses across carriers' holistic—and massive—datasets are possible. These analyses have the potential to help power the next wave of insurance software platforms that through AI address—in a variety of ways—the greatest threats facing insurance carriers: increasing personnel expenses, an aging workforce, and mounting risk frequency, severity, and losses driven by catastrophic events.

Further, insurance carriers have finally begun to embrace cloud software deployments. These deployments—particularly multitenant public cloud deplyments—are critical for hosting AI applications due to their scalability, flexibility, and a cost-effective pay-as-you-go model. Cloud systems also provide greater interoperability in support of more efficient underwriting and improved risk management. While still not as advanced in cloud adoption as most vertical

Insurance Industry AI Software Spending (in Millions) Worldwide, 2022-2027[1]

Year	Spending
2022	$6,929
2023	$8,109
2024	$9,523
2025	$11,251
2026	$13,390
2027	$15,983

Full 2024 and 2025-2027 totals are estimates.

1. Chart created by William Blair & Comapny, LLC based on Gartner® research. Source: Gartner, Forecast Analysis: AI Software Market by Vertical Industry, 2023-2027, 27 March 2024. GARTNER is a registered trademark and service mark of Gartner, Inc. and/or its affiliates in the U.S. and internationally and is used herein with permission. All rights reserved.

software markets, insurance's steady increase in cloud deployments makes it easier for software platforms to roll out AI solutions across the insurance industry.

"Global AI software spending in the insurance market is forecast to increase 17.4% in 2024 to $9.5 billion and reach $15.9 billion by 2027, with a five-year CAGR of 18.2%."[2] As a result, in our opinion, we're looking at a major technological sea change that puts AI-native platforms, in particular, in a strong position to innovate across the insurance industry and lead the sector's next wave of investment and transaction activity.

Can AI Help With Talent, Customer Satisfaction?

With this necessary infrastructure emerging, insurance companies across the value chain can turn to AI to help alleviate industry challenges. Among them is a massive talent drain coming to the industry with waves of retirements expected in the coming years. The resulting vacancies will not be easily filled, as less than a third of young people surveyed recently in the U.S. and U.K. said insurance is an appealing career choice.[3] Further, insurance arguably requires more specialized worker knowledge than other industries, making it critical that departing workers are sufficiently replaced—by humans or through other means.

Several key segments across the insurance value chain are manual, prone to error, and well-suited for generative AI. Claims processing is incredibly labor-intensive and time-consuming, largely because of tasks, such as data entry and validation, that can be automated with AI. Fraud detection is similarly time-intensive, complex, and costly. Underwriting

models—with static datasets and broad risk categories—are also in need of AI-driven insights and analytics.

Effectively addressing the looming talent shortage is important partly because the broader industry is already struggling with declining customer satisfaction and retention. Service delays, rising premiums, and lagging digital engagement have resulted in lower NPS scores in insurance than in other sectors. In turn, customer churn across insurance has increased, reducing carriers' bottom lines. A recent survey by Accenture, for example, found that 47% of policyholders who said they were dissatisfied with their claim experience also said they were considering switching carriers.[4]

The Rise of AI-Native Platforms Focused on Insurance

"Use of GenAI has been on the rise in insurance, with an estimated 6% of the industry already using it at year-end 2023 and another 33% deploying in the next 12 months," according to the Gartner 2024 CIO and Technology Executive Survey.[5] However, existing fears regarding model biases, output reliance, and confidentiality/privacy are made worse by AI, while it also creates new risks of data hallucinations and IP protection and infringement.[6] Making matters more challenging, only 5% of insurance companies have well-established governance frameworks for generative AI.[7]

As such, insurance companies have been slower to embrace AI than other industries, but a significant shift toward widespread adoption is now on the horizon. Perhaps not surprisingly, many of the most promising companies in insurtech

are AI-native platforms built to address insurance-specific challenges. For example, there are exciting platforms that leverage predictive AI to streamline claims processing by automatically flagging high-risk claims and fast-tracking simpler ones. One cybersecurity company leverages AI to pinpoint security vulnerabilities, model cyber breach scenarios, and quantify the overall cyber risk on a portfolio- and individual-policy basis. Others in the broader core systems space are rolling out generative AI co-pilot assistants to automate routine tasks and collate, organize, and assess disparate data sources.

Beyond generative AI, the integration of disparate data sources has also helped accelerate the advancement of deep learning machine-learning models. These models are trained to analyze structured and unstructured data to provide deeper predictive insights and more accurately assess risk based on a variety of different scenarios. The result is improved accuracy, efficiency, cost savings, and scalability.

Primed to Drive Investment and Transaction Activity

Investment and transaction activity within insurance technology has declined since the post-COVID highs of 2021. But the industry's unique challenges have only increased in recent years, and software—and more specifically AI—is best-suited to address them.

Importantly, AI's potential to improve operational performance, create personalized products and experiences for customers, and help drive new product development and platform growth has caught attention of the C-suite, with 94% of insurance CIOs saying that adoption of AI will

2. Source: Gartner, Compare AI Software Spending in the Insurance Industry, 2023-2027, 27 March 2024.
3. Source: Free Partners LLP, "The Re-Generation Report."
4. Source: Accenture press release, "Poor Claims Experiences Could Put Up to $170B of Global Insurance Premiums at Risk by 2027, According to New Accenture Research."
5. Source: Gartner, Top 10 Technology Trends for P&C Insurance CIOs in 2024, 18 March 2024, Sham Gill, James Ingham, Kimberly Harris-Ferrante.
6. Source: Deloitte, "The AI Imperative in Insurance," March 20, 2024.
7. Source: SAS Institute, "Your journey to a GenAI future: An insurer's strategic path to success."
8. Source: Deloitte, "The AI Imperative in Insurance," March 20, 2024.

be critical to success over the next five years.[8] While generic AI solutions are available, AI-native platforms built specifically for insurance–pairing industry-specific data and workflows—are key to unlocking the full potential of AI.

These platforms are poised to drive a reacceleration of transaction activity across the broader insurtech ecosystem, as insurance carriers and the core systems that serve them start to embrace advanced AI tools. In many cases, larger insurtech companies will struggle to develop these capabilities internally and will need to turn to external acquisitions to access cutting-edge AI tools.

To learn more about the key trends shaping the insurtech sector, please don't hesitate to reach out to William Blair's Insurtech team.