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[ijirset@gmail.com](mailto:ijirset@gmail.com)

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# Transformation of the Insurance Market under Digitalization

Kurbonov Said Akbarovich

Independent researcher of the Higher School of Business and Entrepreneurship, Uzbekistan

**ABSTRACT:** The market for insurance is undergoing increased transformation because to digital technology. The growth of the insurance industry depends on the effective adoption of digital insurance technologies, which provide companies a chance to compete with those offering information security around the globe. The paper examines pressing concerns about the evolution of the insurance sector under the influence of digital technology. The essay demonstrates the significance of continuing to integrate digital technology into the insurance sector in order to improve insured protection and advance the insurance industry in the digital economy. The authors got to the conclusion that the steady and efficient growth of the financial sector is what led to the creation of digital insurance.

**KEYWORDS:** insurance industry, digital insurance, finance market, digital economy, digital technologies.

## I. INTRODUCTION

At the modern financial market, to achieve success in competition is possible only with the use of information systems. Their use allows attracting new customers, reducing the costs of the insurance company, conducting actuarial accounting more accurately. Most insurance products are characteristic of customer's reduced loyalty. The client often no longer depends on specific insurer's discounts, quality of service or efficiency of the withdrawal of loss. Replacing one insurer by another is primarily related to the price of the insurance product. But at present that insurer wins who is more customer-oriented and meets the customers' needs. The modern world is unthinkable without technological solutions, therefore, those insurance companies that have the opportunity to use information systems more widely will experience the growth. The work presents the research of the main directions in the use of information technologies in the insurance business. It also states a possible scheme of the interrelation of the insurer's business processes within the information system of the insurance company.

## II. THE SPREAD OF INSURTECH START-UPS

In last two decades, one type of technological start-up, generically defined as —InsurTech start-up, gained a considerable market share in the insurance sector. Investments have increased exponentially, from 130 million dollars in 2011 to 2.7 billion in 2015. Further future growth of InsurTech platforms is envisaged, which would bring the fundraising from 175 billion dollars in 2016 to 235 billion dollars in 2021. The placement of investments shows homogeneity on a global scale: 46% of all investments are in the United States, 40% in the EMEA area (Europe, Middle East, Africa) and 14% in the Asia-Pacific area, with the prospect of progressive growth in the latter regions over the next few years. Most InsurTech investments are concentrated in innovation in the non-life compartment, particularly in the health and motor segments. However, diversification by area is growing and if investments were primarily concentrated in marketing and distribution, which are still predominant, they now extend to solutions in the field of analytics and underwriting on demand, namely the specific activity of selection and risk assessment of policies sold to policyholders. The trend is to intervene in all phases of the insurance value chain and even different insurance sectors than the non-life compartment.

The main differences that distinguish the incumbent companies from the new start-ups are essentially attributable to aspects pertaining to the approach to the market, the kind of interaction between the policyholder and the insurance company and the features of the service provided. The marketing approach adopted by insurance companies can be defined as product-oriented, since they focus on offering a better product than their competitors. An indirect connection is established between the seller and the consumer; the service provision is mainly focused on product development and, at a later stage, on its distribution. On the other hand, the marketing objectives of start-ups are process-oriented. Emphasis is placed on offering the best experience while receiving the product. In this case, the relationship with the consumer is direct. The automation of processes allows for greater connectivity: distribution can also take place



through chat-bots and robo-advisors in order to optimise time, place and customer needs. The service provision is mainly focused on promoting the dissemination of information about the product to the right people at the right time and in the right place. InsurTech companies are able to adopt decision-making processes driven by data analysis in order to promote innovative and customised products and services based on customer experience. All stages of the customer's journey and the value chain may be affected by the InsurTech phenomenon. In fact, the macro trend of digital innovation is leading to a much more fluid state in the sector, where each value proposition can become the integration of a set of multiple modules belonging to different players. At the same time, the boundaries are increasingly blurred between the classic roles of distributor, supplier (at times from another sector), insurer and reinsurer. The context seems to favour further growth of InsurTech, despite the high level of regulation characterising the insurance sector.

Conversely, the very presence of entry barriers hinders access to the market by global digital giants such as Google, Facebook and Amazon. Without players in a strongly dominant position, the sector has the possibility to develop gradually and widely, giving InsurTech the time and room to manoeuvre to gather funding and develop new solutions. InsurTech start-ups generally adopt very linear business models focused on specific areas and rich in technological content almost entirely dedicated to innovation in the insurance sector. Most use artificial intelligence, specifically machine learning, and possess great capacity for Big Data analysis and processing. Due to their significant digitisation, these start-ups are able to seize the opportunities offered by the market more swiftly than traditional companies. As such, they often have a culture that strives for and honours innovation and a mentality that places them in pole position in sector change. In the early stages of their market entry, the innovative business model of InsurTech start-ups raised concerns about whether they would constitute a threat to the incumbent companies, due to the process named —digital disruption. However, the difficulties that a start-up might encounter are manifold, so some tech-led initiatives in insurance will inevitably fail. Factors of disadvantage are due to a poor knowledge of the market, the lack of an appropriate business model as well as the high level of competition in the insurance sector, characterized by many complexities and a high level of technical content. If the new players generally have strong skills in terms of customer experience, simplification and speed of processes, traditional companies have a significant advantage when compared to the competitors entering the sector.

### III. THE DIGITALIZATION OF INSURANCE DISTRIBUTION

Sales and distribution are undoubtedly the value chain components that have been affected most by the technological evolution. The application of digital technologies has vastly changed the service delivery process, the way they are used and, consequently, the customer relationship. In order to upgrade communication methods and improve sales activities, insurance companies focus on the design of mobile apps, websites and official pages on the main social networks. They are also attempting to implement distribution methods and customer relation management through chat-bots and robo-advisors, which are highly technological systems.

### IV. CONCLUSION

By reducing interaction time thanks to the digitisation of distribution channels, insurance companies can improve their efficiency by cost reduction and better pricing policies. Furthermore, they can consolidate/expand their market share thanks to a careful management of customer relations. In this respect, it is necessary to highlight that the distribution of the insurance services implies a close interaction between insurer and customer, which becomes an integral part of the delivery process itself.

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