VIEW POINT

CLAIMS IN THE DIGITAL ERA – TRANSFORMING THE FUTURE OF INSURANCE

Abstract

After months of incessant burning, the Australian bushfires wiped out an estimated 2,000 homes, 24 human lives, and about half a billion animals. It was a natural disaster with a steep economic impact. The number of insurance claims as a result of the bushfires topped 6000, totalling $300 million.[1]

Could technology have averted such a major disaster, snowballing into a massive financial burden? Could sensors, digital assets, and insights have pre-empted the impact of those fires? Could the claims raised on insurers have been reduced? There are several questions.

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Digitally insuring the insurance industry

Digital technology is making inroads into all industries, and the insurance sector is no exception. Connected vehicles, drones, remote-sensing technologies, driver-less cars, telematics, wearable devices, and health monitors coupled with climate changes and millennial customers are changing the game in the insurance sector. Customers are embracing digital channels. And technologies such as the connected car, smart home, and artificial intelligence (AI) have introduced an era of new products powered by data and analytics.

By the end of this year, there will be over 10 million autonomous cars on the road – a growth at a CAGR of 134% from 2015 to 2020[2]. An estimated 1,100 US lives will be saved annually by connected or autonomous vehicles at 10% market penetration. Telematics devices will help reduce the probability of accidents among customers aged 18–25.

This will have an impact on claims and will also affect the insurers' front and back offices. The industry is fast-adapting to the digital journeys and so are a number of insurers leading the change.

Here are some examples of digital technology making inroads into the insurance industry.

Internet of Things (IoT)

- Progressive uses telematics to determine the premium based on car type and driving pattern among other factors.[3]
- Erie uses drones to determine the premium and indemnity.[4]
- Adeslas has embraced digitization of claims through automated segmentation, multichannel first notice of loss (FNOL), and claims tracking.[5]

Artificial Intelligence

- Lemonade's fully digital process needs customers to use only a smartphone.[6]
- Tractable leverages AI to help adjusters make decisions on repairs and averting claims.[7]
- Fukoku Mutual uses AI to scan documents and make settlement decisions.[8]

Wearables

- Wearables, nearables, and hearables will aid in customer segmentation, ratemaking, and fraud detection.
- A US-based life insurance company incentivizes customers who meet their Fitbit tracker goals with discounts.[9]

Blockchain

- **Fraud detection & risk prevention:** With Forbes estimating 5-10% of claims in general being fraudulent, property & casualty (P&C) insurers are exploring block chain-based solutions for error and fraud reduction.[10]
- **Claims management:** With digitization, claim forms, police reports, and other external reviews about a specific geographical location will become instantly available to third parties through a distributed, shared network – the possibilities are endless.

The digital success duo

Claims outcomes are vital to an insurer's success. Insurers look for better customer experience, lower expenses, and improved loss accuracy. Settling claims quickly and efficiently, ensuring claim accuracy, reducing fraud, streamlining workflows and authority levels are key towards the success.

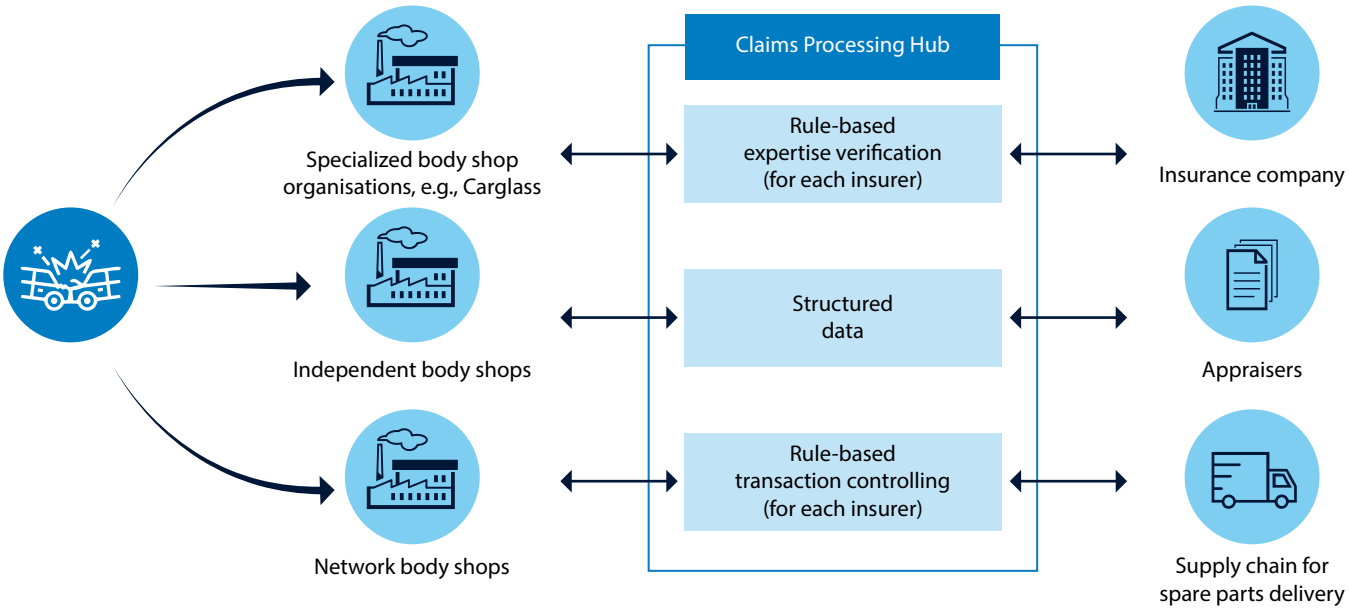
Most organizations fail to take advantage of the benefits of digital transformation. To them, going digital means upgrading to latest systems, tools, and applications.

While on the other hand, true digital leaders stand out in two ways:

- The way they put digital to work, especially in engaging with customers and vendors
- Intensive use of digital tools in every aspect of their daily processing activities

For a successful digital transformation in claims management, organizations should consider the following:

1. **A digital ecosystem** encompassing the insurer's processes, workshops and repair shops, and the customers. As shown in the below graphic, a claims processing hub provides value to all participants in the claims management.
2. **A digital operating process model**, which is reengineered from the existing processes to effectively leverage digital assets and tools.



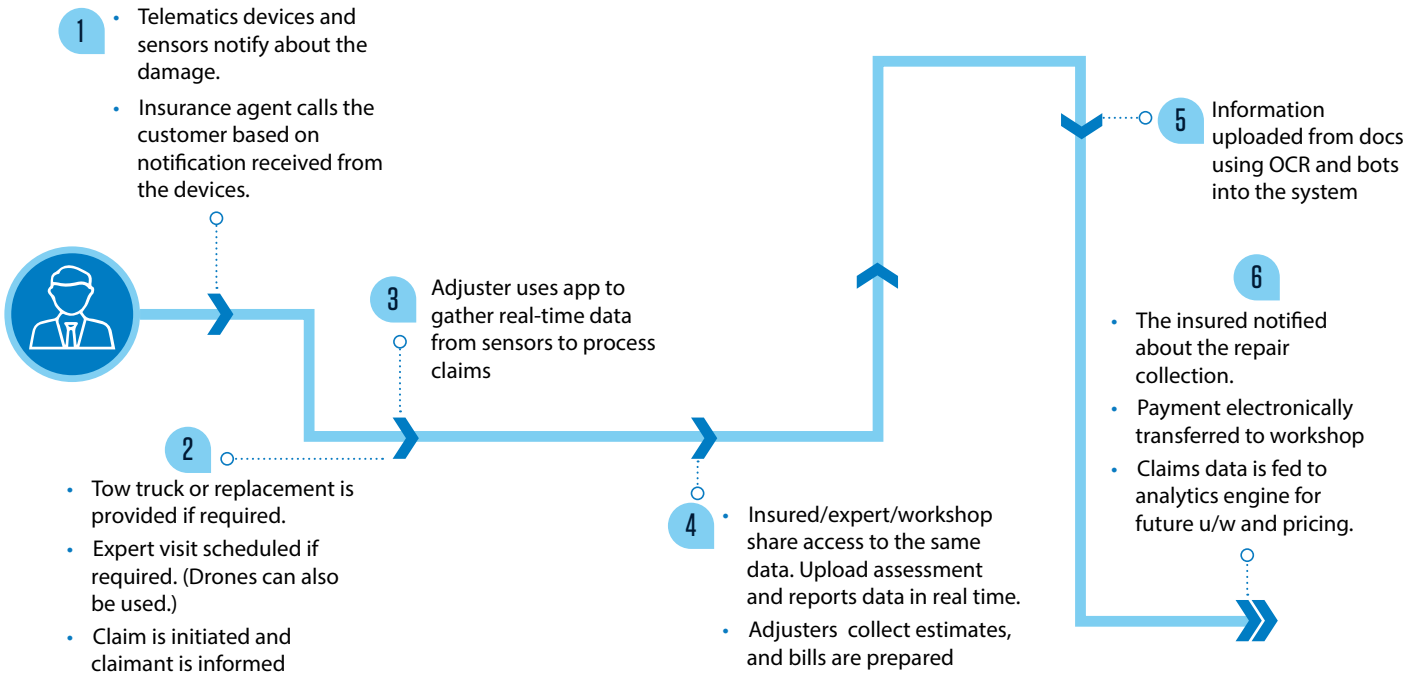
Digital insurance transformation in the real world

As an example, consider this leading insurer in the Benelux region that encountered challenges in maintaining operational efficiency, thus losing out on customer satisfaction and repeat business. The main reason was their lengthy claim settlement process. A normal claim used to take around 70 days to settle.

A rapid assessment led to the discovery of the following issues:

- Delay in claims registration due to the unavailability of full claim data
- A highly manual process with multiple handoffs and insufficient technology support
- Ambiguity on the insurance products and related information for the staff to settle the claims effectively
- Multiple customer touch points and lack of timely update on the claim status

The recommended solution depicted below, a state-of-the-art digital claims processing model, helped lower the claim settlement time to an average of 7-10 days, improving the customer satisfaction and ease of doing business.

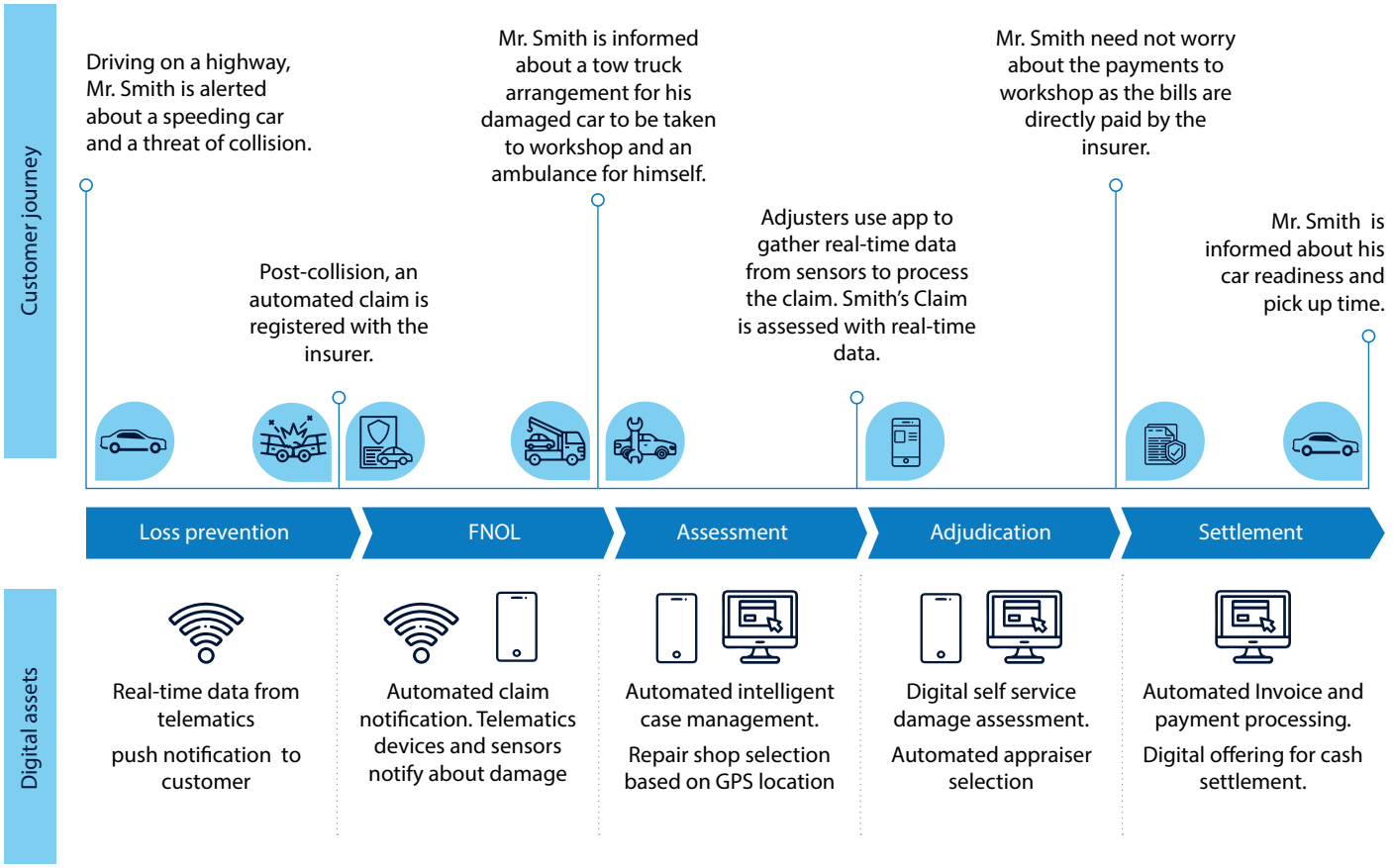


A recent McKinsey report states that implementing digital transformation within claims functions will:[11]

- Improve customer experience by 20% (Experience),
- Reduce claim expenses by 25 - 30% (Efficiency)
- Improve accuracy of the processes (Effectiveness).

The customer journey in the digital era

Following is an illustrative digital customer journey for auto claims, underpinned by digital assets.



Conclusion

With digitalization and automation, claims as a function will see a significant reduction in the number of routine jobs. Focus will shift from low-skilled, decentralized operational tasks to high-skilled claim adjudication tasks in centralized as well as global claim centres. Organizations need to effectively manage this change and better equip their staff for high-skilled jobs. With technology taking centre stage, new skill sets will need to be developed to manage emerging risks such as privacy intrusions, cybercrime, and fraudulent claims. Employees will have to be cross-trained on multiple areas in order to manage the change.

The effect of digital in insurance can be far-reaching and could completely transform the industry in the coming years. Organizations will have to become more agile and customer-centric in order to stay increasingly competitive.

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