P&C CLAIMS IN 2023 AND BEYOND

BALANCING AUTOMATION, AI, AND HUMAN EXPERTISE

A ReSource Pro Research Report

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TABLE OF CONTENTS

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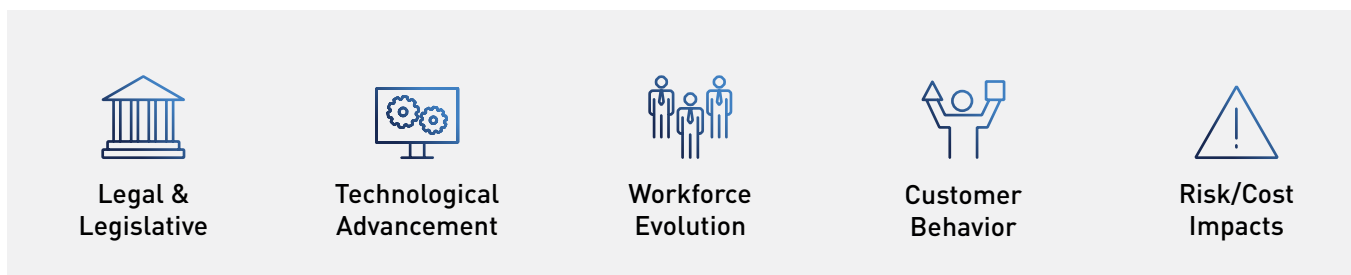
CLAIMS: A DECADE OF CHANGE

What a decade it has been for the P&C claims world! It may not seem like much has changed from the perspective of day-to-day operations. But a comparison of claims from ten years ago to today reveals some dramatic differences. The pressures affecting claims have been intense and come from many angles. But to their credit, carriers have responded to these pressures and outside forces by making substantial changes to the people, processes, partnerships, technology, and data in their claims organization and ecosystem.

In addition to exploring those pressures and carrier responses, it is vital to recognize the central role and high value of claims professionals. In an era where there is much talk about automation and AI taking over and eliminating jobs, it is important to truly grasp the role deep expertise and empathy have in claims handling. More on that later, but for now, let's investigate the pressures that have increasingly impacted claims organizations.

PRESSURES IMPACTING CLAIMS

The forces impacting P&C claims over the last decade can be grouped into five key areas, illustrated in Figure 1 below.

Figure 1. The Pressures Impacting P&C Claims

| Legal & Legislative | Technological Advancement | Workforce Evolution | Customer Behavior | Risk/Cost Impacts |

Each of these pressures at play will be discussed in this paper, with an emphasis on how things have changed during the last decade.

Customer Behavior

The behavior and expectations of the customers of P&C organizations – individual and business policyholders, claimants, and injured workers – have changed dramatically over the last decade. Many of these changes reflect the general expectations of customers as the world becomes increasingly digital. The case can be made that insurance and the claims process are more complex than the typical interactions customers have with other industries, and, therefore, P&C claims should not be held to the same standards as customer experience elsewhere. However, in the customer's eyes, that is irrelevant. They expect the claims process to be easy, fast, and fair – not unreasonable demands. The pandemic has only elevated those demands as everyone has become accustomed to virtual, online, real-time services. These customer expectations have generally been a catalyst for claims organizations to advance their capabilities.

Another customer behavior that has resulted in significant challenges for claims organizations is the increasing frequency and sophistication of those perpetrating fraud. Financial pressures on customers have caused more opportunistic fraud, while digital data and analytics have been widely deployed by crime rings to defraud insurers via more targeted and innovative approaches.

Workforce Evolution

P&C carriers have experienced increasing difficulties in retaining and recruiting claims professionals over the last decade. Many seasoned adjusters retired – a trend that accelerated during the pandemic. Others left the profession due to the stresses and challenges of the job. Along with the changing demographics of the workforce came changes in expectations – similar to what carriers experienced related to customers. Employees expect and demand more flexible work models, more options for work-life balance, improved technology solutions, and a supportive organizational culture.

Risk/Cost Impacts

Among the most significant external factors for P&C claims are escalating costs and the evolving risk landscape. Medical and social inflation and rising costs for labor, legal services, and materials have all contributed to claim costs that exceed the general cost of inflation. For many insurers, this has created a coverage gap as rate increases cannot keep up with claims costs, placing even more pressure on claim departments to manage expenses. At the same time, new risks are emerging, and existing risks are changing. Climate change is driving more CATs and increased property claims. The digital world has resulted in massive increases in cyber risk. The increased penetration of telematics for vehicles and smart devices for property can potentially improve risk management but also introduces new challenges for claims handling.

Technological Advancement

The rapid advancement of technology usually creates both opportunities and challenges, and this is especially true for claims. On the one hand, the move to a digital world, vastly expanding data sources, new analytics/AI capabilities, digital payments, and more have created terrific opportunities for insurers to improve claims handling from both customer experience and operations standpoints. On the other hand, many carriers are still burdened with legacy systems, making it more difficult to capitalize on the new capabilities. The outdated technologies stand with the claim administration system but also include old policy and billing systems, CRM, imaging/content management systems, and more. The industry has been modernizing these systems over the last decade, but many are still in the midst of their journey.
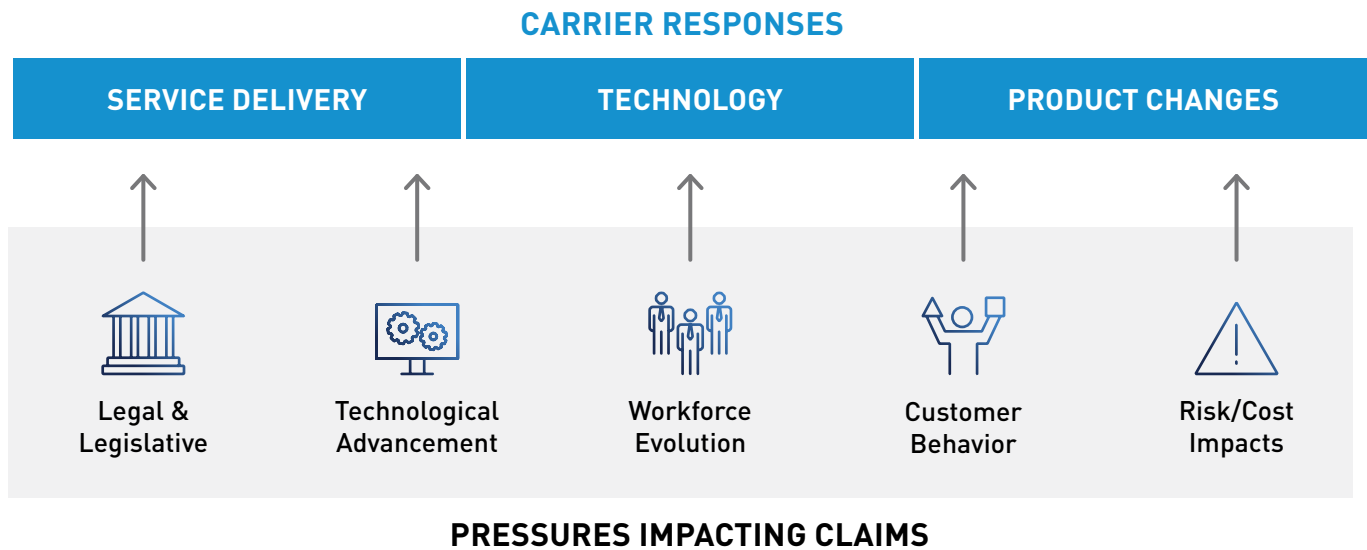
Legal and Legislative

Increased attorney penetration, litigation, and social inflation have significantly driven up legal costs for carriers. Mega-claims settlements and bad-faith litigation have made settling claims more difficult and costly. The increasing boldness of plaintiffs' attorneys is further exacerbating the challenging environment by imposing undue time constraints on the defense/carriers, refusing to mediate without an offer, and engaging in Reptile Theory – a tactic that strikes fear and anger in jurors to motivate them to award excessive damages to punish defendants. This approach was previously common in trucking/transportation cases but has now moved into all types of claims. In general, juries have become even more emboldened in their willingness to punish defendants and are making emotionally charged decisions versus those founded on the merits of each case.

In addition to legal challenges, the legislative environment at the state level has also placed more administrative burdens on claim departments and added new layers of complexity to the claims-handling process.

RESPONSES FROM CARRIERS

How has the industry responded in light of this decade of change and these very significant external factors influencing change? Most insurers have made strides in three key areas: service delivery, technology, and product changes, as represented in Figure 2.

Figure 2. Carrier Responses to the Pressures Impacting Claims

CARRIER RESPONSES

SERVICE DELIVERY	TECHNOLOGY	PRODUCT CHANGES

Legal & Legislative	Technological Advancement	Workforce Evolution	Customer Behavior	Risk/Cost Impacts

PRESSURES IMPACTING CLAIMS

Service Delivery

Service delivery is one area where carriers have substantially improved over the last decade. This has been done through a variety of means – both internal to the enterprise and external regarding partners. Externally, there has been an ongoing expansion of the ecosystem, adding partners in new spaces and improving the organization's partnering capability. The claims environment is, by nature, extensive with many types of entities involved in investigation, restoration, remuneration, reporting, litigation, and many other areas across the value chain. New partners – both incumbents and startups – provide enhanced capabilities across the whole lifecycle, from FNOL to settlement. These partners bring both expertise and new technology capabilities (to be discussed in the next section), which became ever-more critical during the 2020-2022 pandemic era when we shifted to more remote and virtual interactions.

Another capability that has helped is enhanced loss control engineering options. Loss control, typically part of the underwriting group, has expanded beyond just large commercial lines customers to many segments across P&C. New technology devices and capabilities for monitoring risk, along with advice and expertise on how to best leverage that technology, have helped customers to mitigate risk. This also provides claims organizations with more information if an incident does occur, which may be useful during the adjusting process.

Technology

Over the last decade, legacy technologies were called out as a major "pressure" impacting claims organizations. This has been a stumbling block for the efficient and effective management of claims – not only due to older core administration systems but the variety of other systems used by claim professionals. Fortunately, there has been a wave of new implementations and enhancements for claims systems software throughout the last ten years. While great progress has been made, there is still a journey ahead for insurers and many opportunities to continue to enhance technology capabilities. Some of the most important areas where technology upgrades have been made or are in process include the following:

- **Digital intake:** Great progress has been made in capturing information for first notice of loss (FNOL) and first report of injury (FROI). In many cases, the FNOL/FROI can be done via digital self-service approaches. The influx of digital data at the beginning of the claims process enables more automation and more possibilities for using AI tools throughout the rest of the process.

- **Modern claims administration implementations:** New implementations and upgrades to the transaction systems that are the systems of record for claims have rippled throughout the industry. Most large carriers now have systems based on modern technologies, while an upgrade wave is underway even now for smaller carriers as well as MGAs. Having a modern core claims system is essential, as other claim solutions must share data and be integrated with the core. These other systems include those for damage assessment, fraud, litigation management, subrogation and salvage, medical bill management, and others.

- **Virtual inspections:** Remote, virtual inspections were a "nice to have" before the pandemic but became mandatory as lockdowns became pervasive. New digital and self-service capabilities to assess damage to vehicles or property have been expanding across the industry and enable adjusters to focus on more complex claims. By definition, these types of inspections capture data digitally, enabling new possibilities for automation and analytics.

- **Digital payments:** The P&C industry is successfully transitioning from the dominant model of paper checks to digital payments to claimants and third parties. This includes traditional modes such as ACH and stored value cards and also newer forms of virtual payments such as Zelle and PayPal.

- **AI tools to augment human expertise:** The deployment of AI technologies in claims solutions has been expanding rapidly. This includes RPA to assist in task/workflow automation, machine learning to aid in areas such as triage, assignment, reserving, fraud, and many other areas, and computer vision to assist in damage estimation. Aerial imagery, coupled with machine learning, has also been a great tool for catastrophe events and is becoming more widely used by the industry. AI offers enormous potential for claims in the future for virtually every step in the process and every specialized area related to claims.

- **PROCESS AUTOMATION AND CONTENT MANAGEMENT: Many of these new and upgraded capabilities are based on digitizing content, enabling more automation of workflows and more analytics to gain new insights. Modern solutions in this area are foundational and support all other capabilities across claims.**

PRODUCT CHANGES

Over time, insurers adapt and revise their products and coverages to reflect the evolving risk and claims environment. Claims must likewise adapt to these product changes – understanding what may be excluded or included as coverages for specific situations, establishing expertise and processes to address new types of claims, and keeping up with the evolution of the assets that are insured, and the approaches to restoration. Carriers must engage claims departments in these conversations to understand all the downstream impacts of new products and ensure adjusters and claims/legal leadership have the necessary expertise, skills, and training resources.

BIG THEMES IN P&C CLAIMS TODAY

Given the many developments over the last decade, what is the current state of P&C claims today? Claims today can be described with five major themes.

- **CAPITALIZE ON DIGITAL INTAKE**

  The pandemic spurred a wave of new activity to modernize FNOL/FROI, putting much of the power in the hands of claimants and granting new digital capabilities to adjusters. Now, that same activity is continuing to spread across the industry.

- **NEXT-LEVEL AUTOMATION**

  Insurers are rethinking their claims processes. The surge in digital intake due to the pandemic created many new opportunities for automation and AI across the claims value chain, increasing efficiencies, reducing errors, and helping deliver better customer service.

- **EXPERTISE AND EMPATHY**

  The most critical element of success in the new world of claims is the people. Finding the right blend of technology and claims professionals is vital. Expertise and empathy are the differentiators for excellent claim service. When a claim occurs, it is usually an emotional and highly stressful time for the policyholder. Compassion and understanding can go a long way to making a claimant feel their needs are a priority and that their insurer will work according to their best interests.

- **ECOSYSTEM EXPANSION**

  Connecting all participants in the claims ecosystems is mandatory for efficiency and accuracy... and the ecosystem is expanding. In addition to traditional parties such as law enforcement, medical providers, body shops, contractors, payment companies, and attorneys, there are now new companies related to smart homes, telematics, and the Internet of Things that are playing increasingly important roles in the claims process. Ensuring all relevant parties are involved is essential for gathering all the necessary data to process a claim.

- **TECHNOLOGY AS THE ENABLER**

  Leaders are continually finding the best ways to incorporate new technology to support the other big themes mentioned above. The explosion of new tech solutions for automation and insights are driving further innovation and changes in the claims ecosystem.

THE FUTURE OF CLAIMS

When looking toward the future, four modes emerge as the dominant approaches to how claims departments service claims over the next five to ten years based on the products in the market and the state of technology. Figure 3 below overviews the four modes and each of their characteristics, with some being more technology-driven or human-enabled, or a blend of both.

Figure 3. The Four Modes of Claims in the Future

AUTOMATIC CLAIMS	NO TOUCH/STP CLAIMS	SELF-SERVICE/DIGITAL	TRADITIONAL MODEL (CALL CENTER, ADJUSTER)
Parametric, episodic, on-demand insurance products	Simple claims, FNOL automatic via telematics/IoT sensors Or claimant submit via digital FNOL	Moderate complexity auto, property, or casualty claims Mobile/web, digital/ chatbot	Complex commercial or casualty claims Person-to-person AI guided-interviews
Immediate claim payment	AI-based triage, assignment, estimation	AI-aided triage, assignment, estimation	AI-augmented triage, assignment, estimation
No human involvement, very little systems involvement Blockchain-enabled	No human touch through settlement Referrals for fraud, litigation, subro	Adjusters involved for exceptions, BI/casualty claims	Heavy reliance on human expertise and experience

TECHNOLOGY-DRIVEN	PEOPLE-DRIVEN

Automatic Claims: In today's world of digital data and connections, it is now possible for claims to be triggered automatically with virtually no claims process. Parametric insurance, episodic insurance, and on-demand coverage are examples of coverages that result in automatic claims today. For example, with parametric insurance, a policyholder will receive an automatic payout if a covered event occurs within a set parameter – regardless of damages. Think of an earthquake that registers at a specific magnitude or wind that reaches a particular speed. Over time, we will see more coverages that enable automatic claims.

No-Touch/STP Claims: The P&C space is rife with a variety of repeatable and simple claims, such as a cracked windshield, a minor fender bender, or a small home insurance claim. With these types of claims, insurance companies can ingest the FNOL automatically via telematics (such as auto or smart home devices) or digitally from a policyholder's portal, resulting in a no-touch process. Although these are not quite automatic because the claimant often must submit the claim, straight-through processing (STP) can then process the claim through to the payout.

Even though an adjuster often does not have a hand in the claims process, they will frequently communicate with the claimant to ensure all needs are handled. Also, referrals can occur in these areas resulting in additional steps that require human expertise, such as fraud, subrogation, or litigation.

Self-Service/Digital: When common claims are more complex or include bodily injury, data may still be collected and analyzed digitally, but a seasoned adjuster is required to be involved in the process. These claims can be submitted digitally or via a mobile device, with AI aiding with triage, assignment, and estimation, but a human will ultimately review and approve the claim. In this mode, the claimant also has self-service inquiry capabilities at any point to get updates on the claim's status.

Traditional Model: Most claims today fall within the traditional model – a claimant submitting the FNOL via a call center or their agent. In this model, we see more complex claims, especially in the commercial lines space. While AI may help guide these claims and capture data, there remains a heavy reliance on human expertise.

For all of the modes explained above, claims admin systems remain critical technology to record the status of a claim, support workflow, and enable transactions. But over time, technology will play a greater role in the claims process, with adjusters stepping in only when expertise is needed.

AI AND THE ROLE OF THE ADJUSTER

As technology and AI permeate more areas of claims, automating processes and reducing the need for the human touch in certain functions, the role of the claims adjuster will inevitably shift. According to a recent ReSource Pro survey of carrier and MGA executives, 38% expect new data science and AI-related roles to emerge within claims departments within the next five years. More than a quarter also anticipate that automation will make entry-level claims positions less common. And given the current pace of change driven by technology across the entire insurance ecosystem, it is unsurprising that only 2% of executives think claims adjuster roles will remain the same in the coming years.

But this should not be a cause to fret – STP, self-service/digital, and traditional claims will continue to exist, with humans delivering expertise and AI aiding processes at varying levels. Furthermore, it is important to provide an element of empathy when a customer experiences a more serious loss. And how an adjuster works with a claimant can make or break a policyholder/insurer relationship. Adjusters in the future should view AI as a tool to expedite mundane procedures, help manage caseloads, and provide new insights, ultimately improving the customer experience.

> "For P&C insurers, claims can be a difficult process to manage with so many inputs for adjusters to evaluate. And for policyholders, it's a critical moment impacting their view of the organization. Technology has been a driving force of change in the industry for decades, if not centuries. Whether it's today's challenge of figuring out how to leverage artificial intelligence to enhance customer experience or yesterday's challenge of shifting from paper files to digital content, technology has and will continue to drive positive change for claims management and the industry."
>
> **–Jeff Hiegert**
> Industry Product Manager, Insurance, Hyland
> Jeff.Hiegert@hyland.com

CALL TO ACTION

Senior executives are acutely aware of how much P&C claims has changed in the past decade and are expecting even greater change in the future. At the same time, the fundamentals remain. The mission of the claims department to deliver on the promise of the insurance contract is the same as it has always been. The empathy and experience of claims professionals will continue to be central to the success of claims. Concurrently, the underlying insurance contracts are evolving, and the digital, connected world creates new opportunities and challenges.

The pressures described in this report, along with the big themes and future possibilities, cover much of which claims executives must address and capitalize on in the near term and long term. Our recommendations for moving forward on claim strategies include the following:

- **RETHINK YOUR CLAIMS STRATEGY**
  Evaluate the trends and the new opportunities to determine what capabilities are needed for success. Extend your view to encompass three planning horizons for the near, mid, and long term.

- **CONSIDER SERVICE DELIVERY OPTIONS**
  Look at how services are delivered today and determine if there are revisions to the mix of digital/technology solutions, outsourcing, offshoring, and customer self-service options.

- **MAP OUT YOUR ECOSYSTEM**
  Identify your network of current claim service partners and identify gaps and new opportunities for partnerships.

- **TEST & PILOT NEW APPROACHES**
  Leverage agile approaches, adopt a "fail fast" mindset, and incorporate innovations as you explore new service delivery and internal operations ideas.

- **CONSISTENTLY REASSESS STRATEGY AND PLANS**
  With the rapid and sometimes unpredictable external changes & technology advancements, it becomes imperative to continually monitor the environment and adjust strategies.

Now is an exciting time to be in P&C claims. The potential to collaborate with partners and policyholders to improve claims management and enhance service delivery has never been greater. Don't abandon the essence of claims and the value of seasoned professionals, but also don't be afraid to try new technologies and operational approaches for the benefit of customers.

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