SJIF Impact Factor (2024): 8.282 Journal DOI: 10.36713/epra0003 ISSN: 2250 – 2017
International Journal of Global Economic Light (JGEL)
Volume: 10 | Issue: 11 | November 2024

MODERN TRENDS AND THREATS IN THE INSURANCE MARKET

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ABSTRACT

The digital transformation of the global economy has significantly reshaped traditional insurance models, impacting operations across the global, national, industry, enterprise, and individual levels. This paper explores how technological advancements, such as artificial intelligence, cloud computing, and data analytics, have redefined risk management, customer engagement, and operational efficiencies in the insurance sector. As insurance companies adapt to digitalization, new trends emerge, including reduced operational costs, enhanced customer service through digital platforms, and competition from non-traditional players. Key threats, however, persist, notably in data privacy, cybersecurity, and regulatory compliance, which demand continuous adaptation and strategic focus.

This study emphasizes the need for targeted strategies to ensure resilience and competitive advantage for insurers in the next decade. Recommended strategies include advanced cybersecurity measures, ethical AI integration in underwriting, climate-based tariff adjustments, and building partnerships with professional stakeholders. Furthermore, fostering transparency in AI-driven processes, optimizing tariff rates through actuarial analysis, and developing flexible, customer-centric products will position insurers to meet evolving demands. By implementing these strategies, insurers can navigate the complex challenges and opportunities of a digitalized insurance landscape, enhancing value for both customers and stakeholders.

KEYWORDS: *digital transformation, insurance market, artificial intelligence (AI), cloud computing, data privacy, cybersecurity, risk management, customer engagement, regulatory compliance, underwriting, tariff optimization, actuarial analysis, climate-based tariffs, insurance ecosystem, InsurTech*

INTRODUCTION

The changes brought about by the digitalization of the economy, irrespective of their level, have had a profound impact on almost every aspect of existing economic relationships, reshaping structures, practices, and interactions across multiple levels of society and business. This transformation, driven by digital technologies and innovation, has brought about significant shifts globally, nationally, at the industry and enterprise levels, and even at the level of individual relationships.

At the global economy level: Digitalization has given rise to a global network of economic activity that connects businesses, markets, and consumers worldwide. High-tech giants have emerged as dominant players, supported by artificial intelligence (AI) systems, cloud computing, and advanced analytics. The digital transformation of international production processes has redefined efficiency and connectivity across borders, enabling businesses to streamline operations and access global resources in unprecedented ways. Digitalization has also led to a re-examination of competition principles on a global scale, pushing for new regulations and frameworks to maintain fair play in increasingly interconnected markets. This shift has intensified the competition among countries and companies, with many striving to leverage digital advantages to strengthen their economic influence.

At the macroeconomic level (national economy): The widespread adoption of digital technologies has fundamentally altered relationships between economic entities, government institutions, and regulatory authorities. Traditional communication and service channels have shifted to digital platforms, leading to the rise of e-government systems that make government services more accessible, efficient, and transparent for citizens and businesses. The digitalization of public administration has also enhanced regulatory oversight and compliance processes, streamlining tax collection, business registration, and monitoring. This shift towards digital governance represents a move towards greater accountability, data-driven policymaking, and increased citizen engagement in economic and political decision-making.

At the microeconomic level (individual enterprise): Within businesses, digitalization has introduced new models of customer engagement and service optimization. Digital customer service concepts, such as personalized communication and predictive analytics, have emerged to enhance the interaction between businesses and customers. Companies are now able to gather, analyze, and utilize vast amounts of customer data to better understand and meet customer needs, effectively transforming customer data into a strategic asset. This trend has led to the development of customer-centric business models where insights derived from data analytics drive marketing, sales, and service decisions. Moreover, digital tools facilitate better resource management, streamline internal processes, and create a competitive edge through innovation and customer experience optimization.

At the nano level (individuals): Digitalization has also impacted relationships at the individual level, changing how people interact with each other and the economy. With the advent of the sharing economy model, individuals can now share or rent assets, such as cars and apartments, creating new income streams and fostering a sense of community collaboration. Additionally, taxation principles have had to evolve to accommodate these new digital models, resulting in digital economy taxes. These shifts reflect a change in lifestyle and work patterns, as more people engage in remote work, freelance opportunities, and digital entrepreneurship. This has also led to changes in personal finance management and new ways for individuals to invest, save, and earn through digital platforms.

At the meso-economic level (industry level): Innovation and technological advancements in recent years have not only accelerated the growth of the entire economy but also significantly influenced specific industries and institutions. These advancements have altered industry structures, as seen in sectors like finance, healthcare, and manufacturing, where digital technology has optimized processes, reduced costs, and enhanced service delivery. In the insurance industry, in particular, these innovations are redefining risk management practices, enabling data-driven underwriting, and creating more comprehensive customer service models. For insurance companies, the move towards digitalization has unlocked the potential for more precise risk assessment and targeted product offerings, driving efficiency and profitability across the sector.

Given that insurance is one of the most promising sectors of the economy, particularly in a rapidly developing market like Uzbekistan, improving the system of relationships within the insurance market has become a crucial area for advancing scientific thought.

The insurance market is a complex ecosystem, involving a wide range of participants such as regulatory and supervisory bodies, associations of insurance entities, insurance organizations, mutual insurance companies, reinsurance companies, brokers, agents, insurers, policyholders, beneficiaries, market infrastructure organizations, actuaries, and consulting agencies. The interactions among these participants form an intricate network, where each party has specific roles and responsibilities that contribute to the stability and growth of the market. Digital transformation enables these participants to communicate and operate more seamlessly, improving efficiency, transparency, and the quality of services delivered.

The development of insurance and the insurance sector is closely linked to societal progress and reflects the evolution of risk management practices, occurring in distinct stages:

1. Self-insurance: Individuals or businesses set aside their own resources to cover potential losses, relying on personal reserves rather than third-party providers.
2. Mutual insurance: Groups of individuals or businesses pool resources to protect each other against losses, creating an early form of collective risk management.
3. The emergence of insurance organizations: Specialized entities offer professional insurance services, allowing for broader risk distribution and more sophisticated coverage options.
4. Formation of insurance communities and associations: Regulatory bodies, insurance and reinsurance intermediaries, and trade unions are established to govern, support, and advocate for industry standards and best practices.
5. The rise of electronic insurance commerce: As digital technologies develop, insurers adopt e-commerce platforms to reach customers more easily, reduce administrative costs, and simplify the purchase and claims process.
6. Development of the insurance market: The expansion of insurance products and services to meet diverse customer needs drives growth and enhances industry resilience.
7. Formation of an insurance ecosystem: A fully integrated insurance ecosystem emerges, leveraging digital tools to connect various stakeholders, optimize operations, and enhance customer engagement.

Today, insurance companies are becoming active users of digital technologies, striving to automate services and develop innovative products. As new information infrastructures emerge, there is a growing need to quickly adapt and redefine priorities within the insurance sector. Although insurance products may appear similar externally,

nearly all insurer's offerings differ in terms of internal logic, presentation forms, and document flow processes. Digitalization helps companies streamline these processes, improving the efficiency of service delivery and creating more consistent experiences for customers.

This rapid transformation, however, also presents challenges that require insurers to focus on cybersecurity, regulatory compliance, and workforce development. Ultimately, the future of insurance lies in its ability to adapt to digital demands, fostering a more efficient, customer-focused, and resilient industry. The digital evolution of insurance not only meets current consumer expectations but also positions the industry as a vital contributor to broader economic growth and societal progress.

The chart illustrates the trend in the share of insurance services in Uzbekistan's Gross Domestic Product (GDP) from 2019 to 2025. Over the past few years, there has been a steady increase in the contribution of insurance services to the country's GDP, rising from 0.43% in 2019 to a projected 0.90% by 2025. This growth highlights the increasing role of insurance in the economy, signaling a shift towards greater financial security and risk management within society. The rise in the insurance sector's share in GDP is indicative of ongoing efforts to modernize the industry and increase its accessibility to a broader population.

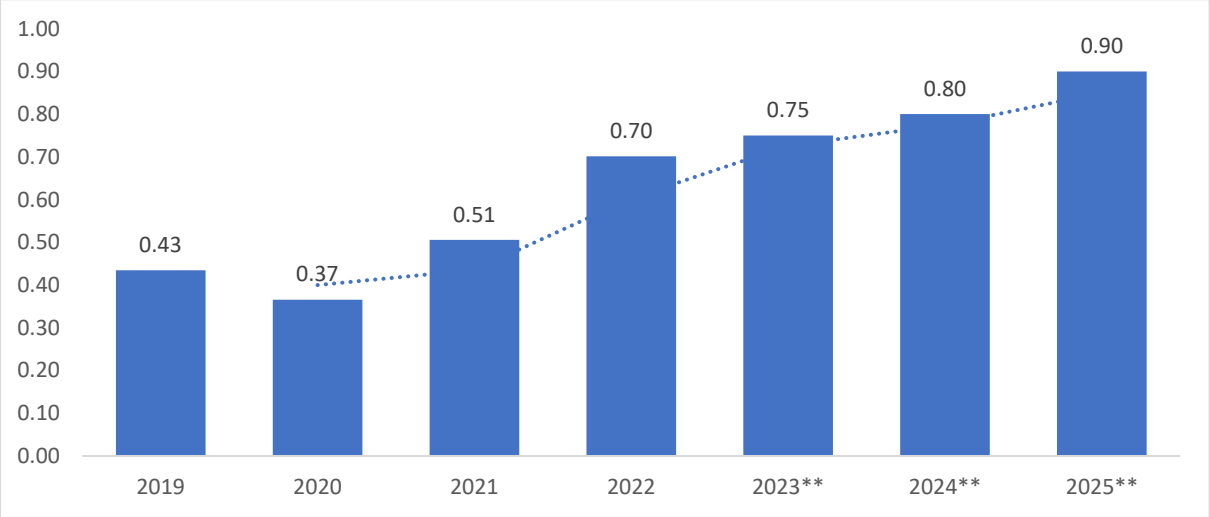


Figure 1. Analytical information on the share of insurance services in GDP and future tasks, in percent[1]

A significant factor contributing to this growth is the focus on digital transformation and automation within the insurance sector. As insurance companies embrace digital technologies, they improve operational efficiency, customer engagement, and overall service quality. Additionally, public awareness campaigns and new, diversified insurance products tailored to the needs of consumers are expected to drive further growth. However, to maintain this upward trend, the sector must also address challenges related to regulatory frameworks, cybersecurity, and the need for skilled professionals. Overall, these projections reflect the sector's potential to contribute substantially to Uzbekistan's economic stability and development if strategic efforts are sustained and improved upon.

In the digital age, insurance product development and distribution have undergone significant transformation. Traditional insurance models are associated with high operational costs due to the expenses involved in creating, marketing, and delivering insurance products. However, digital advancements have enabled a drastic reduction in these overhead costs. The integration of cloud computing and next-generation software solutions allows insurance companies to establish critical infrastructure quickly and at a lower cost. This shift is making it easier for insurers to innovate and offer customized products with greater efficiency.

While digitalization offers cost-saving opportunities, it also introduces challenges, particularly in data privacy. Managing the confidentiality of personal information is crucial, as regulations often struggle to keep up with the fast pace of technological changes in the insurance sector. Transparency around how data is collected, utilized, and protected is essential in maintaining consumer trust. Studies show that many consumers are willing to share

[1] *It was developed by the author based on the information from www.mf.uz.*

personal data with insurers if they trust the company's commitment to data protection. Ensuring robust and transparent data privacy measures can thus enhance customer loyalty and engagement.

Another key trend in the modern insurance market is the influx of new players in developed countries. As consumer preferences evolve and entry barriers decrease, traditional insurers face competition not only from other insurance firms but increasingly from technology companies and other non-traditional entities. PwC's surveys reveal a significant portion of consumers are open to purchasing insurance products from companies outside the traditional insurance industry, suggesting a shift in market dynamics. This diversification in consumer choice underscores the need for insurers to adapt and compete with non-traditional players by leveraging digital tools and customer-focused strategies.

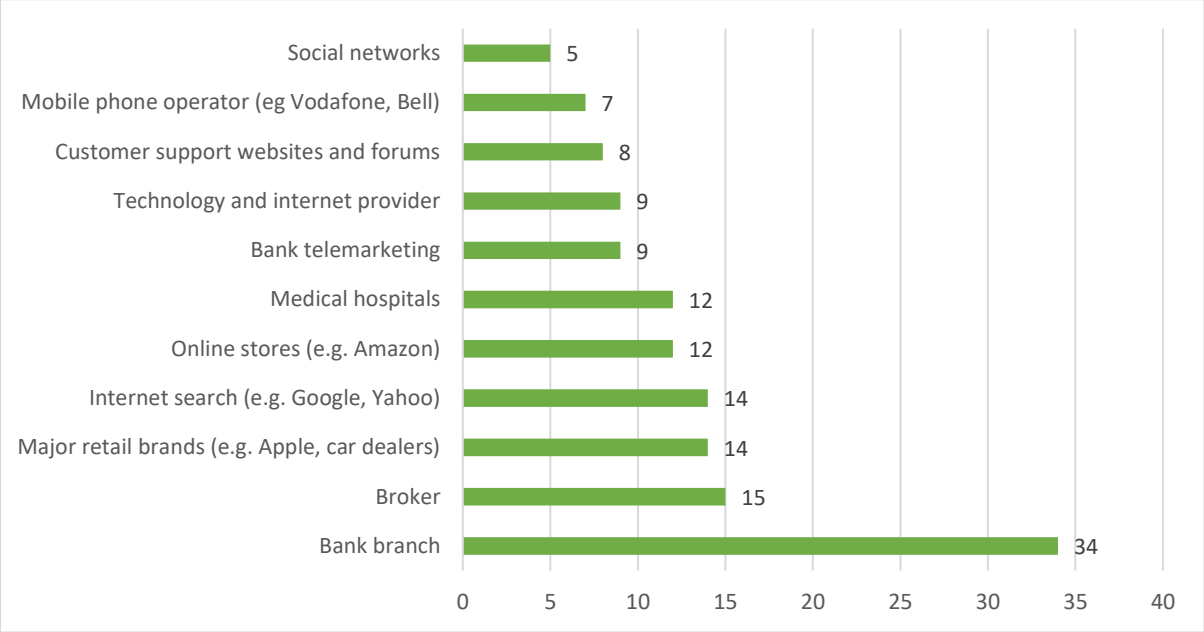


Figure 2. Share of participants who are ready to buy insurance products from out of insurance companies [2]

The next level of information technology emerges from harnessing digital footprints left by individuals, including data from purchases, GPS, and social media interactions. These data sources have become foundational for developing sophisticated analytical methods, enabling more insightful data analysis to shape business strategies and operations.

In the real estate insurance market, we are witnessing how insurers effectively utilize sensor data to acquire critical location-based insights. For instance, sensors can detect flood risks, triggering automatic alerts. Such alerts encourage preventive investments in flood-mitigation infrastructure, including airbrick coatings and raised boundaries. Additionally, social media data allows insurers to monitor factors such as valuable possessions, unoccupied homes (left vacant due to travel), and other conditions that could heighten flood risks. Consequently, insurers can improve risk assessment accuracy and offer precise recommendations for risk mitigation, potentially preventing future losses and damage.

This shift signals a transition from the traditional role of insurers as reactive claim payers to proactive risk managers. By assisting clients in understanding and reducing their risks more effectively, insurers elevate risk management to a strategic level. One of the most pressing issues for general insurance companies is adapting to consumer expectations, often influenced by sectors outside insurance. Insurers are competing not only to attract and retain customers but also to increase lifetime value across their product portfolios. However, historically, insurers have primarily focused on individual risk assessment rather than a comprehensive understanding of customers and their unique needs. New market entrants, leveraging more advanced profiling methods, can tailor interactions, products, and services more precisely to individual customers' requirements, driving a larger share of the portfolio.

[2] *PwC's Digital Insurance Survey surveyed 9,281 consumers.*

The challenge posed by new competitors and joint ventures can be exemplified by the collaboration between Ping An, China's leading insurer, and Tencent, the nation's largest social media network and a prominent e-commerce platform. This partnership targets younger demographics by leveraging extensive customer data and a strong brand presence in this segment, successfully attracting millions of young users. Established in 1988, Ping An, which translates to "peace and safety," began as a property and casualty insurance company and later expanded into life insurance, banking, investments, and asset management.

Based in Shenzhen's technology hub, Ping An competes with China Life as the country's largest insurance group by market value. According to its latest report, Ping An's total assets reached 11.47 trillion yuan ($1.58 trillion) with over 229 million retail customers by June 2023. The company's real estate investments through insurance funds totaled 209.4 billion yuan ($28.64 billion), representing 4.5% of its total insurance investment assets. In recent years, Ping An has allocated 1% of its annual revenue to research and development, focusing on digital technology, financial technology (fintech), and health-related sectors. Divisions like Lufax Holding, OneConnect, and Ping An Healthcare and Technology have been publicly listed in New York and Hong Kong, reflecting the firm's expanding influence in digital and financial technologies[3].

The digital revolution has become a critical catalyst for addressing evolving customer needs, particularly in the insurance industry. These advancements provide general insurers with the framework for a more agile, informed, and customer-centric model. The complex insurance value chain now includes new digital platforms, comparison websites, and alternative distribution channels alongside traditional brokers. Digital insights allow insurers to develop a unified view of their customers and optimize service delivery. Ultimately, new players in the insurance market may enter the value chain by managing customer services, such as claims handling, a role traditionally held by brokers. In a recent survey, 68% of consumers expressed willingness to download and use an app from their insurance provider.

Emerging analytical insights also reveal new commercial opportunities beyond traditional risk management. These insights enable insurers to understand customer needs more deeply, offering a broader range of related products, services, and solutions. In other industries, we are already observing a third wave of digital evolution, where companies assume the role of "digital identity manager" to ensure optimal cross-sector deals for customers. For leading insurers, especially those committed to technology and innovation, these shifts offer valuable competitive advantages.

This technological transformation also requires a cultural shift within the insurance industry. It demands a data-driven approach to decision-making and the capability to bring innovations to market with greater speed and flexibility than ever before. Additionally, insurers need to embrace collaboration with both customers and, in some cases, competitors, to provide consumers and businesses with the best solutions.

A PwC study conducted across 16 countries, involving over 9,000 consumers, collected valuable insights into customer perceptions regarding the changes brought by integrating digital technologies into general insurance. The findings shed light on how digital consumers are altering their insurance purchasing behaviors and how companies can capitalize on new market opportunities. Over 50% of insurance consumers indicated their willingness to share additional personal and lifestyle information, enabling insurers to find the best deals for relevant services on their behalf.

In the next decade, the insurance industry will face a range of new challenges as both companies and policyholders navigate an increasingly complex risk landscape. For insurance companies, rapid technological advancements and growing cyber threats will require significant investment in cybersecurity and data protection. As insurers adopt artificial intelligence (AI) and automated decision-making tools, they may also encounter legal and ethical risks associated with AI biases and liability for algorithmic errors. Additionally, regulatory changes related to data privacy, environmental accountability, and AI ethics will demand continuous adaptation to remain compliant. The increasing frequency of natural disasters due to climate change will likely lead to higher claims, putting pressure on insurers to reconsider risk assessments and pricing strategies for high-risk areas.

[3] *https://www.reuters.com/world/china/china-property-rescue-who-are-ping-an-insurance-group-country-garden-2023-11-08/#:~:text=Ping%20An%2C%20based%20in%20the,to%20its%20latest%20interim%20report.*

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Table 1. Outlining the risks expected by insurance companies and policyholders next years[4]

Category	Risks Expected by Insurance Companies	Risks Expected by Policyholders
Economic Risks	Prolonged economic downturns, inflation affecting claim payouts and profitability	Rising premiums, reduced affordability of insurance coverage
Technological Risks	Rapid technological changes, cybersecurity threats, AI-related liabilities	Privacy and data security concerns, challenges in using advanced digital services
Regulatory Risks	New regulations on data privacy, AI ethics, and environmental impact	Complicated claims processes, increased documentation due to regulatory changes
Environmental Risks	Increased frequency of natural disasters, climate change impacts on asset values	Limited or more expensive coverage for high-risk areas affected by climate change
Market Risks	Growing competition from tech companies, disruptive InsurTech innovations	Fewer traditional options, risk of inadequate coverage due to complex new products
Operational Risks	Advanced fraud techniques, inefficiencies in adapting new technologies	Slower claims processing, higher administrative costs, potential errors in automation
Customer Behavior Risks	Demand for more personalized and digital services, low tolerance for service delays	Misunderstanding of complex, digital-based policies, dissatisfaction with AI-managed claims
Legal Risks	Increasing liability for algorithmic decision-making and AI bias in claims processing	Legal disputes over denied or delayed claims handled by automated processes
Financial Risks	Asset volatility, shifts in investment opportunities, impact of economic shocks	Concerns over insurer solvency, risk of premium increases due to financial instability
Reputational Risks	Public backlash due to data breaches or AI bias, scrutiny over environmental impact	Lack of trust in insurers' ability to protect data, dissatisfaction with claim handling

For policyholders, these changes mean that insurance products may become more expensive and complex, particularly in areas affected by climate change or requiring specialized digital services. Rising premiums and stricter coverage limitations could make traditional insurance less accessible, leading to dissatisfaction among consumers. Additionally, as digitalization and automation continue to evolve within the insurance sector, some policyholders may feel uncertain or uncomfortable with AI-managed claims processes and digital-only interactions. This dynamic highlight the importance of transparency and personalized service in maintaining customer trust. Both insurers and policyholders will need to adapt to this shifting environment, emphasizing clear communication, risk education, and innovative solutions that meet evolving expectations.

CONCLUSION

To address the emerging risks and capitalize on growth opportunities over the next decade, insurance companies can adopt the following targeted strategic directions, focusing on areas like underwriting precision, tariff optimization, and partnerships with professional participants:

First, invest in advanced cybersecurity and data privacy measures: As insurers increasingly adopt digital platforms and AI, cybersecurity is paramount. Developing robust cyber defenses, such as real-time threat detection systems and secure data storage solutions, can protect sensitive customer information and maintain trust. Establishing cybersecurity training for employees and regular system audits will enhance resilience against data breaches, which is critical in a digitalized insurance environment.

Second, responsibly integrate AI and automation in underwriting: AI and automation can significantly enhance underwriting processes by providing more accurate risk assessments and personalized policy pricing. However, to ensure ethical and reliable AI use, insurers must develop frameworks for monitoring and refining algorithms, reducing biases, and ensuring compliance with regulatory standards. Additionally, integrating predictive analytics

[4] *Author's development.*

and machine learning into underwriting will enable insurers to offer competitively priced policies while effectively managing risks.

Third, adapt to climate change by refining tariff structures: With the rising frequency of climate-related disasters, insurers need to update risk models and create specialized tariffs to cover high-risk areas. Introducing flexible pricing structures based on geographical and environmental data can help balance premiums and reduce the burden on customers in vulnerable areas. Insurance companies can also incentivize preventive measures through tariff adjustments, encouraging policyholders to adopt protective measures that lower their risk.

Fourth, strengthen regulatory compliance and flexibility: As regulatory demands evolve, insurers must stay agile to align with new rules on data privacy, AI ethics, and environmental accountability. Establishing dedicated compliance teams and technology-driven compliance tools can help insurers respond promptly to regulatory changes. Close collaboration with regulatory authorities and legal advisors will also ensure that the company stays compliant, helping to avoid costly penalties and enhance operational credibility.

Fifth, enhance customer-centric digital solutions for improved engagement: Investing in intuitive digital platforms, mobile apps, and self-service portals will streamline customer experiences, offering greater accessibility and convenience. Implementing AI-driven virtual assistants and personalized dashboards can further improve customer engagement, while secure and transparent processes foster trust. Additionally, providing clear, informative content through digital channels will help customers understand complex products and make informed decisions.

Sixth, develop flexible and customized insurance products: To meet growing demand for personalized coverage, insurers should explore on-demand and usage-based insurance options, tailoring products to individual needs and usage patterns. Partnering with data providers and leveraging IoT devices can enable insurers to offer real-time coverage adjustments. This flexibility appeals to new segments, such as younger, tech-savvy customers, and provides companies with valuable data on customer behavior.

Seventh, optimize tariff rates through advanced actuarial analysis: Actuarial professionals play a key role in setting accurate premium rates. By using advanced analytics and AI-based models, actuaries can predict trends and align tariff rates more closely with market demands. Regularly revisiting tariff structures and involving professional actuaries ensures that rates remain competitive and reflective of actual risk levels, balancing company profitability with customer affordability.

Eighth, build partnerships with professional stakeholders for enhanced expertise: Collaborating with reinsurance companies, brokers, and industry associations will give insurers access to a broader pool of expertise and resources. These partnerships can support better risk management and distribution practices, while data-sharing agreements with professional entities allow for a more comprehensive view of market trends. Establishing alliances with technology firms and consulting agencies also aids in staying updated with the latest industry innovations and regulatory changes.

Finally, foster transparency and trust in AI-driven decision-making: As AI becomes integral to claims and underwriting, clear communication about its role and limitations is essential. Providing customers with detailed information on how AI influences policy decisions and claims processing will boost confidence in these digital systems. Engaging with third-party auditors to assess AI tools can also provide transparency and reassure customers that AI-managed processes are fair and accountable.

By adopting these focused strategies, insurance companies can improve resilience, maintain competitiveness, and deliver enhanced customer value. Such strategies position insurers as proactive, customer-oriented, and technologically advanced entities capable of navigating an increasingly digital and complex insurance landscape.

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