

Insurers are investing in self-service digital channels, but insurance product complexity leads to a gap between self-service and empathetic support. Conversational AI strategies can bridge this gap and unleash customer satisfaction from policy inquiries to claims processing.

# The Art of Empathetic Conversation: How Conversational AI Is Reshaping Insurance

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## Introduction

As the insurance industry races toward digital channels and self-managing policies, consumers are becoming increasingly discerning in their expectations for digital engagement. However, the complexity of insurance products means that customers often need human support to navigate issues or manage complex policies. This contrast between the push for digital self-service and the need for human support presents an opportunity for AI-powered virtual engagement through digital assistants. By providing human-like conversations, digital assistants can empower insurers to deliver a personalized and empathetic touch point but still be able to scale assistance with cost-effectiveness, making a case not only for heightened customer experience but also for operational efficiency. As we move forward into a digital-first future, the role of digital assistant engagement in insurance will only continue to grow, providing a valuable tool for insurers to meet the evolving needs and expectations of their customers.

In this Spotlight, IDC offers a comprehensive look at implementing digital assistance technology in the insurance industry, emphasizing the importance of strategy and execution alongside technology. By leveraging IDC surveys, this paper provides valuable insights into the business outcomes, considerations, and deployment tactics that insurance organizations are primarily utilizing to create successful conversational AI systems. It also shows how conversational AI programs can impact and improve every stage of the customer life cycle. Drawing upon real-world case studies, the paper aims to illustrate how some insurers have already unlocked the power of conversation and reaped the rewards.

## AT A GLANCE

### WHAT'S IMPORTANT

Amid the rapidly evolving digital landscape, insurance organizations worldwide are placing a high priority on adopting AI for customer service and support. According to a recent IDC survey, 49% are specifically focusing on implementing conversational AI systems, which have the potential to transform the way customers engage with insurers.

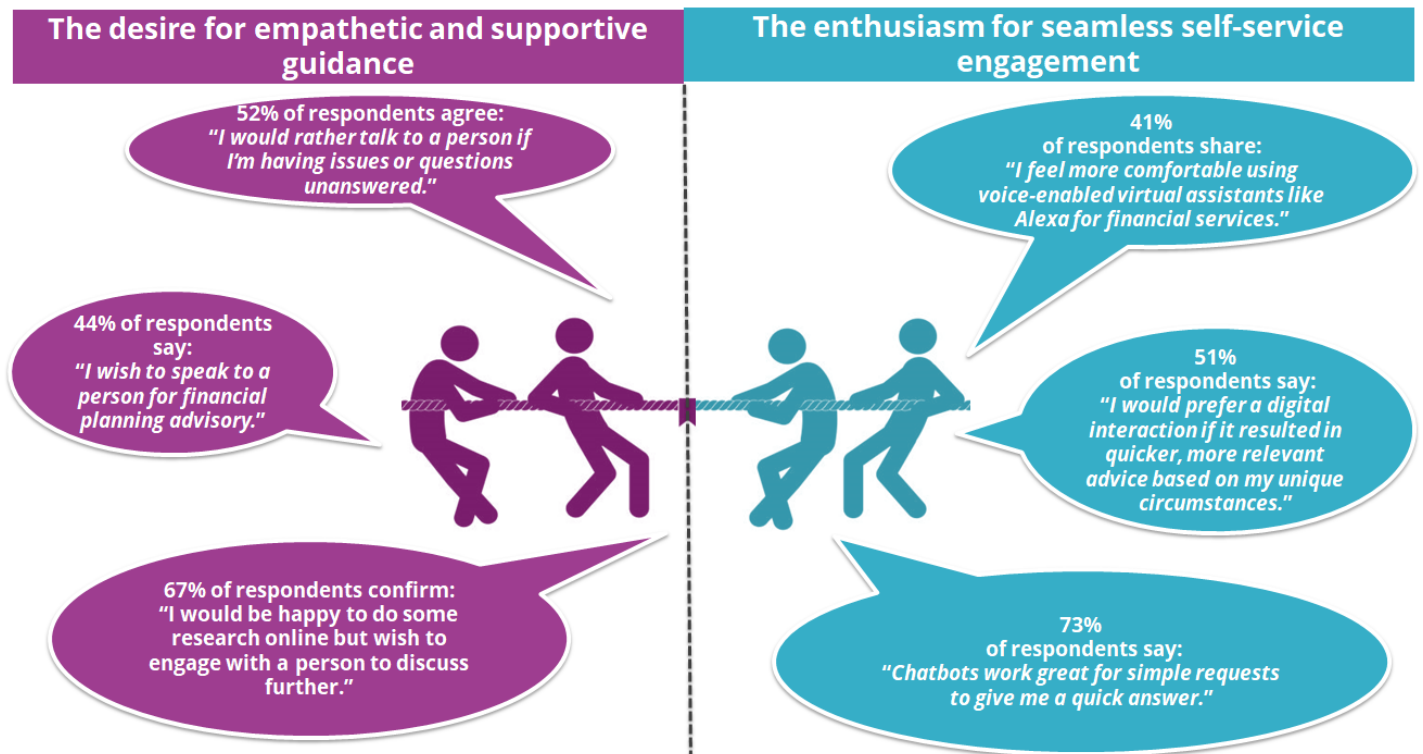
### KEY TAKEAWAY

Thanks to the adoption of AI-powered assistants, insurers have been able to achieve tangible benefits, with 39% reporting enhancements in customer experience, 37% in risk management/amelioration, and 37% in revenue growth.

## The Modern Engagement Dilemma: The Perennial Tug-of-War Between Self-Service and Empathetic Support

The insurance industry has long grappled with a tug-of-war between providing self-service options and empathetic support. This dilemma is illustrated in Figure 1, which depicts the urgent challenge of meeting the fluctuating expectations of customers.

FIGURE 1: *The Insurer's Digital Engagement Dilemma*



Source: IDC's *Financial Insights Consumer Survey*, November 2022

On the one hand, customers today demand the convenience and control of self-service tools such as online portals and mobile apps to manage their policies and file claims quickly and efficiently. In fact, IDC's *Financial Insights Consumer Survey* found that 91% of insurance customers are comfortable sharing personal data online in exchange for greater autonomy and control over their path-to-purchase journeys for insurance products.

However, while self-service options provide convenience and control, they often fall short of providing the personal attention and empathy that customers seek from their insurance providers in times of need. Customers often feel overwhelmed and frustrated by the complexity of the insurance process, and they expect their insurers to provide a seamless and personalized experience that is easy to navigate. When customers face urgent or high-touch situations, such as filing a claim or resolving a complex issue, they often prefer to communicate in a conversational manner. This allows them to express their concerns, ask questions, and receive guidance in a more natural and efficient way.

As the insurance industry continues to navigate the challenge of balancing empathetic support with efficient service, the adoption of digital assistants represents a promising solution that is increasingly gaining acceptance among customers. According to IDC's *Financial Insights Consumer Survey*, 41% of insurance customers are already comfortable using digital assistants for insurance purposes, driven in part by their familiarity with virtual assistants like Alexa and Siri. This growing acceptance of digital assistants is further supported by the fact that 73% of customers already view AI-powered chatbots as effective tools for obtaining quick answers to their questions.

## **The Value of Conversational AI in Insurance: Key Business Outcomes**

As reported by IDC's 2022 *AIPath Survey*, in developing the business case for AI-powered customer engagement, insurance organizations are aiming at the following key business objectives:





- » **Boost the quality of customer service:** 44% of insurance industry respondents have recognized the potential of digital assistants in enhancing the customer experience by providing faster and more convenient service that is available around the clock. Customers can engage in natural conversations with digital assistants, circumventing the complexity of phone menus and text messages, and receive swift and precise responses to their inquiries. The automation of routine interactions such as answering frequently asked questions or addressing billing issues can free up human agents to focus on more complex needs, thereby improving the overall level of service provided. Moreover, the value of such tools extends beyond external-facing operations as digital assistants can also provide support to human agents by providing them with information when they need it to help resolve more complex calls. This can help to enhance the efficiency of internal operations and lead to increased customer satisfaction.
- » **Enhance business resilience and agility:** 33% of respondents have grasped the potential of AI in providing a reliable and scalable solution to maintain business continuity during unexpected events such as natural disasters, pandemics, or sudden increases in call volumes. By reducing dependence on human agents, insurers can bolster their business resilience and agility while achieving greater efficiency and capital capacity. This can enable insurers to weather unforeseen circumstances while continuing to provide high-quality service to their customers.
- » **Raise competitiveness/market share gains:** 31% of insurance industry respondents have emphasized the significance of conversational AI platforms in enabling insurance companies to achieve a competitive edge in a crowded marketplace by providing a unique and innovative customer experience. Digital assistants, with their conversational capabilities, offer opportunities for increased customer attraction and retention, as well as new revenue growth. During customer interactions, digital assistants can promote additional products or services, thereby maximizing revenue potential and enhancing the overall customer experience.

## **From Interactive Voice Response to Digital Assistants: Implementation Compass**

For many years, IVR systems have been the go-to solution for insurance companies looking to automate phone-based customer support. However, these systems have frequently caused frustration among customers due to their limited functionality and confusing menus. To address these issues, insurers are turning to digital assistants, powered by advanced AI and natural language processing. By leveraging human-machine interaction technology, insurers can provide customers with personalized, intuitive, and immersive experiences. To achieve success with this technology, insurers must focus not just on the technical aspects of implementation but especially on how it can transform their interactions with customers. Figure 2 offers a comprehensive overview of the potential impact of conversational AI technology on the various stages of the insurance customer life cycle. By examining the four key stages, IDC provides insights into the

implementation time frame, key use cases, ROI impact, and cost/complexity associated with each stage. This provides a valuable overview for insurers seeking to understand the value of implementing next-generation customer engagement technology. As organizations progress through the customer life-cycle stages, both the ROI impact and the cost/complexity of implementation tend to increase. Therefore, insurers should strategize and develop their own implementation road map based on their unique digital transformation and AI maturity and customer experience strategies.

FIGURE 2: *A Comprehensive Overview of Conversational AI Insurance Programs Across Customer Journey Stages*

| Conversational Insurance: Customer Stages Compass |  Awareness & Acquisition   |  Onboarding & Policy Issuance   |  Policy Management & Servicing  |  Claims Management  |
|---|---|--|---|--|
| <b>Key use cases</b>                              | <ul style="list-style-type: none"> <li>Product discovery and recommendation</li> <li>Lead qualification and nurturing</li> <li>FAQ and general inquiry handling</li> </ul>  | <ul style="list-style-type: none"> <li>Application assistance and document collection</li> <li>Underwriting and risk assessment support</li> <li>Policy issuance and delivery</li> </ul>   | <ul style="list-style-type: none"> <li>Policy updates and modifications</li> <li>Billing and payment support</li> <li>General policy-related inquiries</li> <li>Discount eligibility and renewal reminders</li> </ul>   | <ul style="list-style-type: none"> <li>Claims submission and document collection</li> <li>Claims assessment and status updates</li> <li>Settlement and payment support</li> </ul>  |
| <b>Implementation time frame</b>                  | Few weeks or up to a month  | Few months   | Several months  | Several months or up to a year   |
| <b>ROI impact</b>                                 | <ul style="list-style-type: none"> <li>Conversational AI can significantly reduce customer acquisition costs by automating lead generation, nurturing, and qualification processes. It also helps in increasing conversion rates by providing personalized and timely assistance.</li> </ul>                                  | <ul style="list-style-type: none"> <li>By automating and simplifying the onboarding process, conversational AI can reduce manual labor costs, shorten processing times, and improve customer satisfaction.</li> </ul>  | <ul style="list-style-type: none"> <li>By automating policy management and servicing tasks, conversational AI can reduce operational costs, improve customer satisfaction, and increase retention rates.</li> </ul>   | <ul style="list-style-type: none"> <li>By automating and simplifying the claims process, conversational AI can reduce manual labor costs, shorten processing times, and improve customer satisfaction.</li> </ul>  |
| <b>Cost/complexity to address</b>                 | <ul style="list-style-type: none"> <li>Ensuring consistent and accurate information across all channels</li> <li>Personalizing customer interactions without compromising privacy</li> <li>Scaling support to handle high volumes of inquiries</li> <li>Integrating with marketing channels and social media tools</li> </ul> | <ul style="list-style-type: none"> <li>Ensuring a seamless and user-friendly onboarding experience</li> <li>Integrating with customer relationship management (CRM), underwriting and policy issuance systems</li> <li>Ensuring accuracy and compliance in automated processes, maintaining data privacy, and reducing the risk of fraud.</li> </ul> | <ul style="list-style-type: none"> <li>Providing accurate and up-to-date policy information</li> <li>Ensuring a seamless and user-friendly experience</li> <li>Integrating with policy management and billing systems</li> <li>Ensuring data security and compliance</li> </ul> | <ul style="list-style-type: none"> <li>Advanced NLU, NLG, and speech-to-text capabilities</li> <li>Integrating with claims management systems and databases</li> <li>Providing document processing and analysis capabilities</li> <li>Handling sensitive customer information</li> </ul> |

Source: IDC, 2023

### Awareness & Acquisition

Conversational AI has emerged as a vital tool for the Awareness & Acquisition stage of the customer life cycle in insurance. By utilizing chatbots and virtual assistants powered by AI, potential customers can be engaged through personalized interactions that help them discover and understand insurance products and services. The implementation of conversational AI at this stage can reduce customer acquisition costs by automating lead generation, nurturing, and qualification processes. In addition, it can increase conversion rates by providing personalized and timely assistance.

Consider the following example: A prominent United States-based insurer invested in developing its voice-activated "smart" assistant to the point where it has actually become the brand's iconic spokesperson. The insurer launched this virtual assistant over a decade ago. According to published media reports, its business has more than doubled since then,

with a growth rate of 21% in its most recent quarter. Customers can interact with this assistant through their phone or smart speaker and receive a quote in a matter of minutes, without having to speak with a live agent. It uses simple language but also uses humor where appropriate, which ties into the insurer's marketing and helps engage customers. Both the convenience and "humanity" of the assistant appear to have made the process of acquiring insurance more appealing to customers, potentially leading to higher conversion rates.

### **Onboarding & Policy Issuance**

Smart assistants play a significant role in the Onboarding & Policy Issuance stage of the customer life cycle in insurance. They streamline the onboarding process by guiding customers through the application, underwriting, and policy issuance stages. They also assist in gathering required documents and answering any questions customers may have. Implementing conversational AI in this stage can reduce manual labor costs, shorten processing times, and improve customer satisfaction, while still ensuring compliance with applicable regulations.

Another illustration of effective smart assistant implementation is demonstrated by a United States-based insurtech company that has harnessed the power of an AI-powered chatbot to assist customers in navigating the initiation and setup process. At a time when younger generations prefer to handle most of their shopping via their mobile phones, this data-driven insurer has successfully targeted the underinsured millennial and Gen Z demographic by simplifying the onboarding process with the aid of an AI-empowered chatbot. Customers can use the chatbot to ask for clarifications regarding policy coverages, exclusions, or limitations without the need to speak to a live agent. According to a case study publicly available online, as a result of this implementation, it has reportedly reduced the time frame for a customer to secure insurance to 90 seconds and has seen a 56% increase in upselling and cross-selling.

### **Policy Management & Servicing**

Cognitive computing technology is a valuable tool in the Policy Management & Servicing stage. It can assist customers in managing their policies and making changes, renewals, and cancellations. It also provides support for billing and payment inquiries, as well as general policy-related questions. The implementation of conversational AI in this stage can reduce operational costs, improve customer satisfaction, and increase retention rates.

A U.S. auto insurer has launched an AI-powered chatbot that uses natural language processing to provide customers with accurate insurance information and policy recommendations. Available 24 x 7, the digital assistant simplifies the self-service process by promptly answering customer inquiries and addressing policy needs. According to a company press release, customers have the flexibility to initiate conversations with the digital assistant through typing or speaking, and they can even schedule appointments using the voice-interaction functionality provided. Customers can also receive policy renewal reminders or discounts eligibility updates, further improving not only customers' lifetime value metrics but also customer experience and retention.

### **Claims Management**

Conversational AI plays a crucial role in the Claims Management phase. It streamlines the claims process by guiding customers through the submission, assessment, and settlement stages, while also assisting in gathering required documents and answering any questions. Implementing conversational AI can reduce manual labor costs, shorten processing times, and improve customer satisfaction.

A Swiss-based insurance company has embraced the transformative potential of AI technology. By leveraging machine learning and natural language processing, its innovative chatbot has enabled the company to handle claims with greater

efficiency and accuracy, according to a public case study on the company's website. The chatbot can assist in logging all the necessary information, 24 x 7, to be passed on to a human claim handler for prompt assistance. This ensures that the claims process can be expedited as much as possible, even when customers need immediate high-touch assistance. The insurer has reportedly seen a 35% reduction in end-to-end claims handling time and a 30% improvement in settlement turnaround time. Customer satisfaction rates have risen, reflected in a Net Promoter Score (NPS) of 80.

## **Partnering for Success: Leveraging Cloud and SaaS Technologies**

For insurers to effectively implement conversational AI insurance programs, it is imperative that they engage in strategic partnerships rather than embarking on this path alone.

IDC's *Worldwide Conversational AI Tools and Technologies Forecast, 2022-2026* (IDC #US48508922, July 2022) reveals that revenue growth for public cloud-enabled digital assistant solution providers is expected to post a compound annual growth rate (CAGR) of around 51.8% from 2023 to 2026. This impressive growth rate serves as compelling evidence that cloud-based SaaS deployment tactics have emerged as a powerful tool for insurers looking to tap into the full potential of conversational technology. These platforms empower insurers to make significant advancements in unlocking digital empathy through conversational technology while simultaneously accelerating time to market for new innovative functionalities, reducing costs, and maintaining high levels of security and compliance. According to IDC's *2022 AIPath Survey*, 54% of insurance organizations are prioritizing the purchase of pre-developed commercial off-the-shelf (COTS) solutions to expedite the adoption of next-generation customer interaction technologies. While there are no one-size-fits-all solutions, insurers are opting for best-of-breed approaches to remain ahead of the competition.

However, to ensure long-term success, it is critical for insurers to carefully choose IT partners that possess proven industry expertise and experience in delivering conversational insurance programs. These partners can help insurers navigate the complexities of this technology and ensure that the program satisfies the unique needs of their customers. By forging strategic partnerships and leveraging the latest technologies, insurers can benefit from the full potential of conversational insurance programs and provide customers with exceptional experiences that drive business growth.

## **Considering DXC**

DXC Assure Interact is a conversational AI solution for insurers that provides digital-first customer experiences that are personal, intuitive, and empathetic. Intelligent technology can handle common queries, conversations, and transactions and seamlessly engage and inform human agents when intervention is required. DXC Assure Interact is an out-of-the-box solution with three core components: a concierge digital employee, persona-based service portals, and an interaction analytics portal. This cloud-based omni-channel solution leverages DXC's deep insurance knowledge base and the power of AI to drive operational efficiencies, speed to value, enhanced quality of service, and improved scalability.

DXC implemented the Assure Interact solution with several of its Business Process Services: Life and Wealth clients to provide life and annuities customers with policy information and self-service transactions. Instead of having callers answer questions and navigate confusing menus in an IVR, the digital employee is able to translate caller conversations to identify the purpose of the call and provide the appropriate response to the caller's inquiry or request. For calls that cannot be fully serviced by the digital employee, a call is seamlessly transitioned to a live customer service representative, providing caller information and caller intent so that the live CSR can deliver a personalized customer experience. Within a few months of deployment, DXC saw a 7x improvement in the digital employee's self-service containment rate, an 11%

reduction in average handle time, and a 5% improvement in first call resolution, driving an improved overall customer experience.

### Challenges

Although the implementation of AI-powered customer engagement programs can offer many benefits, there are still significant barriers that hinder insurance organizations from taking full advantage of them. According to respondents in IDC's 2022 *AIPath Survey*, insurance companies have identified the following industry-specific hurdles that need to be addressed:

- » **Potential negative impact on customers:** 48% of respondents expressed concern regarding the potential risk of virtual assistants providing inaccurate information or recommendations. Such errors could potentially damage brand trust and reputation. Given the highly specific nature of insurance terminology, it is crucial to ensure that virtual assistants are appropriately trained and equipped to provide accurate and reliable information.
- » **Cost-benefit ratio:** 45% of respondents remain skeptical about the value of digital assistant programs due to the lack of clarity around their business case. Although virtual assistants offer the potential for cost savings through automation, their implementation requires a significant initial investment. Developing a viable business case for digital assistant programs can be challenging due to several factors. First, ensuring IT interoperability with existing systems and platforms can pose a significant hurdle, often requiring a complex, time-consuming, and unpredictable process. Second, there may be a shortage of skilled professionals capable of developing and maintaining digital assistant programs. Finally, there may be a lack of computing resources necessary to support the deployment of digital assistant programs.
- » **Security and privacy risk:** 43% expressed concern about security and privacy issues associated with the use of AI systems. The lack of transparency in how some of these AI systems handle data could pose risks regarding sensitive information, non-disclosure agreements, and legal requirements. Insurers may face difficulties managing these risks.

Moreover, as highlighted in *IDC MarketScape: Worldwide Conversational Artificial Intelligence Software Platforms for Customer Service 2021 Vendor Assessment* (IDC #US48340721, November 2021), the demand for customization and configuration has emerged as a prevalent challenge in industry-specific deployments of conversational AI solutions. In light of this, DXC, along with other vendors aiming to operate within the insurance domain, must showcase its proficiency in addressing the unique obstacles faced by insurance carriers when adopting conversational AI technology. It is strongly recommended that insurance buyers thoroughly inquire about vendors' capabilities to deliver domain-specific solutions during the selection process, thus ensuring seamless alignment of the technology with their specific needs.

### Conclusions and Recommendations

In today's rapidly evolving insurance industry, conversational AI technology is emerging as a key driver of success. Simply listening to the voice of the customer is no longer sufficient; insurers must respond promptly and accurately to customer needs to thrive in the digital era. To achieve this, they must develop a comprehensive strategy that connects with customers through conversational AI technology.

The adoption of conversational AI technology does not have to be sequential, and insurers must prioritize according to their specific technological maturity and risk appetite. The implementation of digital assistant technology requires careful

attention to detail, effective planning, and a willingness to embrace change. Insurers must be prepared to invest in the necessary infrastructure, resources, and training to ensure successful implementation.

IDC offers the following recommendations for insurers considering conversational AI:

- » **Develop a shared vision and commitment from the C-suite for the target customer experience:** Implementing a successful AI-powered customer engagement insurance program requires involving the C-suite in the planning and decision-making process. The C-suite can provide guidance on KPIs to measure success, such as customer satisfaction, loyalty, and revenue growth.
- » **Find the right partner:** Look for a provider with industry expertise and experience in navigating digital assistant technology complexities, developing use cases, offering prebuilt insurance taxonomies, integrating programs, and providing ongoing maintenance and support.
- » **Keep a close eye on generative AI:** Generative AI can revolutionize conversational capabilities, allowing them to generate more human-like responses and engage in complex conversations. As a result, it is expected that most conversational AI vendors will incorporate generative AI into their products, amplifying its impact on the insurance industry.

Insurers can unlock the full potential of conversational AI insurance programs by heeding the guidance set forth in this paper and striving to meet industry best practices. Swift action is imperative, for the future of the insurance industry is intricately linked to the power of spoken language.



## About the Analyst



### ***Davide Palanza, Research Manager, IDC Financial Insights***

Davide Palanza is a research manager in the European Financial Insights team. He leads IDC's Worldwide Insurance Digital Business Strategies advisory service, with his research covering the following overarching themes: insurance and digital transformation, intelligent claims automation and fraud prevention, on-demand and micro insurance, actuarial change, contextual and value-centric offerings, and regulatory evolution and compliance.

### MESSAGE FROM THE SPONSOR

As the number one provider of core insurance technology globally, DXC Technology helps companies run their mission-critical systems and operations. DXC offers a comprehensive suite of insurance software and business process services, enabling customers to quickly launch new products, enhance engagement, transform operations, compete more effectively and achieve growth. DXC's base products are supplemented with a set of surround solutions to deliver even greater value to their customers. One such solution, [DXC Assure Interact](#), enables a digital-first hybrid contact center workforce, powered by AI/ML. Learn more about how we deliver excellence for our insurance customers at [DXC Insurance Software & BPS](#).

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