

# Personal Lines Shopping, AI Regulation and Measuring Fairness

What will 2024 bring to the P&C Insurance Industry? Here are our 8 predictions.

As we peer into 2024, one central question looms: ***How will the insurance industry respond to these formidable challenges?***

This whitepaper unfolds eight key predictions for the P&C insurance industry in 2024. The traditional tools carriers use to impact profitability—rate adjustments and underwriting rule revisions—will be complemented by innovative solutions to integrate emerging technologies.

2023 has marked a turning point for the Property and Casualty insurance industry as the convergence of a “perfect storm” has put significant pressures on P&C carriers.

Last year we saw the impact of 41-year-high inflation, rising loss costs, and growing reinsurance costs, as more severe weather-related events played out in extreme and unprecedented ways.

From higher AM Best downgrades, major carriers deciding to pull out of troubled states such as California and Florida, large-scale layoffs and a huge push to increase rates to keep up with economic pressures, this year has brought pain to both carriers and to consumers.

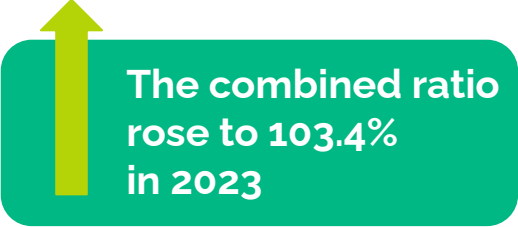
***As we look to see what we can expect in 2024, the big question is, “How will the insurance industry respond to these challenges?”***



## Prediction # 1

### Continued Rate Increases for Auto and Homeowners Insurance

The hot topic for consumers all year has been the day they opened up their renewal policy and were hit with a rate increase that hit them where it counts—their wallet. Losses in personal lines also hit the industry's combined ratio, which rose to 103.4% at the end of September, up from 102.8% in the prior year.

**The combined ratio  
rose to 103.4%  
in 2023**

As more and more carriers have been seeing loss ratios and combined ratios rising, the cumulative impact of inflation and rising loss costs are problems that are big enough that they cannot just be solved by one rate increase.

The challenge for carriers at this time will be to keep their best customers and to move away from rating plans that use the lowest risk individuals to subsidize the losses they're seeing with their highest risks.

## Prediction # 2

### Personal Lines Shopping is on the Rise

In the first quarter of 2023 the insurance industry saw the most shoppers in more than 2 years. Unlike previous years, this shopping did not take place solely by price sensitive consumers.

P&C insurers have been seeing more of their best, most loyal, and most profitable customers shop around for new coverage to ensure that they are getting the best rate.



***A recent [study](#) by TransUnion found that over the past 2 years the insurance shopping population has had more people with high credit scores compared to the traditional “shoppers” who were higher-risk consumers.***

In addition to these changes, while insurance carriers were scrambling to increase rates in 2023 to fix profitability, many decided to cut advertising.

In 2024, we can expect to see more investment in advertising spend by P&C carriers to take advantage of the large group of price shoppers who will continue to be considering switching their auto and homeowners insurance.

The key strategy for carriers in the high shopper market is to avoid adverse selection and to understand for which customers they have an adequate rate and who falls outside of their rating plan at the earliest possible point.

### Prediction # 3

#### Continued Development in AI Regulation

Key states like Connecticut, California and Colorado have been early in their contemplation of how to regulate the insurance industry's use of Artificial Intelligence, and this will continue to be a hot topic in 2024.

Most recently the NAIC approved a [blueprint](#) for using AI and third parties. This initiative was aimed at avoiding ***unfair discrimination, data vulnerability and a lack of transparency in the use of AI*** by insurers, and provides clarity for state Insurance Departments in their regulatory guidelines to balance innovation with addressing the unique risk of AI.

The bulletin provides guidance for development of AI-system programs to mitigate the risk to customers through governance, risk management controls and internal audits, among guidance for contractual relationships with vendors that provide AI solutions.

In 2024 we will still see carriers forge the path forward to use AI-powered solutions to solve their biggest challenges, but they will become more educated on how to evaluate both their internal controls as well as that of their vendor partners to understand the appropriate risk management framework while leveraging Artificial Intelligence.

## Prediction # 4

### Focus on Seamless Digital Service and Digital Claims Handling

In the price shopper market in 2024, the carriers who focus on improving the service and claims experience will emerge as the winners by using technology to provide a more seamless customer experience in the policy service and claims process.

According to a recent [JD Power](#) report, personal lines insurance companies who have a "very easy" digital claims process can see twice as many customers renew. However, the aim of these efforts is not only to provide a great customer experience, but also to drive efficiency to reduce expenses.

Carriers are incorporating new data sources at every operational point to further the seamlessness of how these processes are designed.

The carriers who optimize their digital customer experience for customers as they get a new policy, make policy changes and when they have a claim will be key to profitability, customer retention, and operational excellence.

## Prediction # 5

### Measuring Fairness in Insurance is Taking Shape

Building on the industry's focus on AI regulation, we are also seeing a focus on understanding how to clearly define fairness in the insurance industry.

In 2021 Colorado's governor signed [Senate Bill \(SB\) 21-169](#) to protect residents from unfair discrimination "on the basis of race, color, national or ethnic origin, religion, sex, sexual orientation, disability, and gender identity" **by requiring insurers to test their data, algorithms and predictive models to ensure they are not discriminating against protected classes.**

Through dedicated discussions, the industry seeks to understand how to objectively measure existing bias in current insurance rating and practices and how to measure this among various protected classes. These discussions will continue in 2024 and as answers to these questions take shape, we will likely see new perspectives in rating and underwriting practices to ensure the industry upholds its standards of fairness.

***"Digital communications in the form of personalized text messages, status updates via mobile apps and guides to help reading estimates can dramatically improve that experience without significantly raising customer service costs for insurers."***

- J.D. Power 2023 U.S. Claims Digital Experience Study



## Prediction # 6

### Carriers Get Their Arms Around Using Large Language Models (LLMs)

Generative AI and LLMs (large language models) are a hot topic as insurance carriers are considering how these technologies can be harnessed to automate their processes.

Key learnings for carriers will center on what LLMs can and cannot do and where human support will need to be added. As the rate of new technology increases, carriers are starting to learn that the traditional approach of being first movers but fast followers may not be a sustainable position.

We will continue to see new solutions emerge and the results of this adoption will become clear over the course of several years.

## Prediction # 7

### Those Who Reduce Tech Debt Will Beat the Competition

Gone are the days of allotting all technical resources to replacing legacy policy administration systems and programming rate changes. In an effort to keep ahead of the challenges of this current market, carriers are starting to shift their thinking about long term initiatives that tie up all technology resources.

The insurance companies who are able to devote resources to leverage new tools and to digitize the service and claims experience, in addition to supporting the core operational functions of their businesses, will emerge as the big winners in this new and challenging industry landscape.

## Prediction # 8

### Moving Beyond Proof of Concept to Test and Learn

The insurance industry deserves high praise for their willingness to test new technologies and innovations. However the number of these initiatives that end up getting lost in the operational priorities of the business are astounding.

This often happens when the company culture is one that penalizes failed initiatives. Some of the most innovative insurance carriers are ones that adopt a "fail fast" mindset where teams become less afraid of "what if this fails?" and see the opportunity cost of never trying to innovate.

***The message here for industry leaders is to empower these teams to move initiatives with compelling business results beyond the Proof of Concept phase into an environment of "test and learn" to see real-world results and act in an agile manner.***

The theme of 2024 is “new challenges, new rules, new mindset” for the insurance industry.

*The continued challenges of profitability are continuing into the coming year, and the emergence of new solutions to these challenges is abundant.*

The carriers who are standing head and shoulders above the competition are the ones who are embracing innovation by thinking of how they solve problems differently.

# 2024

New Challenges

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New Rules

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New Mindset

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