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RESEARCH IN
INSURANCE

EVOLUTION OF CLAIMS

EVOLUTION OF CLAIMS

Claims processes are ripe for further automation but insurers, brokers and MGAs all have concerns about access to the right expertise and knowledge. Running fast alongside these trends is the rising tide of customer expectation: they want speed, transparency and fairness but not a de-humanised process. The challenge as the industry emerges from the pandemic – which has accelerated change – is to square this circle.

The research approach for this study was mixed-methodology. First, 32 in-depth telephone interviews were conducted with senior claims professionals or senior professionals who work closely with claims in the insurance industry from the UK and Asia. These in-depth interviews took place between 29th September to 30th October 2020. This was followed up with an online quantitative survey among 149 individuals based in the UK who are either claims professionals or those who work closely with claims teams. The fieldwork period for the survey ran from 3rd February – 12th April 2021.

The research conducted focusing on the Evolution of Claims, that the scale of change needed will expose sensitive issues about how and where to apply technology to enhance claims processes without increasing costs or losing key skill sets – all while enhancing customer experience. This has been a theme in the industry for some years but is now moving centre stage with data insight and artificial intelligence emerging as pivotal tools. Alongside this is a growing, but by no means universal, awareness of the regulatory requirement to support vulnerable customers, especially ensuring that the race to embed new technologies does not leave people behind.

In association with

The responses to our in-depth research among senior claims heads uncovered a range of concerns across the sector, revealing some nagging doubts among frontline claims professionals about the speed at which their firms are embracing and deploying new technologies and using them to re-orientate their processes towards the customer. Not surprisingly, it takes an external perspective to nail down the nature and extent of this challenge:

"*There has been an opportunity with several technologies to re-create the paradigm of how claims are handled, starting with a blank sheet… but people make small incremental gains and don't take the long-term view of revolutionising claims handling. …there is a lot of pressure on insurers to make incremental gains year on year, people aren't in jobs for huge amounts of time and therefore they don't necessarily have the finance to invest a few million in step-change and they don't have the people to see the longevity of the change through.*" – Tech innovator operating in the Claims space

Control has always been an extremely important driver of decisions in the design of claims handling processes from FNOL (first notification of loss) to settlement. Cost, internal processes, fraud prevention, ensuring client satisfaction, meeting regulatory requirements all pre-dominate as concerns that in the digital-first world have to be reconciled with the need to provide a more transparent, faster, customer-centric service. The research shows how far-reaching this change will be – and how much further it has to go. Claims service has become a key defining element in the image of a brand, and that healthy tension between highly-controlled processing and the drive towards dynamic customer-centric service will grow.

Concerns about fraud risk are never absent for long from conversations about claims. Ensuring that these new processes do not become weak points for fraudsters means deploying data and artificial intelligence effectively with robust protections built in from the start. While insurers have a clear focus on this, among brokers and MGAs awareness of the role they must play in fighting fraud seems to be lagging.

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Tech innovator operating in the Claims space
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Another critical element of the claims environment is the regulatory and legislative framework, which has changed significantly over the last three decades and continues to do so at pace. Whether it be whiplash reforms, the arrival of litigants-in-person at courtroom doors, Financial Conduct Authority action over pricing models, post-Brexit regulatory realignment or the impact of the Supreme Court judgment on pandemic-related business interruption claims, no-one in the claims sector can afford to ignore this. Many of these issues are stubborn and remain alive for years.

Sustainability is weaving its way through the fabric of the entire insurance industry, and claims is no exception. The need to respond to the challenges of climate change affects the claims supply chain and is increasingly scrutinised by customers and regulators. The race to embrace the ESG (Environmental, Social and Governance) agenda will sweep claims up along the way (see box – right).

The final key context for the Evolution of Claims research has been the Covid-19 pandemic and its profound impact in redefining how, where and when we work. No-one knows where the dial will finally re-set but what is clear is that the relationship between employers, employees and their place of work will change (see boxes pages 6 and 7).
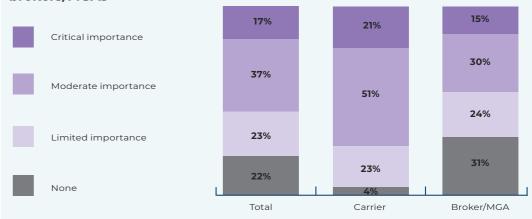
Sustainability

Nearly all respondents from insurers claim their business places some level of importance on sustainability in the supply chain, with nearly half saying it is more important now than this time last year, a significant change.

Brokers and MGAs place less stress on this although 69% say it is already important. Their awareness of its importance is also growing more slowly but this is unlikely to last for long.

"*Sustainability has definitely moved up the agenda. It is now on tenders, where it wasn't three years ago. Customers will look for dashboard information on sustainability. It may become a differentiator, especially with younger customers, if everything else is equal on price,*" says Caswell.

Nearly all (96%) from the carrier group claim that their business places some level of importance on sustainability in the supply chain. This goes down to 69% among brokers/MGAs

	Critical importance	Moderate importance	Limited importance	None
Total	17%	37%	23%	22%
Carrier	21%	51%	23%	4%
Broker/MGA	15%	30%	24%	31%

Q41. What importance does your business place on sustainability in the claims supply chain? Either in sourcing goods used in repairs and replacements or vetting supplier approaches to sustainability?

"*The more prescient in the employers' liability market have been pointing for some years to growing focus on mental health and well-being. This has intensified over the last eighteen months and will continue to transform the relationship firms have with their staff, creating new areas for potential claims along the way,*" says Jonathan Clay, Head of General Insurance at law firm BLM.

These challenges are not unique to the UK insurance industry: they are global.

Defining customer expectations

One of the biggest challenges in evolving claims processes to meet the rapidly changing customer expectations is the need to step back and look at its processes from customer perspectives; from that of the digital-first users to the digitally-disadvantaged.

Universally, people want claims to be settled quickly, have a fair outcome, with little quibbling and interruption to their lives. Convenience and transparency are at the core of this re-shaped service proposition and that means developing a 24/7 self-service approach, while acknowledging that will not suit every customer or every claim. Companies will have to provide this as an extra option in the choice of channels through which customers can interact.

"*The goal is offering a simple, accessible service that gives customers the facts they need promptly and that flags any snags or delays as early and openly as possible. This goes for claims service as much as for things like applying for loans, booking train tickets or switching energy providers. Online claims service can meet this aim and can offer customers transparency in comparing providers' performances and the ability to review feedback from other customers. We expect this approach will quickly expand from the personal lines market into commercial risks,*" says Alistair Kinley, Director of Policy & Government Affairs at BLM.

Impact of Covid-19

Across insurance, claims departments had to shift from working in the office to working from home overnight when lockdown came in on 23rd March last year. They've been surprised at how well it worked and how little disruption there has been, although the considerable costs incurred were not foreseen or budgeted.
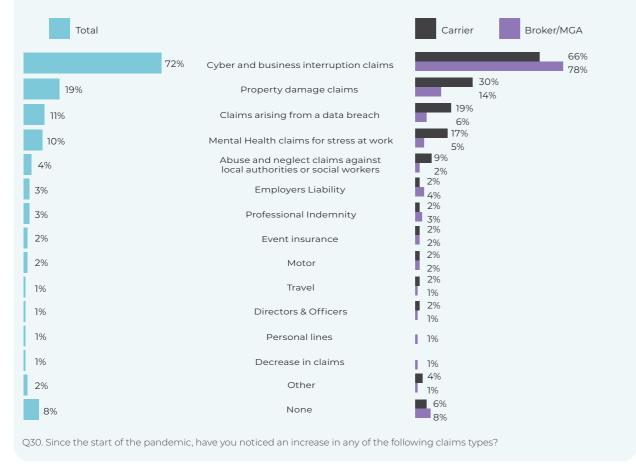
"We surprisingly managed to get people working from home quite effectively. Once you have got the technology in place for that, you can understand who you have got available and when you have got them available... That was supported by significant reductions in claims volumes in certain lines." – Senior claims professional, insurance carrier.

Some brokers and MGAs reported slower response times during the first lockdown but that was mostly around more complex claims where the need to connect several parties to the process was harder with everyone working remotely.

Some of the biggest impacts were on claims volumes with significant declines in motor claims and travel after the initial wave of cancellation claims. These were offset by rises elsewhere with cyber topping the list.
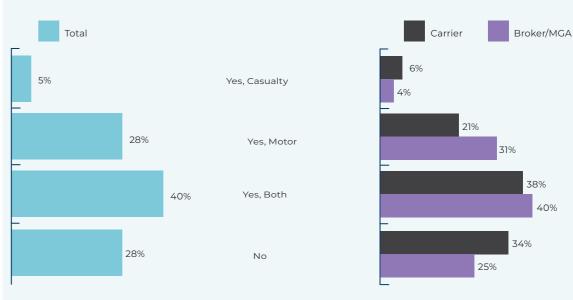
72% noticed an increase in cyber and business interruption claims since the start of the pandemic. Carriers have noted seeing an increase in property damage, data breach and mental health claims

Q30. Since the start of the pandemic, have you noticed an increase in any of the following claims types?

For some the vision is already clear. "*I like to think that in the future customers will be able to submit a claim, they will get it approved instantly based on the fact that the data held by the insurance companies means they are able to assess that claim instantaneously,*" said the CEO of one MGA.

This will not be a one size fits all model, says Paul White, CEO at Sedgwick International. "*Some customers won't like automated systems, while others will embrace them. Put simply: Many people want to feel that someone owns their claim*".

72% have observed some form of decrease in casualty or motor calims since the arrival of COvid-19. 40% have seen a decrease in both types of claims

Q31. Have you observed a decrease in casualty or motor calims since the arrival of COVID-19?

"*Cyber issues and the risks arising are subjects constantly mentioned. Recent infrastructure targets, the vulnerability of global, medium and small businesses and that of the claims supply chain and the attacks we each experience on an almost daily basis seem very likely to present challenges to the defendant claims community as 'opportunity' is seen by others,*" says Clay.

Working from home was already on the radar screen of forward-looking employers' liability insurers with a focus of the growth of mental health rather than physical injury claims and that has proved prescient during the pandemic.

Segmenting claims service by customer preference will present challenges and the transition is likely to be a gradual process. At present, the majority of providers' first notification of loss still comes overwhelmingly through telephone and email. 72% of carriers receive some elements of FNOL from a portal – these notifications mostly still representing less than 25% of claims. And 21% said they now receive FNOL through an app (see boxes on pages 8 and 9).

This heavy dependence on the phone needs to change, according to many respondents.
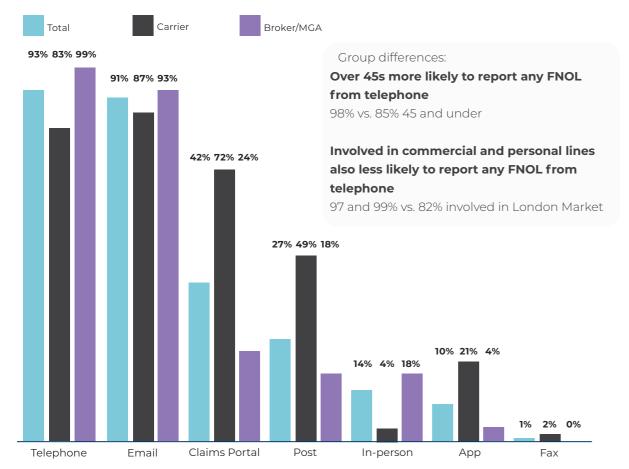
"*It relies heavily on phone, too heavily in my view on phone. We have some digital propositions. We have some ways in which certain customer segments can contact us through either an online app or an*

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> *The goal is offering a simple, accessible service that gives customers the facts they need promptly and that flags any snags or delays as early and openly as possible. This goes for claims service as much as for things like applying for loans, booking train tickets or switching energy providers. Online claims service can meet this aim and can offer customers transparency in comparing providers' performances and the ability to review feedback from other customers. We expect this approach will quickly expand from the personal lines market into commercial risks.*
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Group differences:

Over 45s more likely to report any FNOL from telephone

98% vs. 85% 45 and under

Involved in commercial and personal lines also less likely to report any FNOL from telephone

97 and 99% vs. 82% involved in London Market

Q10a. From your perspective, approximately what proportion are losses first notified through each method?
Base: All respondents (149), Carriers (47), Broker/MGA (97)

For those who receive FNOL from portals, the majority (65%) receive less than 25% of losses notified in this manner. Telephone and email dominate with the highest proportions of FNOL

Q10b. From your perspective, approximately what proportion are losses first notified through each method?

online notification form or a broker portal. We do different digital propositions depending on the line of business in terms of how you might be able to track a claim or not and in terms of follow up." Senior Claims Professional, Insurance Carrier

One danger identified in this transition is that insurers will take the lead in defining simple and complex claims and the journeys they should take. Their definitions might not be the same as their customers.
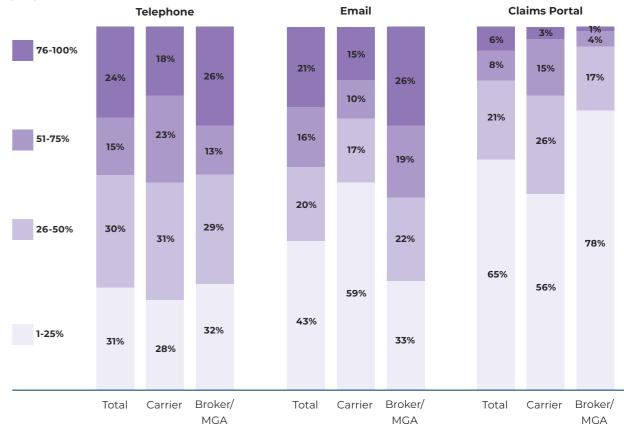
"If you can automate those simple claims – which we have been doing – then the complex ones you can spend more time on and investigate more thoroughly. So, you need claims which you can define as simple and, to be honest, different insurers have a different determination of what is simple." Senior Claims Professional, Insurance Carrier.

One example of a relatively simple claims process that could easily lend itself to front-to-back automation is that for pet insurance. It is also seen as a good illustration of where care needs be taken not to de-humanise the claims process, as pet owners often require an empathetic approach and emotional support. As with all automation, fraud detection needs to be built-in from inception, for example to detect inflated invoices from vets.

Responding with technology and AI

Over half of professionals in claims or working closely with claims think that their firm is ahead of their peers in terms of the quality of claims servicing. This goes up to 64% of those surveyed among carriers. But 53% of carriers believe their firm's claims technology is behind the times, while just 13% believe their firm's claims technology is

Claim site technology

The deployment of on-site technology has been accelerated by the pandemic. Insurers used drones for surveying sites, dashcam data and other validation technology where face-to-face interactions had to be avoided.

Drones are not new but their acceptance has been slow despite their obvious advantages, with many claims professionals at insurers saying there is a lack of appetite for drone technology. This reticence is gradually changing, says Rebecca Jones, CEO and founder of drone specialists iprosurv.

"It is really about collecting and processing data faster. By putting eyes in the air we can collect that data more safely and much faster. This helps with validation, reserving and establishes the repair process quickly, so the right materials and scaffolding can be ordered."

She says using drones does not eliminate the need for skilled claims professionals to be involved but does change their role.

"The standard process is to send a person on site first and then ask for drones to inspect a damaged building. This would be better the other way round. Drones can operate beyond visual line of sight so then the right boots can be put in the ground. It would be much better for drones to be used as part of the triage process rather than duplicating current resources."

Looking ahead, drones can be used for claims beyond the obvious property damage incidents. Fitted with sensors they can take the temperature of vegetation which could be used to assess flood or fire damage to crops over a wide area very quickly.

Other remote technology deployments that have proved invaluable during the pandemic have been remote surveys. This works where an app is downloaded on the customer's phone and a surveyor from the loss adjuster has complete control of the phone while the customer takes photos and walks through their property.
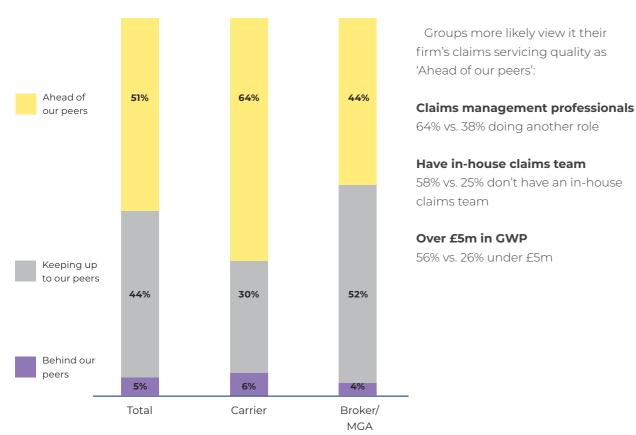
cutting edge. Clearly, quality and deployment of technology is not yet widely seen as being one of the key defining characteristics of a quality claims service.

Just a few years ago, the big buzzwords among insurers looking to improve their processes were "*big data*". Now it is artificial intelligence. The conversation has moved on from how to gather data and how to liberate data from legacy systems, to how to apply it to drive all round improvement in processes in a way that engages customers.

Personal lines is leading the way in digitisation. Most of the interesting developments revolve around new ways of capturing data automatically and integrating it with claims processes, or enabling policyholders to access their claim digitally, which is seen as essential in this new world.

Despite these positive developments, one broker had a view that: "*Currently our clients have no access to claims information held by insurers which can lead to them feeling isolated and not part of the claim process.*"

Over half of professionals in claims/working closely with claims think that their firm is ahead of their peers in terms of the quality of claims servicing. This goes up to 64% among carriers

Groups more likely view it their firm's claims servicing quality as 'Ahead of our peers':

Claims management professionals
64% vs. 38% doing another role

Have in-house claims team
58% vs. 25% don't have an in-house claims team

Over £5m in GWP
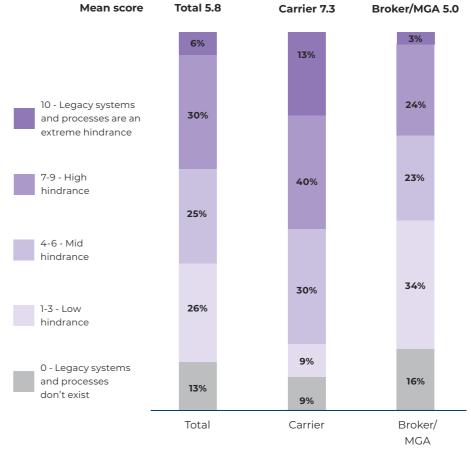56% vs. 26% under £5m

Q12. How do your view your company in terms of the quality of claims servicing?

Successfully blending automation with expertise and sensitivity to the needs and aptitudes of customers will be a win-win, says White.

"*The big wins on technology are speed of conclusion and settlement which reduces indemnity spend so our focus is on FNOL and straight through*

processing. Often you can see what you need to do for low value claims [in personal lines] but that is not the end of the story. There are complex claims, vulnerable customers and claims that fall outside the standard process. We have a seamless handoff where there is a vulnerable customer, a complexity or something that requires special skills."

Over half of those at carriers (53%) think that legacy systems and processes are a high hindrance (score above 7). Legacy systems and processes are less of an issue in the broker/MGA group

Q17. How much of a hindrance are legacy systems and processes at your company?

The list of potential applications of technology in the claims process, highlighted by research participants, is long and varied:

· Claims portals, via apps and mobile tech, sometimes using a live video stream. Portals will tell customers where in the process the claim is with less need to chase and have negative or frustrating interactions over updates.

· Use of chatbots. Chatbots are seen as having big limitations, and not a silver bullet, as some customers get frustrated with them.

· Payment processes speeded up, with Straight Through Processing

· Guarantees of payment for certain types of loss. For example, one insurer is guaranteeing payout on business insurance within three

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Senior Claims Professional, Insurance Carrier

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hours if tools are stolen. This could point the way to more forms of parametric insurance becoming commonplace.

· In motor, driver FNOL using apps, telematics and automatic incident reporting.

· In home, video FNOL and use of drones

It is the integration of all this new, rapidly gathered, data into sophisticated AI systems that will deliver the speedier, cost-effective, customer-centric claims processes.

"I think we will see much greater use of tech. We are already developing artificial intelligence now to overlay the technology that we already use…work with clients to say to them 'Actually the data that we collected is telling us that not only is this area over here damaged, as you have reported, but you have actually got other areas of your property that are showing signs of damage' and after we can tell them what the cause of that damage is so we can tell them that it has been caused by high winds or it has been caused by heavy rain or it has been caused by heavy snow or hail or it has been caused by general wear and tear. We can actually tell them that because the artificial intelligence is informing us through the data that we have collected that that is what it is. We are starting to now develop the software so that it gives us more data that we can use with our clients…" – Tech innovator operating in the Claims space

Drone surveys are already delivering these benefits, says Rebecca Jones, CEO and founder of drone specialists iprosurv.

"Surveys are now backed up with MI, statistics and figures about the savings for insurers. We can do so much in terms of analytics, for instance by mapping photographs to wireframe diagrams with measurements, enabling much faster estimates of remedial work and claims costs."

Legacy systems

It is not just a fear of loss of control that is holding back this digital transition, or a potentiality misplaced faith in the quality of current processes.

> *And it's not just about replacing one IT system for another," says White, "we're often too quick to digitise old processes, processes that were designed years ago, which tended to focus on the technical requirements for a claim, rather than the customer experience. Today, technology offers us the opportunity to widen our horizons, and re-think how we really engage with the customer.*

Paul White, CEO at Sedgwick International

Over half of those surveyed at carriers (53%) think that legacy systems and processes are a high hindrance. Legacy systems and processes are less of an issue among brokers and MGAs.

Caution seems to be the watchword and the biggest drag on seeing through a genuine revolution in claims processes. Respondents complained that even when projects are initiated, the time frame once they start typically drags on over several years. They also highlight the piecemeal nature of many so-called transformation projects, saying they are developed for one line of insurance before moving onto another line.

Many insurers seem to have decided that it is too expensive and disruptive to get rid of legacy systems completely, often to the frustration of those who must manage the processes the systems support. Some carriers have placed new claims on new platforms to become less reliant on legacy systems. However, when compared to migrating existing claims from old platforms, this will be relatively slower transition to new systems but it gives a clean break.

The conclusion is that many will struggle if their IT systems are not agile and can be easily adapted to accommodate API (application process interface) integration.

Some have looked to the insurtech disruptors for solutions but have found them a mixed bag. A key criticism was that they tend to develop superficially attractive solutions but without any understanding

The claims handler of the future

As automation inevitability strips out many routine claims, and also the routine tasks within claims management, it will free up claims handlers to give customers the human attention and judgment where it is needed most – vulnerable customers, high value claims, difficult cases and those the customer feels are most important to them.

This will give the claims handler of the future

· An enhanced ability to put the customer at the heart of the claims process
· More information at fingertips to make decisions.
· More empowered, easier decision-making

"Automation will underpin transparency. The skillsets in customer service will evolve. Insurers are investing in data and analytical skills and are partnering with tech companies that will bring these skillsets," says David Caswell, Head of Claims Solutions Business Stream at BLM.

While algorithms may be used to provide evaluation and speed up settlements and more decisions on quantum and liability will be made using automation, some respondents highlighted that this will require enhanced customer relationship skills to make sure people are properly informed and that they understand decisions. The industry does not want to fall into the trap of "computer says no" without context and explanation.
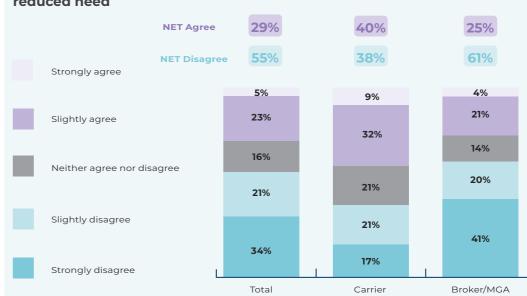
"These were once seen as soft skills, and perhaps undervalued, but now they are seen as key skills for the interface with customers. People are at different stages of the journey. Some are placing it high on their agenda in terms of assessment of suppliers," says Clay.

In turn, this will redefine the role of loss adjusters and third party administrators where there are other pressures, says White.

"We have an age timebomb in the complex loss industry with the number of senior adjusters over 50. And it is not exclusive to commercial lines as we do have some complex high value personal claims so that dynamic has an impact there too."

Most disagree with the reduced need for a traditional loss adjustor with the advent of remote technology. Carriers are more likely to agree than broker/MGAs for a reduced need

	Total	Carrier	Broker/MGA
NET Agree	29%	40%	25%
NET Disagree	55%	38%	61%
Strongly agree	5%	9%	4%
Slightly agree	23%	32%	21%
Neither agree nor disagree	16%	21%	14%
Slightly disagree	21%	21%	20%
Strongly disagree	34%	17%	41%

Q29. Some have suggested that with the advent of remote technology and online capabilites, there is a need for a traditional loss adjustor. To what extent do you agree or disagree?

With over 30% of respondents believing there is a high shortage of automation and data analytics skills, as well as some shortage of legal, negotiation and loss adjusting skills in the claim space, the competition for talent – highlighted in previous research reports – is still intense.

"Young people have lots of options. Working in insurance claims requires us to take a different approach to attract the best talent," says White.

of the underlying principles of insurance or the legal and regulatory environment the sector operates in.

However, some do offer attractive solutions that could help drive a step-change in claims processing.

"*The insurtech disruptors are out there and there is much they can do around how they can change and streamline that process. If you have got a system that can accommodate and accept those API integrations, it gives you a lot more scope and a lot more opportunity to deliver that effortless and easy process for our customers.*" – Senior Claims Professional, Insurance Carrier

"*And it's not just about replacing one IT system for another,*" says White, "*we're often too quick to digitise old processes, processes that were designed years ago, which tended to focus on the technical requirements for a claim, rather than the customer experience. Today, technology offers us the opportunity to widen our horizons, and re-think how we really engage with the customer*"

Regulation and vulnerable customers

Regulators, led by the Financial Conduct Authority, are seen as a constant strong – and at times disruptive – influence. Insurers say they are more conscious than before of being under scrutiny and being judged by the quality of their claims handling; brokers too fear losing business over poor compliance with its attendant reputational risks and pay it increasingly close attention.

Attention has been focussed on how well companies are adhering to the Treating Customers Fairly (TCF) objectives with the FCA set to extend this further into the claims area. Some insurers believe this creates pressure to keep claims handling in-house, while others say it reinforces the need for a very close working relationship with all outsourced providers.

Before the Covid-19 pandemic, the regulator's priority for the general insurance market was more at the sales end of the customer journey, with dual pricing – a long-standing bête noire of the regulator – being the prime focus. That said, the

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> Jonathan Clay, Head of General Insurance at law firm BLM
> "

GI pricing review has made significant progress this year and the pandemic has brought claims performance and service more to the foreground. For example, the FCA's business interruption test case and its work on vulnerable customers and on the value of GI products very much address these themes.

"*There are parallels with the transparency being brought to the pricing process. The expectation of regulators is that this must be improved and there will be a similar expectation of transparency on the claims side,*" says Kinley.

The results of the survey show that most of the industry is trying to respond positively to the need to identify and respond to customer vulnerability. In many instances, it is very much part of the customer conversation at point of sale and when a claim is made. Nevertheless, parts of the sector are finding it a challenging topic.

Of those operating within personal lines, 73% claim that their firm is actively identifying and treating vulnerable customers differently. Nevertheless, a minority, mostly brokers and MGAs, have not started doing things differently.

Common responses among carriers include:
· Staff training about vulnerable customers
· Extra time and care taken in communicating and managing claims
· Service standards tailored to different vulnerabilities
· Working collaboratively with supplier partners,

including identification at FNOL and by suppliers with details provided to partners in the supply chain
· Flagging vulnerability on file

These are basic steps, says Kinley: "*In addition to screening customers for vulnerability during the sales process, it is critically important to do that again at the point of claim. The pandemic has shown how quickly customer vulnerability can change*".

"*Identifying vulnerability is just the first step in supporting customers,*" says White. "*You need to have flexibility and additional support built into the claims process so that the claim can still be managed effectively whilst ensuring each customer is helped through what can be quite a traumatic time.*"

Kinley also points to the future direction of travel for the regulator on this issue: "*Vulnerability among SMEs will become a more important area for the industry to respond to.*"

Conclusion

Opportunities abound for claims to be at the forefront of a customer-led process that significantly enhances the image of the industry. It needs imagination to reinvent processes, investment to deliver the technology and new skill sets to meet customer expectations. The industry will need to be much bolder on the pace of change.

Although most respondents display a refreshing degree of honesty about where they are on this journey and how much further they have to go, there is a strong thread of optimism that they will reach their destination. The innovators are already setting the pace in the evolution of claims.

"*I think Insurers will start to value claims more, if I'm honest. More companies have now got claims directors sitting on the board or people with claims accountability sitting on the board and I think that is nothing but good.*" – Senior Claims Professional, Insurance Carrier