



STRATEGY MEETS ACTION

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## **P&C CLAIMS IN THE POST-PANDEMIC ERA:**

*Emerging Stronger, Accelerating  
Transformation*

*An SMA Research Report*



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**Authors:** Mark Breeding, Partner  
Karen Furtado, Partner

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## P&C CLAIMS DURING THE PANDEMIC: THE INDUSTRY RESPONDS

In the past 18 months, claims patterns have changed like never before. At the onset of the pandemic and the introduction of lockdowns, insurers had to make major adjustments, just like every other industry. The work-from-home environment accelerated e-commerce, affected food purchasing and delivery, and dramatically reduced travel and traffic. Many businesses were closed or operating in virtual modes. This changed both claim frequencies and severities in significant ways, with big variations by line of business. Fast forward to today, and the situation related to the pandemic is continuing to evolve. Uncertainty remains regarding future claim patterns. Have they changed forever? Or will they, at some point, bounce back to the more predictable levels of the pre-pandemic era? And how long will the uncertainty remain?

Generally, we have observed that the P&C industry went through three phases of planning and response during this period, and these three phases were seen in claims as well as other parts of the business. Figure 1 illustrates the three phases.

Figure 1. Three Phases of Carrier Adaptation Throughout the Pandemic



- ✓ **Initial Tactical Response:** Insurers rapidly adapted to employees, claims partners, and policyholders working from home and implemented stopgap measures to continue supporting claims.
- ✓ **Stabilization and Positioning:** During the second half of 2020, many insurers temporarily suspended new initiatives and focused on the foundational, most important activities. SMA's research report from September 2020 documented these changes (see [Claims Transformation Reset: The Impact of COVID-19](#)).
- ✓ **Digital Acceleration:** At the beginning of 2021, it became apparent to many that the pandemic and its implications would be factors for quite some time. Many insurers decided to accelerate digital transformation and innovation initiatives. The claims area has seen a flurry of new activity that includes an increasing focus on upgrading core claims systems.

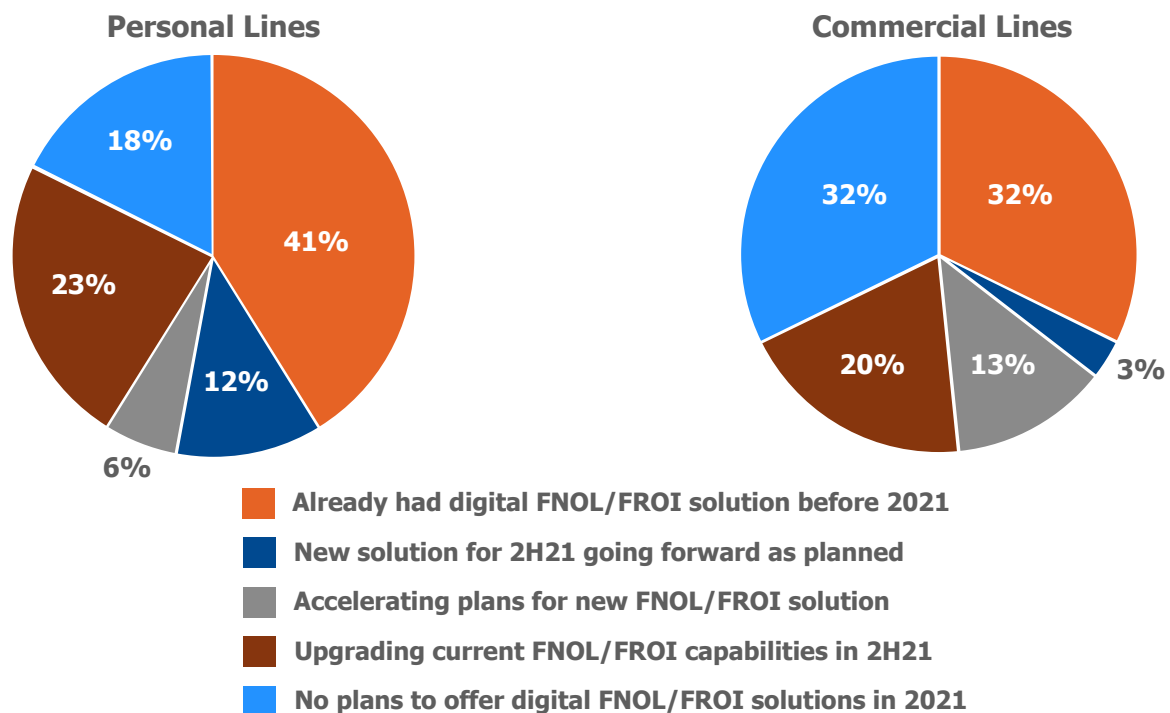
Throughout this time of change and uncertainty, the insurance industry has performed admirably, handling claims remotely, deploying new technology solutions, and putting in super-human efforts to meet customers in their time of need. Even though the industry has responded well, digital gaps were exposed, and new customer expectations have emerged. This research report will cover carrier plans to address gaps and changing customer expectations and to become more aggressive at seeking new advantages through advanced technologies and partnerships.

## DIGITAL TRANSFORMATION OF CLAIMS ACCELERATES

### Insurers Focus on Digital FNOL/FROI

Some of the major gaps identified during the pandemic are related to the front-end of the claims lifecycle, especially those relating to the initial loss reporting and activities requiring adjusters to be in the field meeting with claimants or doing the initial assessment of damages. There has been a significant effort to implement digital capabilities for first-notice-of-loss (FNOL) and first-report-of-injury (FROI) for workers' comp, virtual inspections, and digital payment capabilities. A recent SMA survey revealed how plans for digital FNOL/FROI are changing (see Figure 2).

Figure 2. Changes to Carrier Plans for FNOL/FROI  
Percent of Insurers Citing



Source: SMA Research, Summer 2021 Market Pulse, n=48

The pie charts for personal and commercial lines highlight two key points. First, the orange sections of both pies show the significant activity in implementing digital FNOL before 2021. A lot of those projects were completed in 2020 as insurers shifted priorities to focus on FNOL – a necessity because of the lockdown. Most of the large, tier 1 carriers already had digital FNOL capabilities before the pandemic, but in 2020, companies of all sizes implemented new digital FNOL solutions. Second, there continues to be a significant emphasis on either implementing new solutions or enhancing current digital capabilities. Some plan new solutions in the second half, especially on the personal lines side. A large portion of carriers in both personal and commercial lines are upgrading their solutions for policyholders. A small percentage are even accelerating their plans – with 13% of commercial lines and 6% of personal lines companies on this path.

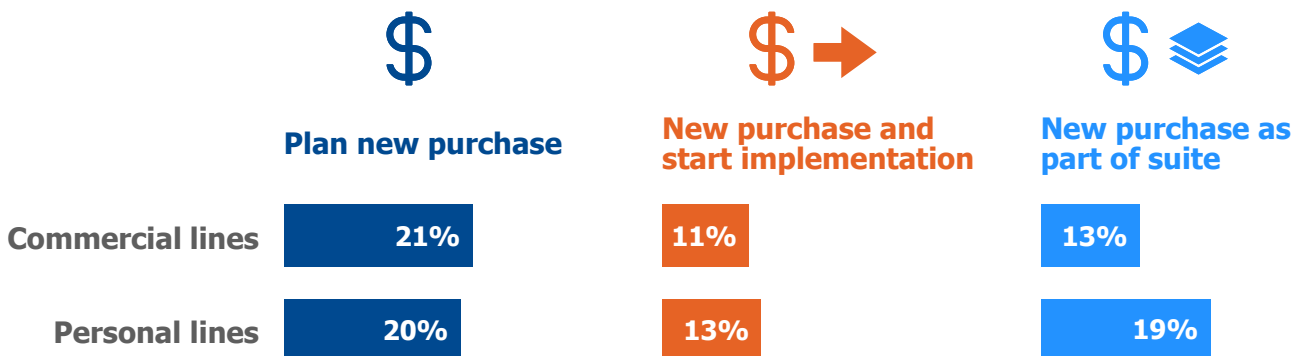
While the initial emphasis on digital FNOL solutions has been to enable policyholders, claimants, and agents to report claims remotely, the digital capture of this information sets up further claims transformation across the lifecycle. Once the insurer has the initial information in a digital format, it becomes easier to automate triage, assignment, and investigation tasks. In addition, more insights can be gained via artificial intelligence (AI) based solutions, and certain decisions can be automated.

## The Role of Claims Administration Systems

Even though it might seem obvious, the pandemic has revealed a basic but critical requirement: the need for modern claims administration systems as the foundation of the claims environment. These are the systems of record, and they support the flow of transactions across the lifecycle. But it is becoming more and more evident that modern claims systems are the anchor for the entire ecosystem of technology solutions. There have always been various point solutions for areas like damage estimation, fraud management, medical bill review, litigation, settlement, subrogation, and others. What has changed is that insurers now require rapid integration of these systems with the core system, digital workflows, and support of advanced technologies like AI. Systems with older architectures struggle with these requirements. But modern systems with extensive APIs and pre-integrated solutions provide more efficient and effective ways for carriers to upgrade their solutions for all aspects of claims.

SMA Market Pulse research polls throughout 2020 and 2021 confirmed that insurers continued to push forward with core claims implementations already in progress. Any insurer that had claims systems implementations in progress before the pandemic recognized that pausing or slowing down these projects was unwise, and it would be difficult to do, in any case, given the scope of these initiatives. In 2021, there has been an uptick in new claims systems purchases for both personal and commercial lines and major activity in system upgrades. Figure 3 shows data from the SMA Market Pulse survey (summer 2021) on carrier plans relative to core claims systems.

Figure 3. Carrier Plans for Core Claims Systems for 2H21  
Percent of Insurers Citing



Source: SMA Research, Summer 2021 Market Pulse, n=48

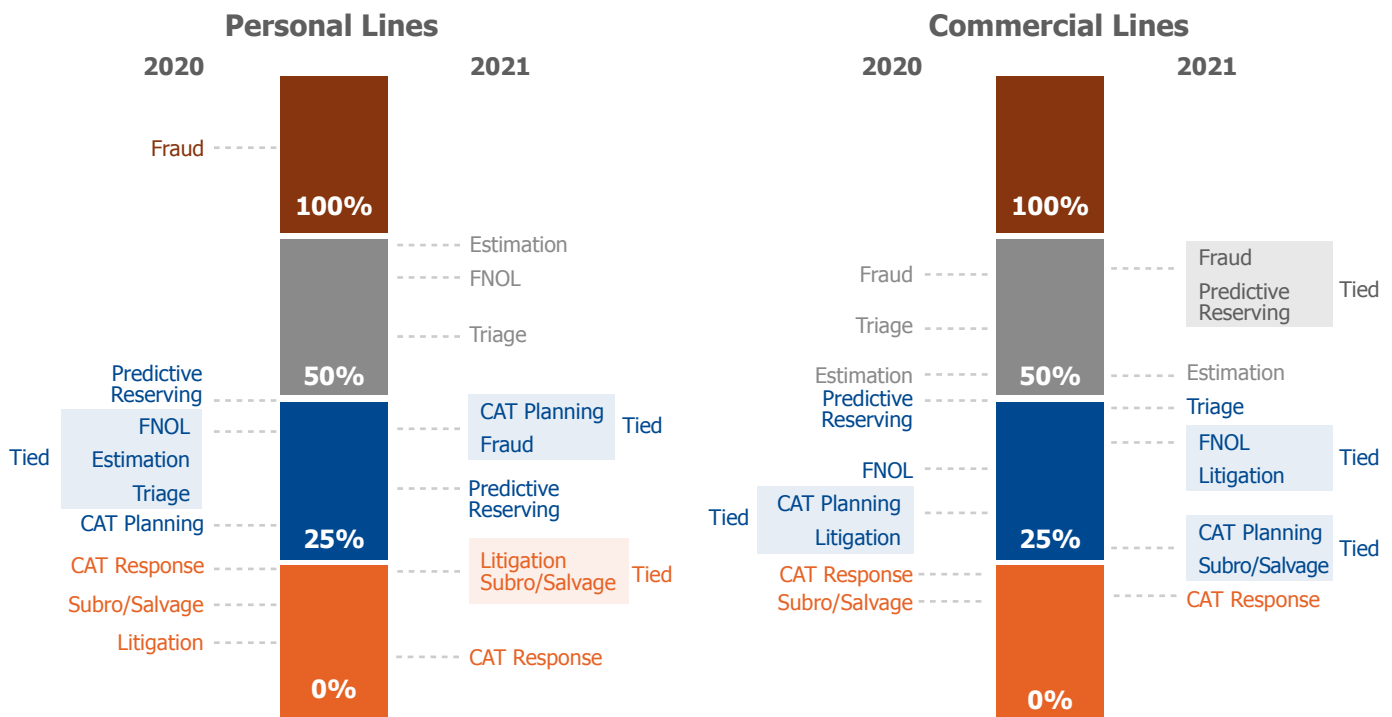
A remarkable percentage of P&C carriers are planning to purchase new standalone claims systems in the second half of 2021. Some plan to go through the selection and purchasing process to set up implementations starting in 2022 (dark blue column). Others will purchase new systems and begin the implementation process sometime in the second half (orange column). In addition, others will be buying claims systems as part of suites, although they may or may not implement the claims portion right away (light blue column).

Assuming companies follow through with these plans, the industry should be well-positioned with modern claims systems. Most should have relatively new systems within the next few years.

## ARTIFICIAL INTELLIGENCE IN CLAIMS

Leading insurers already leverage a variety of AI-oriented solutions in claims, including chatbots, robotic process automation (RPA), computer visioning, and machine learning. However, most of the potential for AI in claims lies ahead. Many claims professionals see great potential for AI use in many different areas of claims. Comparisons of insurer expectations for AI in 2020 versus 2021 highlight a major rethinking of where AI will provide the most value, as shown in Figure 4.

Figure 4. Value Areas for AI in Claims  
Percents of Insurers Citing Each Functional Area



Source: SMA Research, 2020 and 2021 Transformational Technology Surveys

Figure 4 illustrates how much the thinking on AI in claims has changed in the past year. Although there are big shifts to highlight, the overall message is that AI is expected to deliver high value across many areas of the claims lifecycle. But personal lines and commercial lines need to be explored separately since the priorities for different functional areas of claims are quite different.

### AI in Personal Lines Claims

The views of insurance executives in personal lines regarding AI in claims have changed considerably over the past year. It is important to understand that the previous diagram is more about relative rankings and less about exact percentages. Within that context, it is clear that the anticipated potential for AI in FNOL, triage, and damage estimation is increasing. Once again, the move to more digital capture of FNOL data facilitates further steps in the claims process. It should be noted that fraud drops significantly in the ranking, from the top area in 2020 to the middle of the pack in 2021. This may be due to AI already being prominent for fraud management, and companies think of AI usage as a given. Another significant shift to note is that the perceived value of AI in catastrophe planning has increased. The increasing incidence of CATs; the advancement of digital imagery, photos, and voice technologies; and the AI tech to interpret the multimedia data help explain the optimism in this area.

## **AI in Commercial Lines Claims**

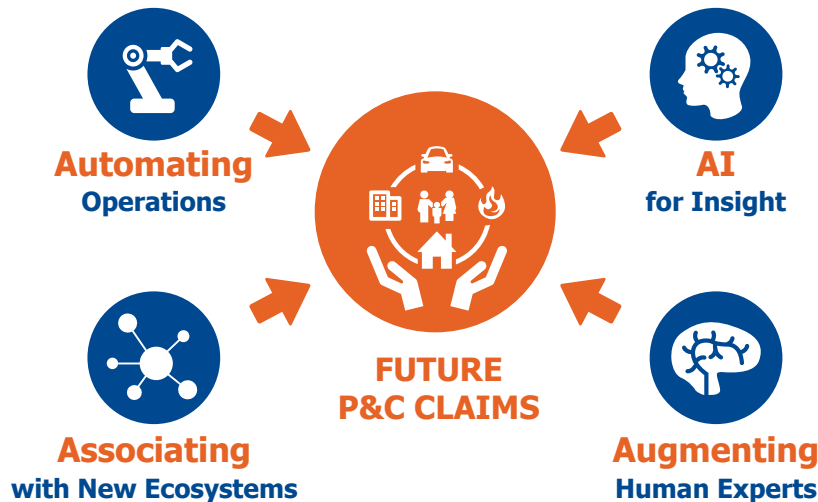
In commercial lines, the expected potential of AI for claims changed somewhat during the pandemic, but not as dramatically as in personal lines. The one big area of increased potential is in predictive reserving. Personal lines companies are farther ahead in using predictive models earlier in the lifecycle to estimate reserves. However, there are more variations and complexities in the types of claims in the commercial lines world. This makes it more difficult to apply machine learning to spot the patterns that inform those models. That said, commercial lines executives expect that more loss experience and the increasing sophistication of machine learning technology will provide new opportunities for predictive reserving, especially for small commercial lines claims. Two final areas deserve comment: litigation propensity and recoveries. In both areas, insurers sense more opportunity for early identification of claims with litigation potential and those with early indicators of subrogation possibilities.



## A VIEW INTO THE FUTURE OF CLAIMS

One way to understand the transformation underway in claims is to visualize four dimensions in the future of claims. These four areas can serve to frame strategies for claims today. Each of the four “A” areas are illustrated in Figure 5 and can be expected to evolve and progress over time.

Figure 5. Four Dimensions of the Future of Claims



### Automating Operations

Source: SMA Research 2021

Efficiencies in claims have always been an imperative – streamlining the claims process and managing LAE to reasonable levels will remain important in any era. This is probably the easiest area to understand and where the focus has been for decades. But now, technologies like robotic process automation to automate tasks and natural language processing for document intake (extracting and analyzing information from scanned documents and other unstructured data sources) enable us to get to new levels of automation. Expanding digital connections into new networks also automates the workflows – which will be discussed later under Associating With New Ecosystems.

### AI for Insight

The claims environment receives a lot of data from a lot of sources, making it a prime candidate for leveraging various AI technologies to gain more insight. Figure 4 (see page 6) highlights many functional areas of claims in which executives see great promise for AI. Some of that promise relates to automation (via RPA, NLP, etc.), but much of it is about deriving value from new insights.

### Associating With New Ecosystems

Property and casualty claims departments have always had complicated ecosystems – they must work with many parties for damage estimation, restoration, settlement, litigation, and recovery. But now there are new players entering. Many offer new technology-based solutions for virtually every part of claims, with specialist solutions for auto, property, and casualty. Some solutions are broad platforms for claims management while others focus on specific solutions like subrogation, medical bill review, or fraud. New networks are also emerging to leverage connected devices for rapid response to accidents/incidents, coordination of repair and restoration efforts, and tapping into specialized or required expertise.





The implications of automation and AI for claim professionals are so significant that they deserve discussion in their own section. The final “A” to discuss is the most important – augmenting human experts and finding the right mix of technology and people.



## AUGMENTING HUMAN EXPERTS

With core claims modernization as the foundation, digital enhancements to many capability areas of claims, and the application of AI technologies, it would be easy to conclude that the role of the claims professional will diminish. While automation and AI will play major roles in the transformation of claims, the ultimate impact on claims professionals will be positive. One way to understand this is to evaluate the four modes of claims handling that are emerging (Figure 6).

Figure 6. Emerging Claims Handling Modes

| <br><b>Automatic Claims</b> | <br><b>No Touch/STP Claims</b> | <br><b>Self-Service/Digital</b> | <br><b>Traditional Model (Call center, adjuster)</b> |
|--|---|---|---|
| <b>Parametric, episodic, on-demand insurance products</b>  | <b>FNOL automatic via telematics/IoT sensors</b><br><br><b>Or claimant submits via digital FNOL</b>             | <b>Moderate complexity auto, property, or casualty claims</b><br><br><b>Mobile/web Digital/chatbot</b>            | <b>Complex commercial or casualty claims</b><br><br><b>Person-to-person AI-guided interviews</b>  |
| <b>Immediate claim payment</b>   | <b>FNOL leads to AI-aided triage, assignment, damage assessment</b>   |   |   |
| <b>No human involvement, very little systems involvement</b><br><br><b>Blockchain-enabled</b>                | <b>No human touch through settlement</b><br><br><b>Referrals for fraud, litigation, subro</b>                   | <b>Adjusters involved for exceptions, BI/casualty claims</b>  | <b>Heavy reliance on human expertise and experience</b>   |
| <b>Technology-Driven</b>   |   |   | <b>People-Driven</b>  |

This framework envisions four modes of handling claims. Some claims will be automatically triggered, with no human involvement and minimal systems involvement. There are very few of these today, but as blockchain-enabled parametric or episodic insurance increases over time, claims automatically triggered and paid by externally verifiable data will also increase.

The second category consists of simple claims that will be managed via straight-through processing. These could include simple auto or property claims with an FNOL generated automatically, the assignments made directly to the restoration vendors, and the payments handled via digital means – all with no human involvement.

The third mode for claims handling is one where digital self-service plays a significant role. The initial FNOL and information gathering are likely to be via mobile or web means, and automated solutions provide support throughout the rest of the process. But in this case, there are adjusters involved to make difficult decisions on coverage, estimate damages, and identify claims with the potential for fraud or litigation. In addition, for more complex claims, the role of human empathy is critical. Adjusters need to communicate with claimants throughout the process to assure them that their claim is being handled well. But above all, a claim with injuries of any magnitude must involve human experts, not only to express empathy but also to apply the deep expertise required to handle such claims.

Finally, there will always be those claims that are complex by their nature and require the experience and expertise of a seasoned adjuster. While there will be augmentation by tech solutions and AI models, it will ultimately be the adjuster making decisions and interacting with claimants.

The diagram may make it seem like most of the claims will be technology-driven instead of people-driven. However, successful insurers will find the right blend of no/low/high touch for each type of claim. In doing so, the stature of the claims professional will be elevated as they focus on the high-value claims. Rather than spend time on mundane data collection, data entry, and the processing of claims that don't draw on their expertise, they can concentrate on helping customers and applying their knowledge, experience, and judgment to produce the best results.



## SMA CALL TO ACTION

The transformation of P&C claims is in full swing, and there are many opportunities for improvement. Claims processing in ten years is likely to look much different than it does today. There may be fewer adjusters – driven mainly by demographics – but their roles will be elevated. Finding the right balance of technology and people will be the key to success in the future. SMA recommends the following actions for claims strategies and operations:

- ✓ **Look to the future but stay rooted in the present:** It can be useful to stretch the thinking out 5-10 years to understand what the claims environment might look like. Consider the four “A’s” of the future from Figure 6, but be sure to apply those considerations to a pragmatic strategy for today.
- ✓ **Be aggressive with new tech solutions but be thoughtful and selective:** A dizzying array of vendors and solutions in the marketplace are vying for attention, including solutions from incumbent tech partners and new InsurTechs. Start by identifying your business strategy and opportunity areas, then filter potential partners to a more manageable number.
- ✓ **Build a world-class partnering capability but don’t just focus on the tech side:** Building out API platforms is all the rage and with good reason. Developing a tech infrastructure that enables more accessible connections to partner systems and data flows is critical for managing the claims ecosystem. But also take a fresh look at the piloting and procurement processes and the relationship dimension of partner management.
- ✓ **Capitalize on advanced tech but focus on people:** There is no shortage of opportunities to leverage new technology solutions to improve claims. But remember that personal interactions and empathy are perhaps the most potent weapons in delivering excellent claims services, especially where the claims are more complex.

Many new solutions and claims partners in the market should be evaluated as part of your claims evolution strategy. While it is easy to focus on the potential for operational efficiencies, the best approach is to take an outside-in perspective, thinking first of how the experience can be improved for customers, claimants, and adjusters. This approach will help insurers to stay grounded and enable the right balance of tech capabilities and hands-on human expertise.



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### About the Authors

**Mark Breeding**, Partner, Carrier Transformation, is well known for his perspectives on the future of the insurance industry and innovative uses of technology in insurance. His specialty areas include InsurTech, transformational technologies, innovation, and distribution strategies. Mark has consistently been ranked as one of the “Top 50 Global Influencers in InsurTech” by InsurTech News.

Mark can be reached at [mbreeding@strategymeetsaction.com](mailto:mbreeding@strategymeetsaction.com) or 1.614.562.8310.

Follow Mark at [markbreeding](#) on LinkedIn and [@BreedingSMA](#) on Twitter.

**Karen Furtado**, Partner, Carrier Transformation, specializes in solving core system issues in insurance through the application of modern technology. Her over 30 years of experience in the industry have established her expertise in policy administration, rating, product configuration, billing, and claims and given her unique perspective on the role that maturing and emerging technologies can play within insurance.

Karen can be reached at [kfurtado@strategymeetsaction.com](mailto:kfurtado@strategymeetsaction.com) or 1.978.239.2741.

Follow Karen at [karen-furtado-sma](#) on LinkedIn and [@karenmfurtado](#) on Twitter.

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