

***'How can UK insurers evolve to be able to compete on
the claims process with the emergence of the
disruptors?'***

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1.0 Introduction

The claims departments of traditional UK insurers have been established for decades. They have a consistent and established operating model to service their customer's claims. These systems were often designed with insurer's internal processes in mind to maximise efficiency. There hasn't been much modernisation over the years due to the relative success and effectiveness of these procedures. Leaving insurers with a multitude of legacy mainframe systems that are decades old and modified with numerous workarounds to meet modern demands. This has contributed to a notable growth in the number of disruptors entering the claims arena. Exhibited through the rise of the Insurtech industry and an increase in the number of traditional insurers utilising the services of Third-Party Administrators¹.

Most traditional UK insurers have an established customer base that demonstrates a degree of brand loyalty. However, evolving customer expectations coupled with a challenging financial landscape can see brand loyalty quickly erode if an appropriate service is not provided. The claims process is considered the 'moment of truth' for policyholders. Consequently, the service provided can have a direct correlation to the retention rate of the insurer come renewal. Therefore, if major insurers do not evolve in line with customer expectations, the resultant outcome will undoubtedly be a loss of market share.

As an employee within the claim's operation, whose employer is currently undertaking a significant operational transformation, it's an important topic to ensure that the new model implemented is fit for purpose and future proof. As a traditional UK insurer, with an established way of working, if we do not evolve or modify our methods, we could lose valuable market share. The traditional customer base has changed, and the danger is that the claims function of major carriers may become obsolete if their claims proposition is not modified. The purpose of this paper is to explore the model of a disruptor, emerging technologies and changing customer expectations to establish why insurers need to evolve. Then subsequently suggest ways in which a traditional UK insurer can evolve to compete on the claims process with the emergence of the disruptors in the market. The paper will address this from the perspective of the personal lines market as evolution will occur there before expanding to the commercial market.

2.0 Disruptors

2.1 What are Disruptors

According to Cotton (2018), “a disruptor creates a product, service or way of doing things which displaces the existing market leaders and eventually replaces them at the helm of the sector”². Traditionally, a disruptor endeavours to obtain a small foothold in a sector before, over time, raising the standard of the service delivered to establish a greater share of the market. The current disruptors in the insurance claims market are Third Party Administrators (TPAs), Solicitors and Loss Adjusters who have developed a distinct foothold in the industry through outsourcing and claims handling agreements. The attractiveness of the market has also contributed to the rise of the Insurtech industry, who have further raised the bar of what can be achieved. Insurtech organisations are small companies, often start-ups, who are gaining increased traction in the industry because of their ability to adopt emerging insurance technologies at greater speed than established insurers. According to Ricciardi (2018), the three approaches that characterise Insurtech’s way of working are: leverage the most advanced technologies, focus on the experience to foster a user-centric approach and have an agile culture/approach³.

Insurtech is an interesting source of disruption, because they can either assist incumbent insurers in keeping pace with change or be the primary reason for the disruption. However, Insurers need to be mindful that several Insurtech companies have set significantly high goals for themselves, and as a result are beginning to take away business from incumbent providers⁴. This is illustrated by organisations such as Zego, Flood Flash and By Miles⁵ launching innovative products with a modern claims proposition gaining traction in the market.

2.2 Disruptor example – Lemonade

The disrupter model can be illustrated through the Allianz backed Lemonade⁶. Despite being a US based company, it's the market's most talked about disruptor. They have implemented a seamless digital claims process backed by the latest technology. Claims are logged solely through their digital application (App). Once the claim is verified, the policyholder uploads a video describing what happened instead of a claim form along with photographic evidence to support the claim presented. This information is analysed and verified through Artificial intelligence (AI). If the claim is approved – it's paid instantly. Thirty percent of claims are handled instantly, with their fastest claim settlement being three seconds⁷. The remainder gets passed to the claims handling team for further investigation.

Since launching in 2016, Lemonade have secured \$116 million in gross written premium, with 75% of their customers being under-35⁸. Admittedly, their model isn't without criticism, as during the first year of trading they posted an unsustainable long-term loss ratio of over 186%. However, the recent Q1 & Q2 2020 loss ratio were posted as 71% and 67% respectively⁹. This is a fundamental measure if a company is running successfully and highlights what they have achieved. However, the most noteworthy aspect is their concept has appealed to the Millennial generation – who will become the main purchasers of insurance in the future.

The concept Lemonade has delivered, their speed of growth, claims performance and their customer demographic must make UK insurers sit up and take notice. Their relative success has, and will, provide a foundational blueprint for other Insurtechs to use to enter the UK market. This has been demonstrated through Bought By Many, launching in 2017 as the first UK pet insurer offering an online claim-form free proposition¹⁰. Overall, Lemonade has showcased the capability of disruptors and the threat they could pose. They have also highlighted the opportunity available to UK Insurers, which poses the question – what's preventing UK insurers embracing modern technology.

Why must traditional insurers evolve?

3.0 Traditional Insurer Model

Traditional UK insurers are known for their stability, experience and benefit from being trusted brands. They have a robust team of experienced and skilled claims professionals. Over the years many have grown their business through merger and acquisition. These deals often included legacy systems that were also adopted through the agreement. Consequently, this has left many insurers with an extremely complex IT infrastructure. One major insurer reported having 10 different systems and applications to handle claims¹¹. This impacts the efficiency of the claims process, increases the training timeline for new entrants and the likelihood for human error due to the number of systems in situ.

This framework also increases operating costs through essential system maintenance. Plus hampers the agility of traditional insurers to quickly change processes and adopt modern technologies. Primarily due to the incompatibility of their legacy systems coupled with cost of integration. Considering the lifecycle of many CEOs of large UK insurers is limited, the desire for short-term success and dividend results can often outweigh planning for important longer-term IT requirements. Admittedly, against the backdrop of budgetary constraints and challenging economic conditions, the expense involved in overhauling IT capabilities and modernising the claims process can often be relegated to a lower priority. Particularly if competitors aren't making the systems in place look outdated.

Nevertheless, the emergence of the disruptors in the market with their customer-centric approach should cause incumbent insurers to review their own claims proposition. There must be an appreciation that customers' expectations may have changed, and what previously made their claim service successful may no longer satisfy the demands of all customers.

4.0 Changing Customer Expectations

Customer expectations are rising steadily within society and are being driven by; technological advances, customer service improvements and the prevalence of the 'always on' culture¹². Advances in smart phone technology has perpetuated this 'always on' culture, whereby customers expect to be able to receive instant gratification. Speed has become paramount in modern society with customers now demanding a level of immediacy. This platform, coupled with expectations being fuelled by dynamic and innovative organisations such as Amazon, has contributed to a distinctive shift in what customers expect. Customers now desire the seamless experience they receive in other industries, such as Uber. The accumulative effect is that the traditional claims process may no longer be as readily accepted by customers. Nowadays there's a greater reliance on digital communication with expectations that organisations can be contacted via a variety of channels¹³. This position is supported though a study by Deloitte which concluded that consumers are now seeking streamlined claims processes and are consistently looking for ways to make their lives easier by using apps and digital platforms¹⁴. Despite this, the 2019 Eptica Insurance Digital CX study, concluded that UK insurers were the poorest performing of the five sectors surveyed in relation to digital customer experience¹⁵. Highlighting that work must be done by insurers to meet consumer's digital expectations.

The brand name of major carriers no longer commands the same loyalty it once did, with a survey from GlobalData uncovering that 30% of UK consumers would be content to purchase insurance from new entrants to the market¹⁶. More significantly, a study from Bain (2018) discovered that 90% of the UK Millennial generation and younger surveyed would be open to buying insurance from new entrants, including from non-conventional carriers¹⁷. This demonstrates that if customer expectations are not being met, the younger demographic will be more inclined to diverge from tradition and move away from incumbent providers. Incumbent insurers who fail to appreciate this risk will likely end up losing valuable market share. To prevent this, insurers should review their current processes in line with customer's current expectations.

4.1 Current Expectations

Many established insurers have a diverse book of business where they underwrite risk in multiple markets and various lines of business. The wider the markets underwritten, the greater the difficulty to deliver a bespoke claims service for each customer segment. Particularly as customer expectations can vary depending on generation, it becomes increasingly difficult to be “all things to all people”. However, for the purpose of this paper, the expectations of customers will be looked at thematically to establish the key facets that are important to all. By reviewing what each customer segment expects, it’s possible to deduce common overriding expectations that incumbents can focus on delivering for their customers. The following table displays these current expectations.

Main Customer Expectations from Insurers
Product/Service Quality
Value/Competitive Price
Simple and Intuitive
Transparent
Seamless
Self-Directed
On demand

Source: Bain (2018)

Many of these expectations revolve around two overarching areas - communication and digital capability. This conclusion is supported by a study from McKinsey, which uncovered that satisfaction surveys in claims performance consistently demonstrates that customers desire; a fast-intuitive process, transparency on where they are on the claims process, the next steps and what to expect¹⁸. Consequently, Insurers should look to advances in technology to support them in meeting these digitally driven expectations. The insurers that don’t could end up like fallen giants of industry, such as Kodak and Blockbuster, who failed to keep pace with the digital revolution¹⁹.

5.0 Technological Advances

We are now living in the age of digital transformation and advancements in technology could assist incumbents with meeting elevated customer expectations. From the research there's numerous emerging technology that could prove beneficial. Although the technology that will have the greatest impact on the personal lines market will be:

- Digital communication channels
- Artificial Intelligence (AI)
- Automation
- Internet of Things & sensory technology

5.1 Digital Communication Channels

Technology advances in this area have provided a platform for insurers to enhance the communication channels with their customers. This can facilitate faster claim progression and improve customer satisfaction. Technology that could be implemented to support this aim includes:

- Chatbot
- Electronic First Notification of loss (EFNOL)
- Claims Apps
- Online claims portals

These technologies can revolutionise customer interaction, creating pathways for faster response times, information gathering and sharing. For example, Liveperson provides Chatbot capability enabling customers to contact their insurer through several platforms such as text-message, Whatsapp and webchat. Several leading UK organisations have already implemented this technology to improve customer communication such as RBS, IBM and Sky²⁰. To support claim notification and communication, digital solutions provider Rightindem offers an EFNOL portal where customers can report claims to their

insurer digitally. They also offer a supplementary claims app where customers can track the progress of their claim²¹. The Davies group also offers this functionality through their Claims Tracker²², providing real-time updates to the customer on the progress of their claim. These technologies will enable customers to report claims, receive updates and contact their insurer when it's convenient to them.

5.2 Artificial Intelligence

AI is defined as “the theory and development of computer systems to be able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition, decision making and translation between languages”²³. There are significant possible applications for the integration of AI within the claims function such as; identifying the likelihood of fraud, identifying hidden patterns or trends from data, image recognition, word deciphering, claims reserving accuracy, total loss settlements, litigation process and making downstream claims handling more efficient²⁴. All of which would improve the operational performance of the claims function. However, we must remember that it's artificial and is currently unable to replace the human element. Whilst it's capable of superhuman performance on certain tasks in terms of speed and efficiency, it's weak on common sense logic and only as good as it's programmed. For example, it can find wider relationships in data but cannot explain the results. This still requires human interpretation and decision making. Sprout.ai is a current market provider for claims AI and their offering ranges from claim verification to fraud identification processing at 97% accuracy²⁵. Whilst this isn't error free, neither are human handlers. Error is always possible due to workload pressures and repetitive processing in claims. Consequently, AI will not be able to replace total human involvement, but support and enhance the claims proposition to the benefit of all parties involved.

5.3 Automation (AI)

Automation has the potential to transform what is possible within the insurance industry. According to Owen-Hill (2018), automation means “using software, machines or other technology to carry out a task which would otherwise be done by a human worker”²⁶. This capability will allow insurers to automate repetitive processes such as; creating letters, documentation, data entry and even entire sections of the claims process. Therefore, removing high- volume low-value tasks which will create capacity for claims handlers to carry out more complex tasks to assist the customer, enhance productivity and the overall customer claims journey.

5.4 Internet of Things (IOT) & Sensors

There will be a huge increase in the number of connected devices available in the consumer market in the coming years²⁷. These will provide enormous volumes of data and real-time information about consumer device usage and behaviours. Consequently, this can revolutionise the ways in which claims can be handled or even how risks can be priced²⁸. Benefits such as; claim reporting, loss prevention capabilities, customer insight, fraud prevention, enhanced personalisation and greater opportunity for customer contact. These can transform the relationship between insurers and their customers, including improving the perception of the industry. Whilst the benefits of this technology are obvious, the challenge for insurers will be compliance issues with General Data Protection Regulation (GDPR) requirements and seeking customer consent for data use.

6.0 How Can Insurers Evolve?

The previous section established that traditional insurers must evolve to meet ever-evolving customer expectations, particularly with the advances in technology available to support this. In my view to compete with the disrupters on the claims process, incumbent insurers will have to adopt a symbiotic approach of implementing the most beneficial technological advances alongside an enhanced focus on the customer experience. To do this effectively, incumbent insurers should review modern customer expectations and invest in the implementation of emerging technology to support meeting these expectations.

The research has demonstrated that there must be a focus on improving the customer's digital experience and this should be a starting point. My own company are making inroads into this area via the proposed creation of an electronic claims reporting function. But this is just the tip of the iceberg of what can be embedded to supplement claims handler efficiency, provide operational benefits and improve customer experience.

6.1 Technology Adoption

The following is a summary of the measures that could be implemented by incumbent insurers to enhance their claims proposition:

Technology	Potential Benefits
Automation	<ul style="list-style-type: none"> • Increased productivity and efficiency • Releases claims handler capacity • Reduce average time to settle
IOT & Sensors	<ul style="list-style-type: none"> • Provides early warning system • Fraud identification • Enhanced first notification of loss capabilities • Loss prevention/mitigation capabilities
AI	<ul style="list-style-type: none"> • Claims validation • Fraud identification • Claims processing • Image recognition • Speech recognition • Analytics to spot trends and patterns • Reserving analysis & estimation
Claims App	<ul style="list-style-type: none"> • Customer experience • Real-time claims updates • Enhanced two-way communication channel • Enhanced transparency • Self-Directed
Chatbots	<ul style="list-style-type: none"> • Customer experience • Call volume reduction • 24-hour service possible
EFNOL	<ul style="list-style-type: none"> • Electronic claim reporting • Proactive first contact with customer • Enhanced Customer experience • Reduction in call volumes

The investment in some of the above technology will link directly into the overarching customer expectations of communication and digital capability. There should be an initial focus on digital communication capabilities, through providing a claim's portal or app. Thus, enabling customers to report claims, check claim progress, establish next steps and access their claims information 24/7. This directly links into the transparent, simple and intuitive, self-directed and on-demand customer expectations. The portal could also facilitate improved sharing of claims documentation and reduce call volumes. Moreover, it could provide a platform for customers to drive their own claim forward. For example, by arranging their own repairs or organising a time for a loss assessor to visit their property.

A supplementary benefit of embedding this process is that it will encourage the use of the insurer's suppliers, which would be advantageous due to Service Level Agreements & agreed supplier rates in place. This is already being piloted in the market by Ticker Insurance, where customers can organise their own repairs and progress the claim through their app²⁹. To compliment the app, chatbot software could be implemented to provide customers with a 24/07 on-demand service to answer general questions. This would reduce call volumes by stripping away calls relating to easy answerable queries, leaving the line free for those in need of greater assistance. Providing this digital platform should be of primary importance to insurers, particularly in personal lines, where many customer's patience with non-digitized processes are low³⁰. Moreover, as tech-savvy generations mature, the service delivery on digital channels will increasingly define satisfaction levels³¹. Further highlighting why insurers must strive to deliver this platform if they are to remain relevant.

The implementation of automation and AI should also occur as this technology will provide a plethora of operational benefits through improved; claims settlement times, data accuracy, overhead reduction, leakage rates and employee attendance. With research establishing that employees who perform repetitive tasks are more prone to error and absence due to lack of motivation³². More specifically, this technology will support the effectiveness of claims handlers by removing repetitive non-value-added tasks. Therefore, releasing capacity for

handlers to focus on more complex claims where the value of their expertise yields most benefits. All these benefits will positively impact insurer's combined ratio.

In practice, automation and AI software could take the information contained in the electronic claim report and automatically create a claim, allocate a reserve and issue an acknowledgement to the policyholder. All completed faster than human processing.

This automatic first-touch point can be extended from claims validation to straight-through claims processing depending on the appetite of the insurer. Enabling complete automation of attritional claims. Therefore, leaving claims handlers with the more complex claims to manage where their skill and knowledge provides the greatest value. However, fraudulent claims will be an issue as currently AI won't pick up on aspects that don't 'feel right'. Ever-evolving fraudsters may also establish what the AI software flags and will attempt to look for methods to circumvent the claim being identified. Therefore, in my opinion, AI will not be able to replace human intervention to combat fraudulent claims. What it will do is assist with identifying potential fraudulent claims for human verification, as AI cannot currently replicate intuition and experience. These methods will arm incumbents with a more operationally efficient, digitally focussed claims service that customers desire. Therefore, providing incumbents with the platform to focus on the key differentiator that is customer experience.

6.2 Customer experience

Customers will receive the personalised experience they expect, either digitally or via human contact, through the implementation of the previous measures. The digital measures will improve the ease of which customers can contact their insurer. Either via telephone due to lowered call volumes, reducing the common frustration of call-waiting times, or through digital channels which allows customers to contact out with working hours. Furthermore, as claims handler capacity is released, it enables them to focus on; increased customer contact, resolving issues, improving the customer journey or providing customers with that

understanding human touch when things go wrong - as they inevitably do. It's often forgotten that making a claim can be a stressful experience, usually occurring after something has gone wrong. This is when customers are at their most vulnerable and providing that empathetic human touch can make the difference. By taking a proactive, personalised approach to customer contact, insurers can provide the customer with a first-class customer experience. The impact of this shouldn't be underestimated as customer experience is a significant competitive differentiator. A study from McKinsey established that 70% of consumers base their opinion of a business on the quality of its customer experience³³. With a further study demonstrating that satisfied customers are 80% more likely to renew with their current insurance carrier³⁴. As such, the importance of customer experience is paramount. Especially in an industry which sells intangible benefits.

6.3 Considerations

Incumbent Insurers must consider various aspects before these proposals can become reality. Technology can't be implemented overnight, so a clear strategy and investment plan must be in place. Overall, the major challenges will likely be:

- Cost
- Compliance requirements
- Technology integration
- Technological competence

Cost will always be a challenge for traditional insurers due to their requirements to retain additional funds to meet compliance requirements, such as Solvency II. It would be remiss not to acknowledge the considerable expense involved in implementing some of these technologies. However, this investment will be recovered over time through a more efficient operation, reduced overheads, improved customer retention and a reduction in indemnity spend.

Integration may be challenging due to the complexities of embedding modern technology alongside legacy systems. Particularly as the demand for employees with technology skills is projected to rise by 55% from 2016-to-2030³⁵. Admittedly, this could prove problematic for insurers to obtain those with the required skills to facilitate technology integration. To circumvent this, Insurers could partner with willing Insurtech companies to assist with the digital transformation. An auxiliary benefit of this heavy investment in technology, is that the insurance industry will be able to retain IT expertise to support future improvements and keep pace with changing customer expectations. Additionally, as the insurance industry adopts an increasing number of modern technologies, there will be more complex privacy and data protection issues. Hence, an enhanced focus on internal controls is required to ensure adherence to regulatory compliance through robust protocols for; collecting, handling and processing all personal data collected. This will arm incumbents with the technical platform and expertise to prepare for the claims function of the future. The danger with procrastination is some Insurtech companies may expand their reach, or competitors may make the leap first. Reacting when the market reacts will leave those who hesitated behind the curve and having to play catch up. As change can't happen quickly, this would leave those left behind at a competitive disadvantage.

7.0 The Future of Insurance Claims?

As modern technology is embedded within the insurance industry, incumbent insurers should delve further into the realm of loss prevention in order to compete with the disruptors and truly differentiate themselves. The substantial benefits of this are clear, as in 2019 for example, European non-life insurers paid out €364 Billion in claims to their customers. Of this figure, €253 was for P&C claims and €111 was for health insurance³⁶. The advantage that incumbents have over disruptors is the wealth of data garnered through decades of claims experience and risk information. This coupled with technological advances presents an enticing opportunity reduce this enormous indemnity spend by making claims prevention an increasingly realistic prospect.

The IOT and sensory technology will enable greater loss prevention & mitigation capabilities, as soon we will live in a world of sensors. This process has already begun through products such as; Fitbit, smart appliances, telematics, AI thermostats and leakbots. The direction that society is moving in is clear, and these products only provide a glimpse of what's likely to come. The information provided by sensors will enable insurers to have a more profound and holistic understanding of their customers, their behaviours and risk profiles. This enhanced level of interconnectivity and customer understanding will support a broader delivery of risk mitigation through loss prevention strategies, loss mitigation strategies, risk insights, early intervention and recovery support³⁷.

This strategy will be particularly effective for personal lines claims where the severity of certain claims, such as escape of water, can be reduced and even prevented. This could be achieved by connecting a sensor to the water mains pipe that monitors the flow. The insurer and policyholder will be alerted as soon as there is an abnormal reading, allowing them to take prompt steps to reduce the severity of the flood³⁸. Thus, enabling the claims handler to proactively contact the policyholder and compassionately guide them through the next steps to prevent further loss or explain the claims process if required. As customers are attracted

to value added services³⁹, this focus on loss prevention would provide insurers with another opportunity to delight their customers whilst reducing claim costs.

The challenge for insurers will be enticing policyholders to adopt IOT devices, obtaining consent for the use of their data and then ensuring the security of the data produced. This could be problematic, particularly in the Baby Boomer generation (born between 1946-1964). However, with targeted education and favourable premium pricing for those who adopt these devices, insurers could achieve this aim. Furthermore, as generations mature it should become less of an issue with Millennials and Generation Z being open to such data sharing with organisations⁴⁰. Admittedly, the cost of the potential premium reduction could impact insurer's operating model. However, this can be subsidised by a charge for enhanced risk management and risk reduction advice with 41% of customers willing to pay more for better advice from their insurer⁴¹.

The final challenge will be the mind-set of those involved, some will be open-minded and embrace change, others will resist and entrench themselves in how things are currently done. Doing something different can be especially difficult, particularly when that change goes against what has always been done and what made the business profitable.

8.0 Conclusion

The emergence of the disruptors in the claims process has highlighted the potential of what can be achieved. Disruptors have raised the bar in terms of performance and efficiency, seeing them make significant inroads into the industry. Customer expectations have changed and the hesitancy of incumbent insurers to embrace modern technology has left them exposed. With customer expectations rising, coupled with ever-evolving technological capabilities, the insurance market is attractive and ripe for disruption.

Disruptors have demonstrated the direction of travel in the industry. To compete effectively and remain relevant incumbent insurers must evolve in response. This can be achieved through the implementation of modern technology to digitise their claims proposition. Firstly, by implementing digital communication channels with self-service functionality, communication with customers will be enhanced with incumbents delivering the omni-channel experience that customers expect. This technology will assist insurers to deliver the transparent, seamless, self-directed and on-demand service that customers now desire.

Secondly, UK insurers have claims handlers repeating processes that add no real value to the customer. Through automation and AI, these tasks can be automated and the associated expense stripped from the operating model. Releasing claims handlers to focus on moving the claim forward to provide a seamless service and taking the best decisions in the interest of the customer. This is essential as the main battleground for incumbent insurers will be customer experience. These measures will add benefit in isolation, however, together they will provide real operational savings whilst simultaneously enhancing the customer claims experience. The insurers that implement this will embed a claims service to compete effectively and improve customer retention rates. The insurers that don't will be left at competitive disadvantage.

UK insurers shouldn't pause here, they must look to the horizon and what the future will bring. In my opinion, the future for claims appears to be in the realm of loss prevention and mitigation. This is where insurers can excel to deliver a truly market leading service. Backed by decades of experience, coupled with the data garnered through new technology, insurers can work more closely with their customers to provide them with accurate mitigation strategies, risk management advice and react more proactively in the instance a loss occurs. Insurers that adopt this strategy will truly distinguish themselves, reduce indemnity spend and undoubtedly increase their market share.

The reality is that the disruptors are here to stay, and not everyone will succeed. In my view it will be the insurers who have the courage to evolve, commit to a new identity and strive to truly differentiate themselves from the competition that will win market share in the future. The insurers that don't, could slowly become obsolete - much like their legacy systems.

9.0 Word count – 5,000

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