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The New Basis of Competition: How AI Will Reshape Insurance Operating Models

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Executive Summary

Insurance has historically sustained cost structures that other financial services like banking could not. Insulated by distribution complexity, regulatory barriers, and the opacity of product comparison, carriers have neither been able nor been forced to deliver the structural cost improvements that fintech companies forced on banking and investments. Those insulations are weakening and will soon be gone, resetting the basis of competition.

Mid-office operations and IT consume nearly half of a typical insurer's maintenance and servicing expenses, yet most AI initiatives have not impacted the coordination work that accounts for almost half of that spend. Carriers that reassess the need for mid-office functions can increase margins, enabling either higher profits or more competitive pricing.

At the same time, AI-driven comparison tools will reduce the brand insulation that has protected carriers from price competition. Carriers that do not address structural operating costs face pressure at both ends: margin compression from persistent overhead and pricing disadvantage as competitors with lower cost structures move on price.

These two effects, a fundamental reset of the competitive cost structure and increasing competitive pressure from new comparison tools, will drive a new wave of price competition across product lines and a wave of consolidation as more efficient carriers use their higher valuations and lower capital charges to grow by acquisition. AI accelerated this shift. It can also help carriers get ahead of it, but only by changing how AI is used.

This white paper examines why AI ROI remains elusive for many carriers, what the hidden costs of organizational coordination really are, and how a new category of orchestration capability can help insurers redesign work rather than just accelerate it.

- **AI should be used to drive profitability, not just productivity.** Most carriers are using AI to speed up existing tasks. Expense ratio improvements require challenging the workflows themselves to eliminate unnecessary work.
- **Coordination is the hidden cost.** The handoffs, approvals, and status management that connect tasks often consume more capacity than the tasks themselves.
- **A new capability layer is emerging.** AI orchestration tools that coordinate outcomes across systems, people, and decisions may prove as strategically important as core platform investments, with drastically faster returns and lower costs.

Introduction

Some insurance carriers are beginning to generate measurable productivity gains from AI—tasks get done faster, code ships more efficiently, and service teams handle more volume. But most of those carriers report that those gains are not showing up in expense ratios or operating margins. This white paper examines why that gap exists, what the industry's largest unmeasured cost has to do with it, and what the carriers that close it first will have to do differently. It is written for insurance technology and operations leaders evaluating where AI can create structural advantage, not just incremental efficiency.

Methodology

The research for this white paper draws on primary qualitative research conducted by Datos Insights, including structured conversations and executive council discussions with CIOs, COOs, and senior technology and operations leaders at insurance carriers across P&C and L/A/B.

A New Basis of Competition

Insurance has long competed through scale, distribution reach, and product breadth, and historically sustained cost structures that the rest of financial services, with their thinner margins, could not.

The new basis of competition, at least during the adoption phase of AI, is going to be operational effectiveness: the ability to manage costs while maintaining service quality and agility. Carriers that build structurally lower-cost operating models, not just better productivity metrics, will pull ahead.

The AI ROI Paradox

Carriers across every segment are deploying AI. Requirements get written faster. Documents get summarized faster. Code gets generated faster. Productivity gains are real and measurable.

Why, then, are costs not declining? The answer lies in a fundamental distinction: Productivity improvements make existing activities more efficient, but they don't get rid of the work, the workers, or how that work gets done. Only operating model transformation changes the amount of work that needs to happen.

Most AI initiatives today focus on productivity. The surrounding structure stays unchanged. Approvals move through the same governance process. Work moves between the same departments. Reporting requirements remain intact. The task gets faster. The system stays the same but with additional cost for AI tokens, teams, and models. Until organizations begin addressing those structural costs, enterprise-level ROI improvements will remain difficult to achieve.

Some leaders are starting to frame this differently. Rather than asking how a task can be done faster, they are asking where AI can reduce organizational friction, eliminate unnecessary activities, and simplify end-to-end workflows. That shift in framing is where the real opportunity lives.

The scale of that opportunity is material. Research projects that AI will deliver approximately 200 basis points of expense ratio improvement, adding US\$9.3 billion in additional operating income across the P&C industry before 2030. Carriers that move first on the coordination layer, rather than waiting for task-level efficiency gains to compound slowly, are ready to capture a disproportionate share. The gap between top-quartile and

bottom-quartile personal lines carriers' expense ratios already runs to roughly eight points. AI will compound that advantage. This will be at least as impactful in the L/A/B space, with its long-tail policies and large, priced, in-force books. The elimination of unnecessary costs improves the cost performance of existing books, raises the value of those books in reinsurance transactions, and releases significant capital, all of which materially impacts ROE.

The Hidden Cost of Coordination

Insurance organizations have a clear picture of their primary outputs: policies issued, claims processed, customer interactions handled. Behind each of these moments of truth lies the effort and cost required to keep those activities moving to completion in a timely manner (Figure 1 and Figure 2).

This hidden layer of work can be thought of as "glue work": the status reporting, routing, approvals, follow-ups, exception handling, and reconciliation that exist primarily to maintain organizational alignment. Every handoff introduces delay, cost, and risk. A typical claims process, for example, involves more than five handoffs, with research showing that value-added work represents less than 5% of the total processing time. The rest of that time is coordination overhead that often goes unmeasured and unaccounted for: waiting, routing, status reconciliation, and approval chains.

Most of this overhead exists for legitimate historical reasons. Many workflows evolved during an era when information moved physically: Applications arrived by mail, documents were routed between departments, and data had to be entered into multiple systems. Technology digitized those flows, but the underlying organizational structures often remained. Common examples of glue work in insurance operations follow:

- Data reconciliation across systems
- Workflow administration and status tracking
- Manual routing and exception triage
- Approval coordination and ticket management
- Project oversight for activities that could be automated end to end

Figure 1: Approximate Share of Operating Expenses by Function for L/A/B Carriers

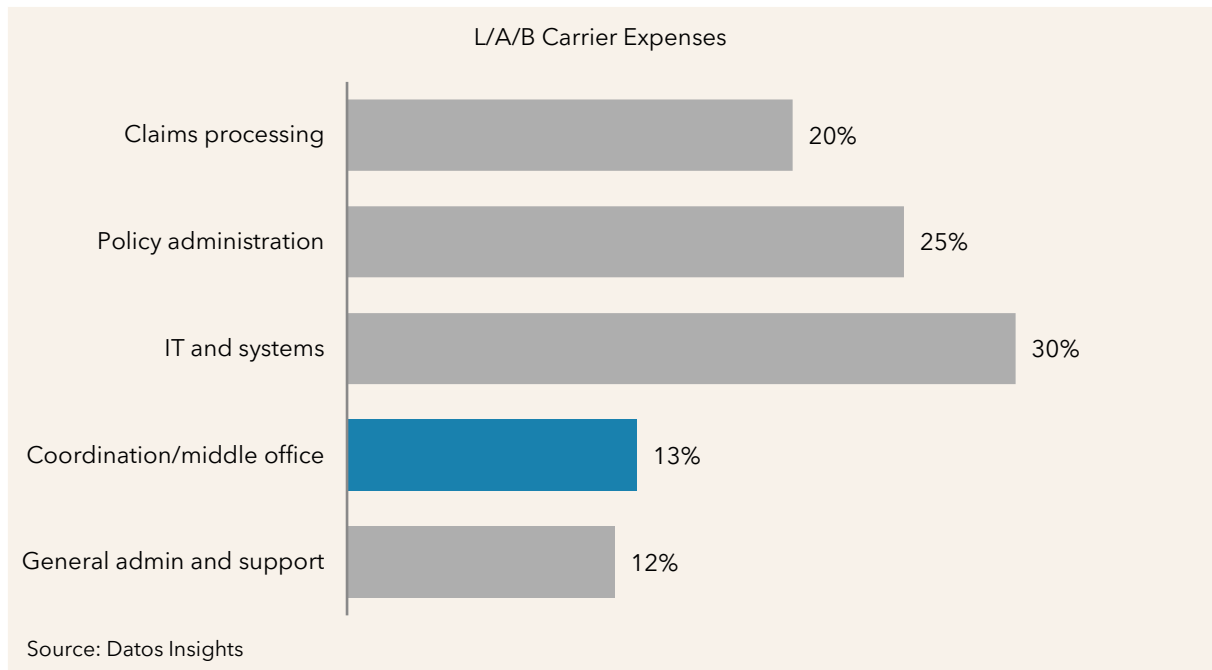
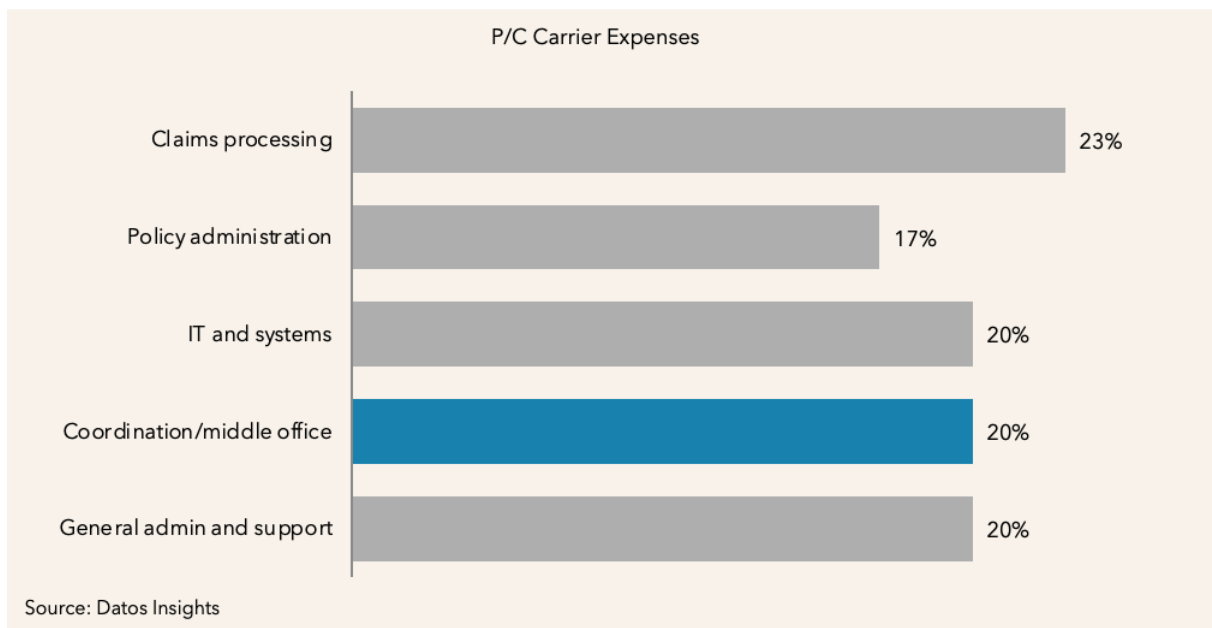


Figure 2: Approximate Share of Operating Expenses by Function for P/C Carriers



A useful exercise is to map any process from initiation through completion and count the handoffs. The number is often surprisingly large. Reducing those transition points may

represent one of the largest available opportunities for carriers pursuing structural cost improvement.

This connective layer is responsible for coordinating how work moves across systems, people, data, and decisions. Historically, that responsibility fell to humans: project managers, operations teams, analysts, and administrators. Entire organizational functions exist primarily to keep work flowing across complex environments.

Insurers have invested heavily in systems of record (policy admin, claims, billing) and, more recently, in systems of engagement (portals, digital experiences, self-service). The next layer is systems of orchestration: a connective fabric that coordinates activities across those platforms, manages workflow and governance, and routes decisions without requiring constant human intervention at each transition point. Several CIOs Datos Insights has spoken with are actively building toward this capability. The organizations that get there first may find it as strategically significant as their core platform investments.

The productivity improvement potential at this layer is substantial. Research suggests that project management organization and governance automation alone can deliver 25% to 50% productivity improvement, with testing and reconciliation functions seeing gains of 15% to 90%. These are not incremental gains from speeding up existing tasks. They reflect the elimination of coordination work that need not exist in the modern world.

If glue work represents the hidden labor of coordination, a new category of technology is emerging to address it. This new category is often called “glue tech.” Glue tech is the AI coordination layer that replaces or eliminates these traditional coordination processes with intelligent agents capable of flexibly and reliably handling the massive variety of inputs carriers receive every day.

What Changes, What Stays

Discussions about AI often focus on which jobs disappear. The more useful question is which work disappears.

Many activities consuming significant operational resources today add little direct customer value. Their primary purpose is coordinating interactions between systems, departments, and processes. As orchestration capabilities mature, much of this coordination work can diminish. The workforce does not disappear. The composition of work changes.

The work that becomes more important, not less, includes complex judgment on risk, regulation, and customer relationships; identification of new opportunities; governance and oversight of AI systems; and the relationship management that still drives customer decisions and distribution partnerships. Employees become managers of outcomes rather than executors of routine tasks. Organizations that invest in that transition will outperform those focused purely on headcount reduction.

Organizational Implications

Few carriers have the technology required to execute this level of work and organizational redesign. Traditional workflow automation is too rigid to handle the broad array of cases. General-purpose LLMs, even when trained, are not sufficiently reliable to produce the consistent answers expected by customers and regulators. New AI tools combine the flexibility of general-purpose models with the reliability of deterministic rules to bring substantial reductions in manually worked cases across most mid-office functions.

The harder part is changing the organizational behaviors, incentives, and assumptions built up around existing structures. Three barriers come up consistently in executive conversations. First, organizational inertia: Most current structures were created for good reasons and have supported years of successful operations. Respecting that history while recognizing it does not guarantee future relevance is a real leadership challenge. Second, most organizations are optimized around functions rather than outcomes. Departments often operate effectively within their own boundaries while creating friction across the broader enterprise. Redesigning work requires cross-functional accountability and alignment around shared outcomes, which cuts against how most insurance organizations are structured and measured.

The third barrier may be the most stubborn: management systems that reward activity rather than impact. Most carriers track utilization, project completion, staffing levels, and budget performance. Few systematically measure process friction, handoff volume, or how efficiently work can flow from end to end. Without those metrics, it is difficult to build the business case for structural change or to know whether transformation is actually working.

Strategic Recommendations

The changes described in this white paper do not require redesigning the enterprise overnight. The place to start is simpler than it might appear.

Lead From the Top

The future operating model cannot emerge organically through isolated departmental initiatives. Executive leadership must articulate a clear vision and create alignment around the organizational changes required to reach it. New skills, governance models, and operating practices are required alongside new technology. Transformation becomes easier when organizations know where they are trying to go and when leadership is committed to getting there.

Start With Friction, Not Technology

Many transformation programs begin by evaluating tools. Start instead by identifying where processes slow down, where handoffs occur, where work waits, and where information requires reconciliation. Those friction points often reveal the largest opportunities for improvement.

Examine End to End, Not Individual Tasks

Optimizing isolated activities while leaving the surrounding process unchanged delivers limited value. Map entire workflows from initiation through completion across departments and count the handoffs. Greater value comes from redesigning holistically.

Eliminate Before Automating

Ask this of every step: If this process were designed from scratch today, would this activity exist? Many organizations discover that activities they planned to automate could be removed if the process was redesigned to utilize an AI agent capable of turning raw inputs directly into the desired outcome. The outcomes are still required. The work to deliver them may not be.

Define the Operating Model First

Many organizations begin transformation without a clear picture of where they are trying to go. Define what the future operating model should look like, then align technology decisions to support that vision. For many organizations, this likely means imagining an organization with much smaller mid-office and IT footprints.

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