



sprout.ai

Responding to rising customer expectations in insurance



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CEO INTRODUCTION

The insurance sector has historically been slow to adopt new technology. While the wider financial services industry has largely embraced 'fintech', 'insurtech' has lagged behind. This has started to change in recent years, with the insurtech market experiencing significant growth. There are now up to 3,475 insurtech companies globally, with more than 1,500 of those companies emerging in the last five years.¹

The first wave of insurtech companies targeted consumers directly and focused on acquiring customers to take market share from legacy insurers. The second wave is focused on supporting legacy insurers to innovate back-office operations, such as risk calculation for underwriting, onboarding new customers, generating new customer quotes, and claims. Both types of innovation in insurance are a response to ever-tightening margins, which eats into profitability. Applying technology to insurance improves efficiency, in turn improving profitability.

Many legacy insurers have invested in technologies that have improved the customer experience - through improvements to website design and navigation, or online questionnaires to

speed up new policy requests. However, less investment has been made in back-office operations to improve the end-to-end customer experience. The result is that many insurers deliver exceptional customer service at certain touchpoints in the customer journey, but fall down in other areas.

One area in particular that customers find inconvenient and lengthy is claims. Even simple claims can take weeks or months to process, and communication with customer service agents is often disjointed.

This report sets out why customer experience matters in insurance, how the market is evolving as digital players gain traction, and how insurers can deploy new technologies such as automation to respond to this dynamic.

Finally, we provide an insight into the future of insurance claims, based on our conversations with Sprout.ai customers. The report includes findings from our recent consumer research, conducted in November 2022 in collaboration with CitizenMe and in conjunction with existing research about the market.

Roi Amir, CEO, Sprout.ai

¹Porch, Report: What Is The State of InsurTech in 2021?: <https://porch.com/advice/report-state-insurtech-2021>

SUMMARY OF FINDINGS



Half of respondents buying solely from traditional brands would consider buying insurance from a challenger brand



More than 1 in 5 (21%) insurance customers expect claims to be resolved within hours



100% of 18-24 year olds expect a resolution on an insurance claim within one week



More than a third of respondents (34%) said they already purchase policies from a combination of both traditional insurers and challenger brands



18% of 18-24 year olds buy insurance solely from digital players



62% of claimants reporting a "good" or "very good" customer experience said that they remained a customer of their existing insurance provider,



while 31% said that they would use the same provider at some point in the future...



vs... only 19% of those that had "bad" or "very bad" experience said they are still a customer of their existing insurance provider.



89% said they would not purchase a policy from the same insurer in the future

SHIFTING CUSTOMER EXPECTATIONS

Why customer experience matters for insurers

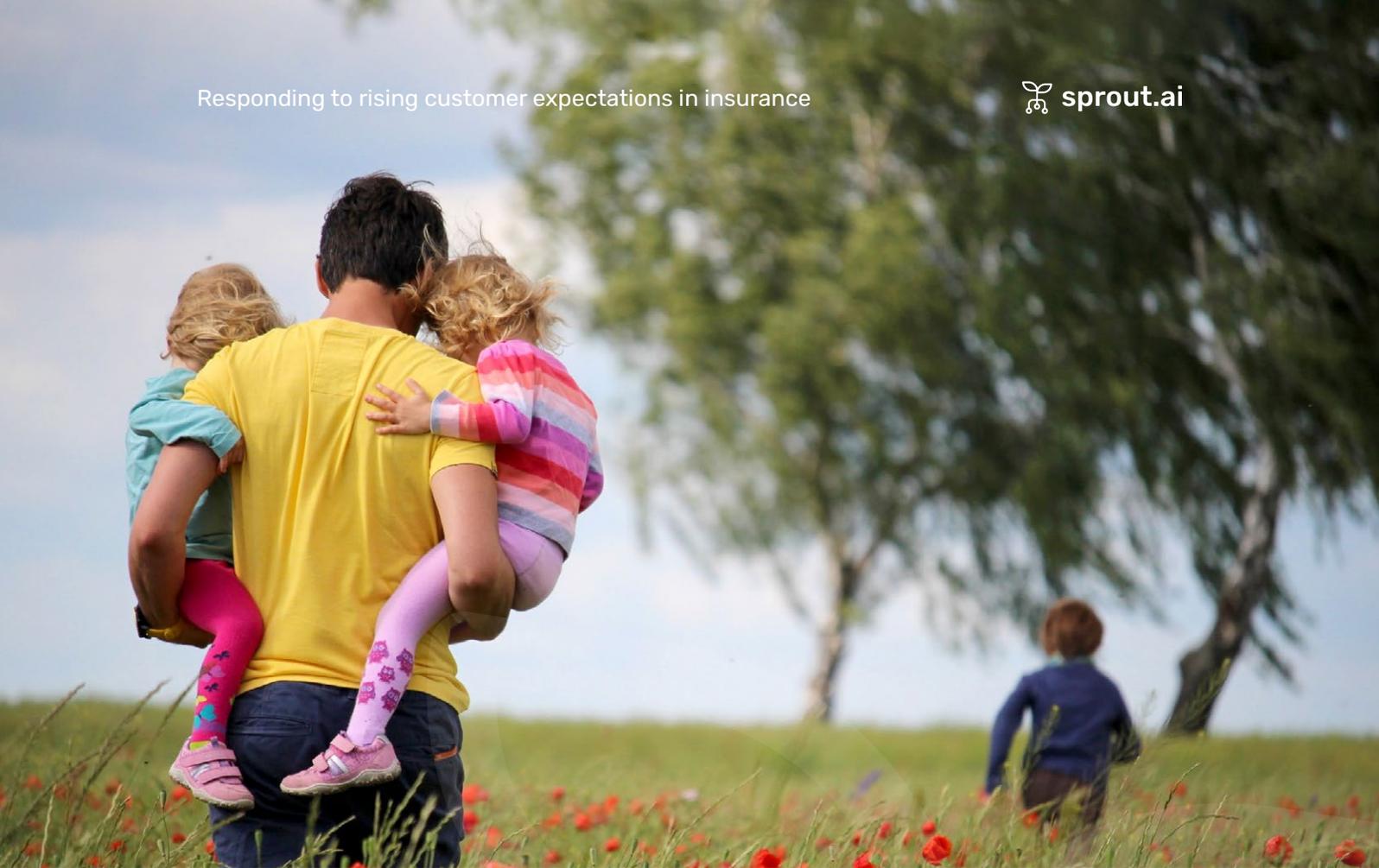
Delivering 'good' or 'excellent' customer experience is a priority for almost every business, big or small. It means your customers will keep coming back and will recommend your product or service to friends and family – all of which builds trust in your brand. Investing in customer service is one of the most powerful organic revenue generators for your business.

The vast majority of insurance companies recognise the value of delivering excellent customer experience. The insurance market is highly competitive, the margins are tight, and it is usually easy for customers to switch between different providers. After

initial interactions with a customer when they purchase an insurance policy, the next 'touchpoint' is typically when a claim is filed. Interactions with claims handlers, therefore, have a significant impact on the overall customer experience.

The most widely used measure for insurers to gauge customer satisfaction is Transactional Net Promoter Score (TNPS), which indicates how likely a customer is to recommend that company's product or service to others, based on the customer experience of the joining process, resolution of a support question, or interaction with their customer service representative.





How and why customer expectations are changing

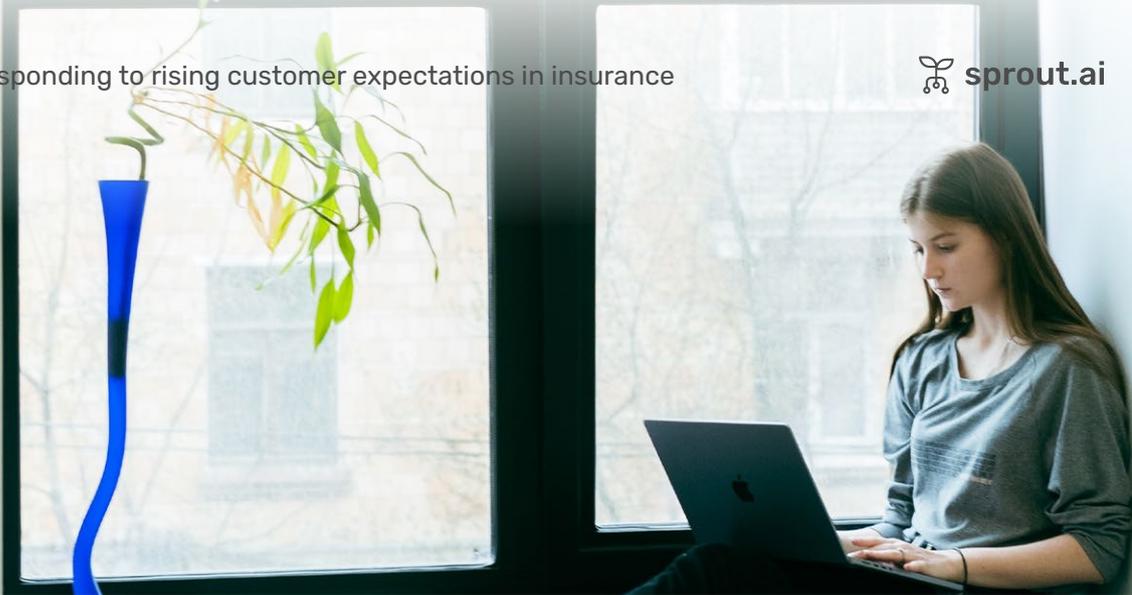
Customer expectations are never static, but have been rapidly evolving in an upwards trajectory in recent years. A 2017 report by [Microsoft](#) found that customers expect more from brands when it comes to convenience, resolution times and agent expertise. Overall, 54% of customers have higher expectations for customer service today compared to one year ago.²

“Businesses have accelerated their digital transformation agendas by as much as seven years”

“Overall, 54% of customers have higher expectations for customer service today compared to one year ago”

One of the main drivers for this increase is the rapid transformation and digitisation of the global economy. Although the insurance sector has historically lagged behind other sectors in adopting new technology, this has started to change in recent years, and has been accelerated by the Covid-19 pandemic. According to a [McKinsey](#) study, businesses have accelerated their digital transformation agendas by as much as seven years, fuelled largely by Covid-19.

²Microsoft; 2017 State of Global Customer Service Report: <https://info.microsoft.com/rs/157-GQE-382/images/EN-CNTNT-Report-DynService-2017-global-state-customer-service.pdf>



Customer expectations of the claims process

Our recent research into customer expectations of the claims process provides further insight into how attitudes are changing. The findings showed a huge disparity between customer expectations and the reality of how long insurance claims currently take to process. One in five (21%) insurance customers expect claims to be resolved within hours. However, 43% of customers responding to the survey waited over two weeks for a claim to be resolved, across multiple insurance lines.³

Younger people have even higher expectations and often demand exceptional customer service. In the previously-referenced [Microsoft](#) report, 66% of consumers aged 18 to 34 years old said they had higher expectations of customer service than they did a year ago. This is a significant jump from the 54% average across the entire age range of those surveyed (18-55+).

Our own research into expectations around the claims process supports this trend, with 100% of 18-24 year olds responding that they expect a resolution on their claim within one week.

“One in five (21%) insurance customers expect claims to be resolved within hours”

“100% of 18-24 year olds responding that they expect a resolution on their claim within one week”

While the vast majority of insurers are aware of the importance of providing high standards of customer service, few are tapped into the preferences and profiles of the Gen Z and millennial market. However, legacy insurers are at risk of losing ground to digital players because they haven't invested in the technologies that enable excellent customer service through the claims process, with many hamstrung by legacy technology and processes.

In the following sections, we will explore how the insurance market is changing and how legacy insurers can keep pace with digital players and challenger brands. We will then look in more detail at the role of technology and automation in addressing some of these challenges.

³Claims resolution data gathered from respondents that had purchased one of the following lines of insurance: automotive, contents, buildings, travel, breakdown, pet, life, health, mobile, or mortgage / rental insurance.

CUSTOMER SPOTLIGHT

Top-tier UK insurer partners with Sprout.ai

One well-known leading insurer in the UK has made a company-wide commitment to innovation. This insurer aims to deliver a faster service and provide delightful customer claims experience for every customer.

The goal is to serve their customers quickly at a vulnerable time.

The goal

By partnering with Sprout.ai, this insurer aimed to control costs, achieve operational efficiency, provide a swift, personal customer experience and remain competitive in the market as more insurers use AI to manage claims.

The results

They are now able to settle **45% of customer claims in real time**, whether they are made by phone or online.

For claims that are not settled in real time, **Sprout.ai increased claims settled within five days of initial submission by 10%**.

Without Sprout.ai, it would take a claims handler up to 30 days to process a single claim. Now, **claims handlers are able to provide great service while focusing on more important tasks**.

“Claims is, and has always been, the ‘moment of truth’ in insurance. Our collective responsibility is to support customers in the best possible way when they need us most. We always strive to do this better. We knew we could settle claims quicker and do more to help our customers. By combining our experience with Sprout.ai’s innovative approach, we have changed the game.”

Head of Claims Digital Experience

Reviewing policy documents can be done in seconds. It used to take claims handlers at least 30 minutes per claim. Claims handlers are no longer constrained by the many documents associated with each claim, leaving them with more time to spend with customers, at times when human touch and empathy can make a real difference.

Value from claims data and systems is maximised. Sprout.ai delivers data insights that facilitate agility, improve retention rate and control costs.

CHANGING MARKET DYNAMICS

The rise and rise of insurtechs

Rapid digitisation is only impacting expectations around customer service. It is fundamentally changing the dynamics of the insurance market. Over the past ten years, more challenger brands have launched in the sector and grown in scale.

These “insurtechs’ are technology solutions, companies or platforms digitising or automating part of all of the insurance value chain. According to data from [Dealroom](#), the combined enterprise value (EV) of European insurtech companies stands at \$39 billion in 2022, 9.7x more than in 2016. In the US, the insurtech market is valued at US\$16.6 billion in 2022, reaching US\$165.4 by 2032.⁴

Lemonade, the US digital insurer, recently released its best ever results⁵ with 76% growth of ‘in-force’ or active premiums, more than tripling over the past two years. The company has 1.7 million total customers, 30% more than a year ago. In Europe, Wefox is gaining traction by selling insurance products through in-house and

external brokers, rather than taking the direct-to-consumer route. In July 2022 it raised \$400 million in a Series D round at a valuation of \$4.5 billion.⁶

“Half of those (50%) buying solely from traditional insurers would consider buying from a challenger brand”

“Rapid adoption is particularly prevalent amongst 18-24 year olds, with 18% buying insurance solely from digital players”

Our research sheds light on customer preferences for purchasing insurance from traditional insurers vs insurtechs, and shows a significant trend towards the adoption of digital services. Half of those (50%) buying solely from traditional insurers would consider buying from a challenger brand. More than a third of respondents (34%) said they already purchase policies from a combination of both traditional insurers such as AXA, Aviva and Allianz and challenger brands, such as Lemonade and WeFox. Rapid

adoption is particularly prevalent amongst 18-24 year olds, with 18% buying insurance solely from digital players that can offer instant digital access, transactions and customer support. By contrast, 0% of 55-64 year olds said they would consider buying insurance from a digital player only.

⁴Future Market Insights, Insurtech Market Outlook (2022 - 2032): <https://www.futuremarketinsights.com/reports/insurtech-market>

⁵Motley Fool, Lemonade Falls on Better-Than-Expected Results: Time to Buy?, Motley Fool: <https://www.fool.com/investing/2022/11/09/lmnd-down-better-than-expected-results-time-buy/>

⁶Business Wire, wefox Closes US\$400m Series D Round at US\$4.5bn Post-Money Valuation: <https://www.businesswire.com/news/home/20220711005902/en/wefox-Closes-US400m-Series-D-Round-at-US4.5bn-Post-Money-Valuation>



“Technology has fundamentally changed consumer expectations of what ‘good’ customer service looks like”

The state of innovation in insurance

Technology has fundamentally changed consumer expectations of what ‘good’ customer service looks like, with products and services becoming faster and more convenient than ever to access and purchase. Today, you can order a Friday night curry in 30 minutes, order a taxi after a late night out in one or two minutes, or pay a bill in seconds. For so many of us, this has become the norm.

By applying technology to insurance, the first wave of direct-to-consumer (DTC)

insurtechs focused on acquiring new customers by providing the sort of User Experience (UX) they would expect from their favourite grocery delivery or ride-hailing apps. However, there is a huge opportunity for business-to-business (B2B) innovation in insurance. This type of technology is digitising or automating many of the back-end processes that keep insurers running. Effective solutions can drive growth or reduce costs for insurers that are operating on increasingly tight margins.

THE POTENTIAL OF AUTOMATION

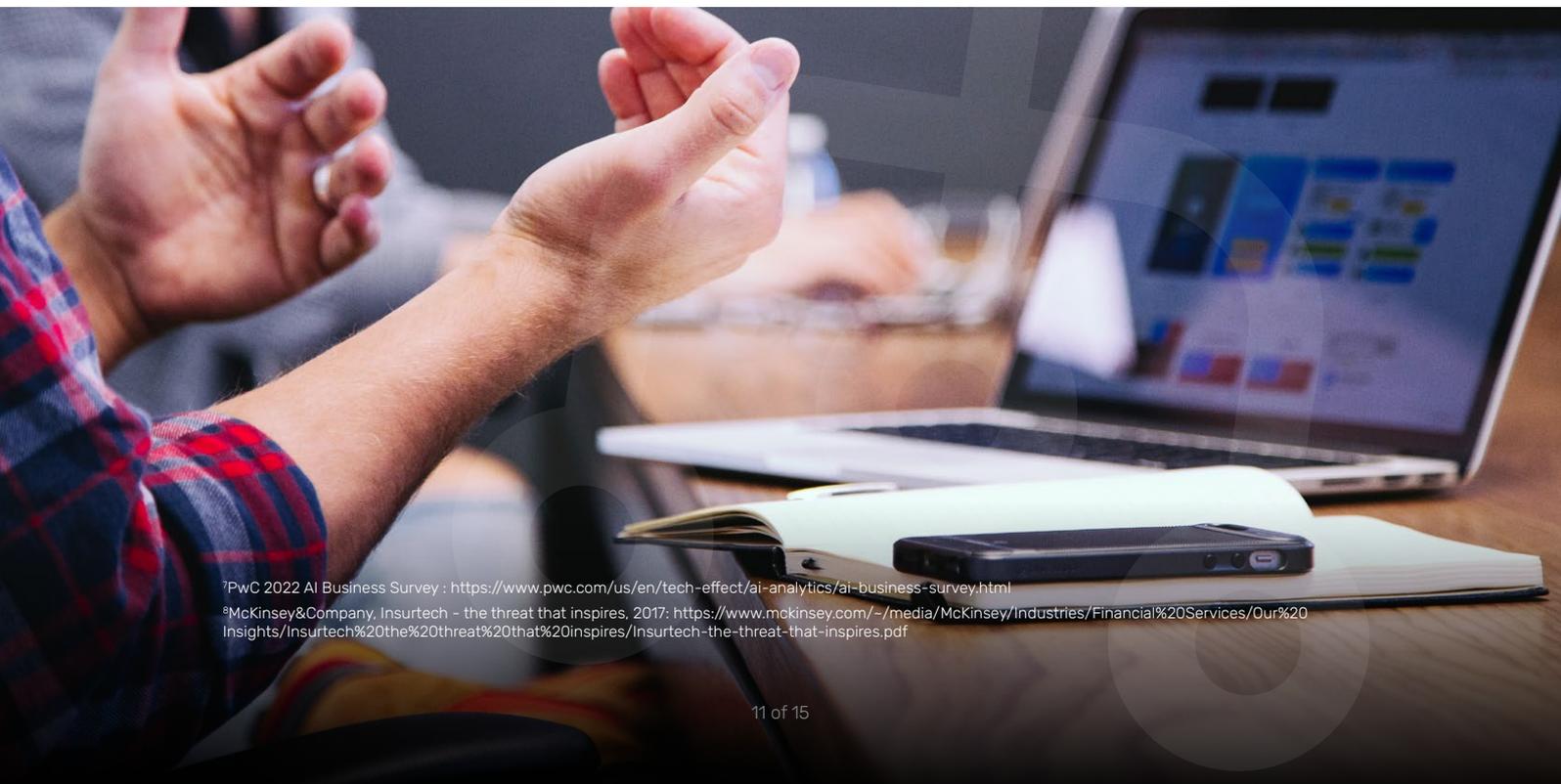
Automating insurance processes

With many insurtechs automating almost every aspect of the insurance value chain, legacy players are at risk of struggling to keep up. Some are aiming to build new technology in-house, but this can be a long, slow process without the requisite technical expertise. This problem is exacerbated with demand for software engineers and data scientists higher than ever.

Automation is primarily enabled by AI, a technology that simulates human intelligence processes. In insurance, automation is used to improve productivity, decision making, customer experience and innovate products and services. It will enable legacy insurers to deliver personal,

omnichannel communication to improve the customer experience that customers now expect.

An increasing number of legacy players are choosing to partner with insurtechs that have built market-leading technology to support growth or reduce costs. Those enabling growth can help improve the customer experience, while increasing up-selling and cross-selling. At Sprout.ai, we focus on the customer experience by empowering intelligent claims decisions. Other insurtechs will enable cost reduction, by reducing acquisition costs or administrative expenses, and narrow risk and loss ratios.



⁷PwC 2022 AI Business Survey : <https://www.pwc.com/us/en/tech-effect/ai-analytics/ai-business-survey.html>

⁸McKinsey&Company, Insurtech - the threat that inspires, 2017: <https://www.mckinsey.com/-/media/McKinsey/Industries/Financial%20Services/Our%20Insights/Insurtech%20the%20threat%20that%20inspires/Insurtech-the-threat-that-inspires.pdf>

THE FUTURE OF INSURANCE

The global insurance market faces a myriad of challenges, from increasing customer expectations to rising inflation, climate change, cyber security risk and pandemics. There will be few insurance lines unaffected by these challenges in the next five or 10 years. While direct-to-consumer insurtechs are well positioned to respond with agility to these challenges, legacy insurers are considerably more vulnerable, because customers will increasingly favour those companies able to offer them choice and better customer service.

We can't provide answers to all of these challenges within the scope of this report, but we can provide some insight into the future of insurance claims as we see it.

Building resilience to global crises

We know from speaking to our customers that the Covid-19 pandemic had a far-reaching impact on health insurance lines. Claims volumes increased by 40-60% and have not fallen since. This sharp increase has been driven not just by initial Covid infections, but the knock-on effect of the pandemic on other long-term health conditions. Due to this rise in claims volumes, insurance companies have had to retrain claims handlers covering other areas such as motor insurance to manage health claims. Given that it typically takes 6-9 months to train claims handles, this has proved a long and expensive process.

We all hope there is not another global health crisis on the horizon. However, the Covid experience highlights a wider challenge for insurers today. When global crises hit, how can a spike in claims

be handled within a system of legacy processes and technology?

In the years ahead, global warming will continue to present enormous challenges for insurers in the form of wildfires, rising sea levels, and floods. Insurers need to be prepared to handle these events by embedding the right technologies, putting action plans in place to prepare for future crises, and increasing the flexibility and elasticity of their workforce.

A customer-centric approach to claims

Today, the majority of insurers structure their operations by insurance lines. For customers, this is highly inefficient, with one customer holding multiple policies for different insurance lines. It becomes even more inefficient and problematic at the point of claim if the customer needs to claim on more than one type of insurance.

The following scenario may help to illustrate the problem: Customer 'A' owns a house where a fire breaks out. The fire destroys the entire contents of the home and causes the customer severe respiratory issues. Customer 'A' will need to claim on up to three insurance policies - buildings, contents and health insurance - which are likely to be held with different companies, immediately following the incident.

A customer will often be emotionally, financially, or physically vulnerable when filing an insurance claim. Improving efficiencies in the claims process helps to reduce that stress and enhances the overall customer experience.

KEY TAKEAWAYS

Insurance customers expect the process of both purchasing and claiming on insurance to be fast and convenient. Younger generations - Millennials and Gen Z - have even higher expectations as they are more digitally literate and likely to access and purchase the most products and services online.

1

The volume and complexity of customer data, coupled with legacy systems and processes, make it harder for traditional insurers to deliver the end-to-end customer experience consumers now expect. As a consequence, they're losing ground to direct-to-consumer insurtech companies.

2

Automating back-end processes, such as claims, has the potential to transform the customer experience that traditional insurers can deliver by enabling hyper-personalisation. Put simply, this means claims handlers will be able to spend much more time communicating with customers directly, rather than reviewing claims documents.

3

There are an increasing number of B2B insurtech companies emerging in Europe and the US. Look for 'plug-and-play' partners that can help to revolutionise your customers' experience, without replacing legacy systems.

4

ABOUT SPROUT.AI / METHODOLOGY

About Sprout.ai

Sprout.ai is an end-to-end claims automation technology solution for the insurance industry. Sprout.ai works in partnership with major insurers - including Zurich UK - building groundbreaking AI and data-led products to automate the claims process for customers.

Sprout's vision is to provide a frictionless claims experience to everyone in the world. The average time it takes for insurers to process claims is around 30 days. At a time when you're emotionally and financially vulnerable, this is often frustrating and stressful. Sprout.ai enables insurers to make a decision on a customers' claim, in near real-time. Sprout's technology delivers fast and accurate decisions and an exceptional claims experience, driving high customer retention with improved efficiency.

Sprout.ai has raised \$15 million to date from top tier investors Octopus Ventures, Amadeus Capital Partners, Playfair Capital and Techstars.

Methodology

[CitizenMe](#), on behalf of [Sprout.ai](#), surveyed 1,000 consumers about their attitudes towards insurance claims. 99% of the respondents were either solely responsible for choosing and purchasing insurance products, or made decisions jointly with a member of their household.



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