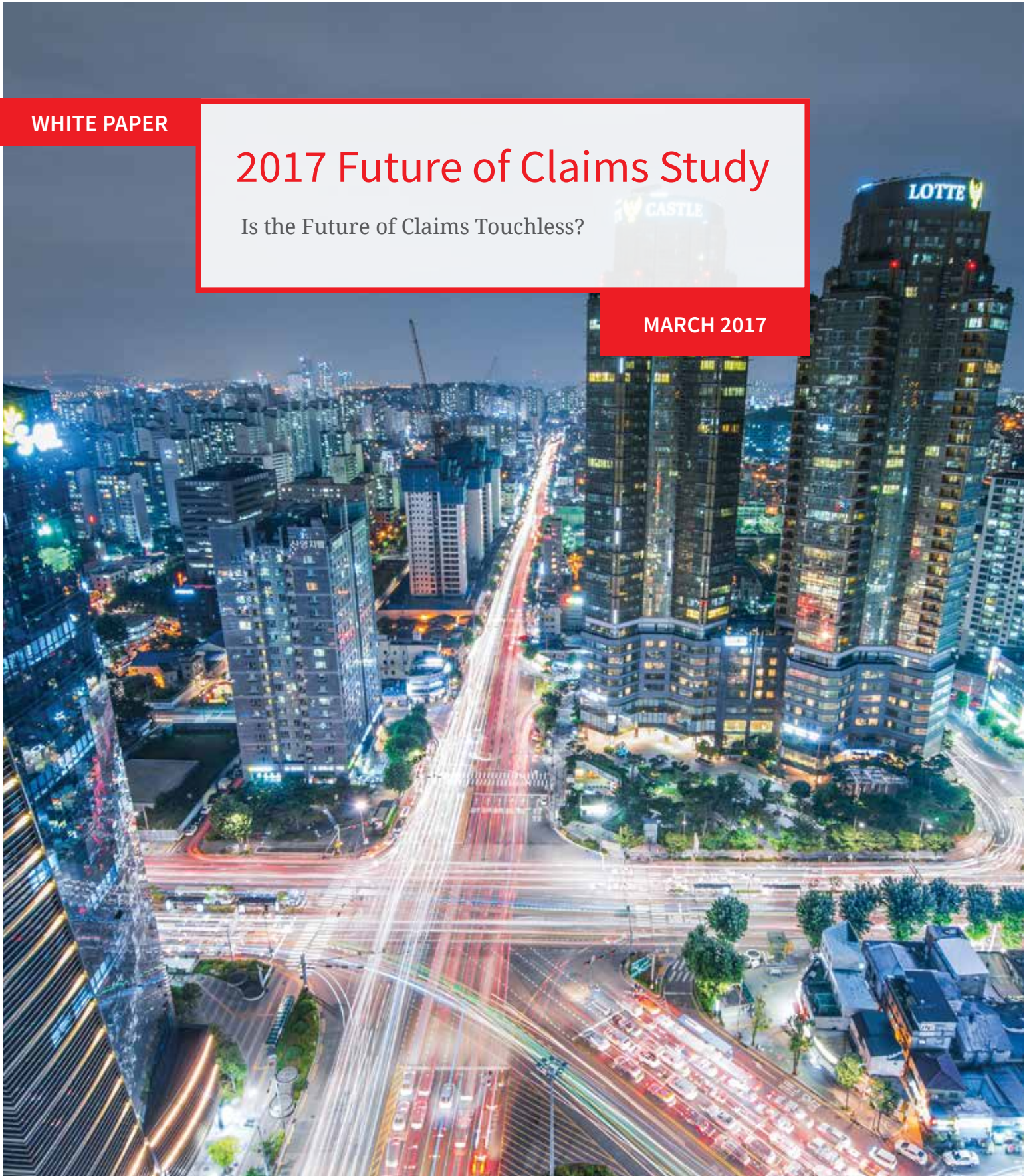


WHITE PAPER

# 2017 Future of Claims Study

Is the Future of Claims Touchless?

MARCH 2017



## Executive Summary

Digitization is impacting and influencing most every industry. Often this is because customers are looking for easier, more convenient ways to meet their needs—whether that be shopping for favorite items, managing bank transactions or checking out the day’s news. Consider these statistics:

- According to a survey released by the National Retail Federation, over the 2016 Thanksgiving weekend 108.5M Americans shopped online—compared to the 99M who shopped in stores.<sup>1</sup>
- The Reuters Institute for News discovered that approximately 60% of Millennials prefer to get their news online.<sup>2</sup>

The auto insurance industry is no exception to this trend. Increasingly customers are looking for digital solutions to meet their auto insurance needs—and that includes claims processing.

There are a number of dynamics driving change in today’s auto claims industry, including increased claim frequency and severity, a looming talent shortage and intensified pressure to reduce loss adjustment expense (LAE). These dynamics are compounded by pressure from customers who are looking to save time and desire an easier, more convenient claims experience. New data analytics capabilities can help carriers meet these challenges. This study provides a glimpse into the future of claims processing.

To better understand these dynamics and where the industry is headed, we invited 24 auto insurance executives to share their experiences and thoughts about the entire spectrum of automated claims handling, with an eye toward the potential migration from virtual to touchless claims.

### Highlights from what we learned include:

- Most carriers are using a Fast Track approach (which leverages outside damage assessments and estimates).
- A large majority of the senior level insurance executives recognized the importance of increasing auto claims automation as a critical or top priority.
- The more progressive carriers are also using a Virtual Handling approach (which leverages technology-enabled assessments and remote processing).
- Automated claims processing has proven to yield significant reductions in cycle times.
- Customer preferences are a key driver behind a Virtual Handling approach.
- Self-service options are expected to increase over the next five years, primarily driven by technology and Millennial customer preferences.
- Telematics is expected to expand beyond current usage-based insurance (UBI) to be used in claims investigations within the next three to five years.

While there hasn't yet been a complete shift to Virtual Claims handling, carriers who want to remain competitive will need to make the move to virtual and consider touchless processing if customer preferences are any indication.



## Claims Processing Terms

**Traditional:** a process or workflow where an adjuster goes into the field, inspects the vehicle or property, and prepares an estimate.

**Fast Track:** a process or workflow that is designed to expedite claims handling with minimal insurance carrier employee involvement—for example, a direct repair program (DRP) in which a body shop handles the inspection and repair estimate.

**Virtual Handling:** a process or workflow in which either a customer or vendor captures damage photos or streaming video that allows a claims adjuster to conduct the damage assessment remotely. No insurance carrier employee conducts a physical, in-person inspection of the vehicle or property.

**Touchless Handling:** a process or workflow that is similar to Virtual Handling except no claims adjuster or insurance carrier employee is involved in the claims process at all. Technology is used to report the claim, capture damage or invoices, run a system audit and communicate with the customer electronically. If the claim meets approved criteria, the claim is automatically paid without human intervention.



## Introduction—the Move Toward the “Touchless” Claim


It's a tumultuous time for the auto insurance sector. There are a number of dynamics driving change in the industry today. Auto claim frequency and severity are driving LAE at many carriers. In fact, auto expenses and losses have exceeded premium every year since 2007. According to the Insurance Information Reporter, from Q1 2014 to Q1 2016, collision claim frequency increased 2.6% while claim severity rose 8.2%.<sup>3</sup> These numbers are due in part to a recovering economy putting more drivers on the road. Even as vehicles are becoming equipped with an increasing amount of safety features, more drivers means more and costlier repairs for carriers. Questions are starting to arise as to who will “work” the increased amount of claims going forward. According to McKinsey & Co., 25% of professionals in the insurance industry will retire in 2018.<sup>4</sup> This leaves a huge experience gap within an industry already short of workers.

Competition remains strong as evidenced by large advertising spend year over year, as carriers vie for a larger portion of market share. Mobile and virtual claims capabilities—positioned as time savers for customers—are driving a digital revolution in claims processing. Millennials, with their preference for digital, are demanding an increase in virtual services—and savvy carriers are meeting those needs. Underlying all these dynamics is the ever-increasing pressure to lower LAE while delivering customer-pleasing solutions in a digital age.

There is no doubt that automation and data analytics are becoming pervasive in most every business environment, and the auto insurance industry is no exception. Most, if not all, carriers are taking advantage of automation to one degree or another and for a number of reasons—such as to improve efficiency, reduce costs or help

mitigate risk. In fact, 79 percent of the senior-level insurance executives interviewed recognized the importance of increasing auto claims automation as a critical or top priority. However, changing customer preferences are becoming a significant driving force. Consider how digitization has transformed retail, financial services and the media. That same driving force is signaling the need for transformation in the auto insurance industry, too.

Reading the trends, some carriers are looking to accelerate the benefits of applying automation and data analytics in support of more virtual claims handling processes that require less insurance employee involvement. This trend brings to light the notion of an eventual “touchless” claim—a claims handling process that requires no insurance carrier employee intervention at all.



Millennials, with their preference for digital, are demanding an increase in virtual services.

## The Current Auto Claims Landscape

As context for our discussion with 24 auto insurance executives, we divided claims handling into four distinct methodologies: Traditional, Fast Track, Virtual Handling and Touchless Handling. In terms of their approach to claims processing, we grouped carriers into three categories: Traditional-leaning, Semi-forward-leaning and Forward-leaning—with a close-to-equal number of carriers in each of the three groups (nine, nine and six—respectively).



Examining the claims handling landscape, all respondents use a Traditional Claims approach but the majority have implemented Fast Track and are beginning to implement a Virtual Handling approach.

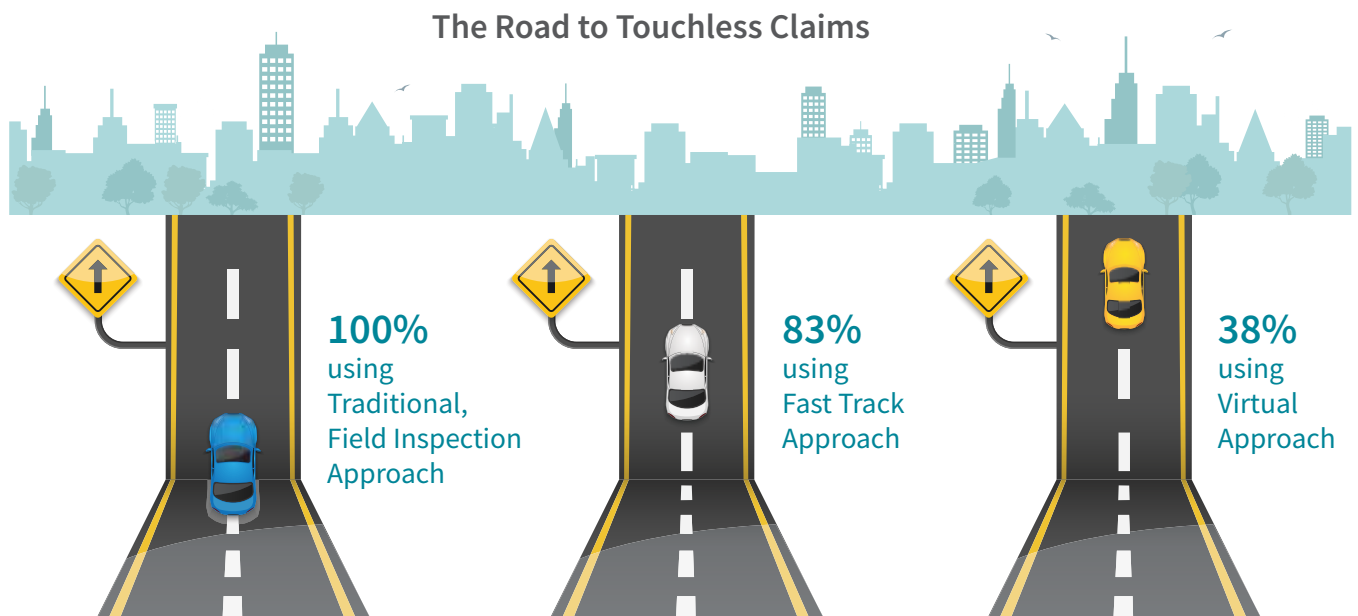


Figure 1-1

## Traditional-leaning Carriers

Traditional-leaning carriers still embrace more manual or traditional claims processes and are the slowest to adopt automation innovations. They rely heavily on in-field inspectors for non-complex claims (claims with clear coverage and liability, as well as no injuries). Some of them may be dabbling in Fast Track, but they have yet to use or even consider Virtual or Touchless Handling. However, because loss expenses are heavily driven by longer cycle times and independent appraisers, it’s not surprising that a number of Traditional-leaning carriers attribute as much importance to automation as do Forward-leaning ones.

## Semi-forward-leaning Carriers

Semi-forward-leaning carriers predominantly use in-field and Fast Track claims handling processes. However, they are also beginning to use or at least considering using Virtual Handling. Some Semi-forward-leaning carriers offer customers the choice of either an onsite or drive-in visual inspection, or a Fast Track/Virtual Handling approach. However, using or considering Touchless Handling is not yet on their agenda.

## Forward-leaning Carriers

Forward-leaning carriers use Fast Track or Virtual Handling claims processes and are considering or open to Touchless Handling. As is typically the case with early technology adopters, Forward-leaning carriers are fewer in number within the industry and are the most enthusiastic about trying new approaches. They most commonly use Fast Track for their non-complex auto claims, but they also offer Virtual Handling, which is helping to drive down cycle times as seen in Figure 1-2 below. Interestingly, Forward-leaning carriers who use Virtual Handling often refer to it as an option for customers, rather than a requirement.

Respondents taking a more automated approach are experiencing significantly lower cycle times.

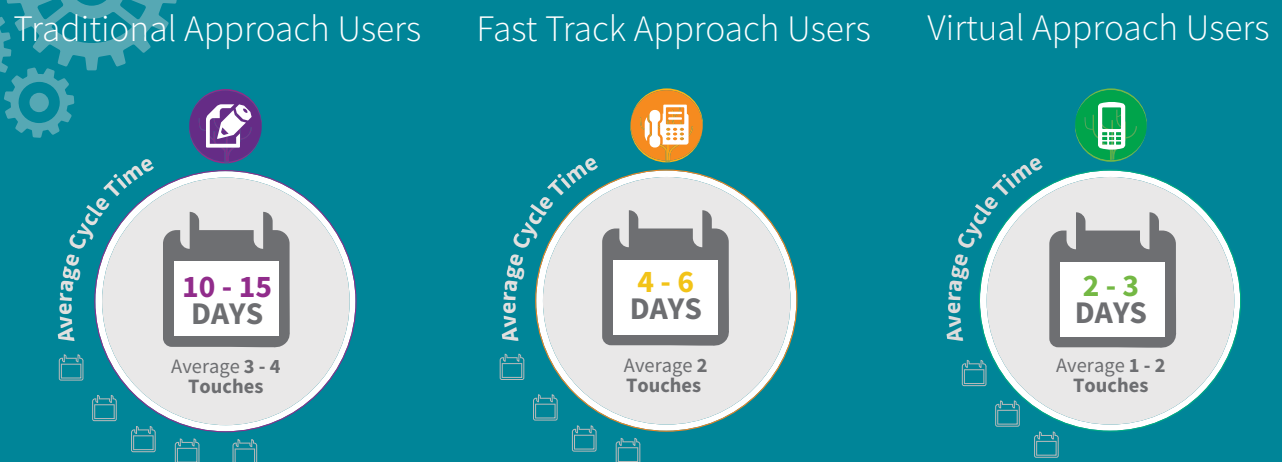


Figure 1-2

## A Glimpse into the Future

While there is not yet unilateral adoption of automated claims processing in every carrier segment, the ongoing adoption of automated processes is inevitable and the trends are clear.

### Self-service Options

As seen in Figure 2-1, self-service options are expected to increase over the next five years, driven initially by tech-savvy Millennials but eventually adopted by others. Other key drivers behind self-service options are the potential for increased process efficiencies, even lower LAE and enhanced customer service opportunities. Self-service claims processing will likely be led by larger, standard carriers who have the resources to invest in technology, and who will more significantly benefit from process efficiencies due to large claims volume.

Most respondents expect that the use of self-service options will increase significantly over the next 5 years, driven initially by tech-savvy Millennials, but eventually adopted by others.

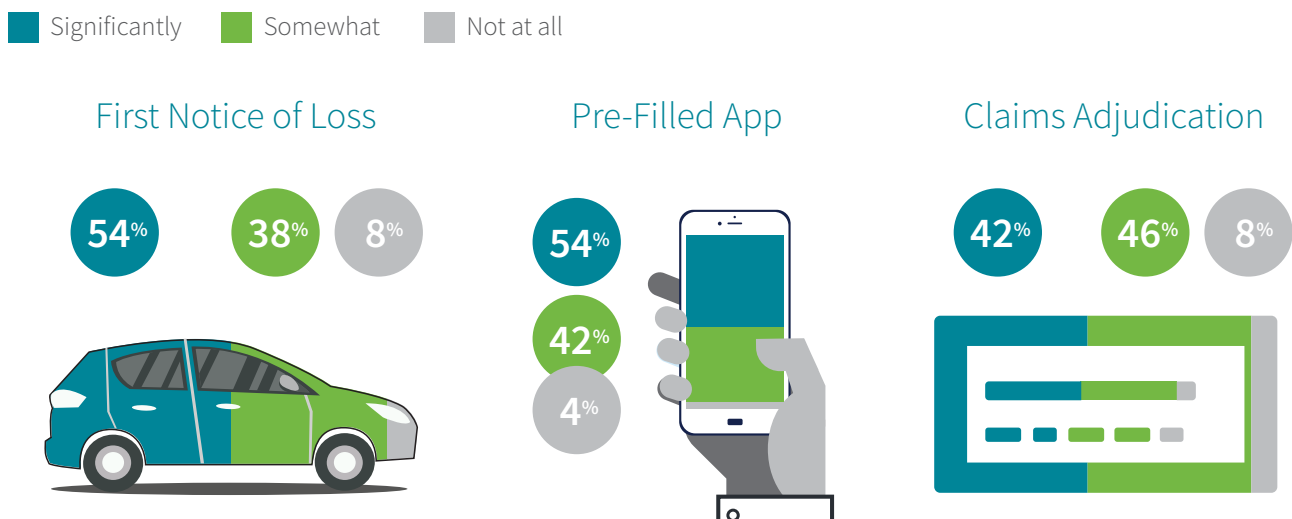


Figure 2-1



### Making the Leap to Virtual and Touchless Handling

Insurance carriers that have instituted Virtual Handling have overcome barriers relating to a mix of business culture and technology constraints. In other words, it's an issue of readiness. Resistance to Touchless Handling has more to do with concern about giving up the human touch entirely, a concern not based so much in fact but rather on the perception of potential disengagement with customers. However, it's important for carriers to realize that customers' perceptions about engagement and brand value might be different from their own. Increasingly, customers want to do business with organizations that embrace the wave of the future when it comes to delivering digital services. At the same time, it is clear that customers want options in terms of their interactions with carriers.

Despite any reservations, some carriers acknowledge that potential key benefits from a touchless approach include:

- A seamless customer experience
- Increased processing speed
- Decreased cycle times
- Decreased LAE

Worth noting is that a few carriers specifically mentioned increased customer satisfaction, the ability to be up and running 24x7 and the potential to attract Millennial customers as Touchless Handling benefits. As carriers come to recognize the importance of meeting customer desires for digital approaches, they will need to escalate their progress along the digital readiness continuum if they want to capture market share.

### Mobile Apps as a Path to Virtual Handling

A majority of interviewees mentioned either offering or piloting the option of allowing customers to report claims via a mobile app. Not surprisingly, there is a direct relationship between using or considering Virtual Handling and using or piloting a mobile app for claims reporting. In fact, those carriers who are considering Virtual Handling are working toward putting a mobile application in place before implementing a full Virtual Handling roll-out.

However, many respondents reported that the usage of mobile is still low. This correlates to the many questions that must be answered at FNOL which can be automated with solutions that prefill vital claims information—simplifying data entry to automate the FNOL. A Virtual Handling approach requires simplicity with minimal clicks to complete an application. It's expected that mobile claims reporting will expand rapidly as carriers simplify data input processes.



### Telematics

As seen as Figure 3-1 below, most interviewees believe telematics will be used in claims investigations within the next three to five years. Ease-of-use, the potential for premium reductions, a stronger competitive advantage and increased accuracy in assessing risk are considered key benefits of implementing telematics.

### Automating Injury Claims with Data and Analytics

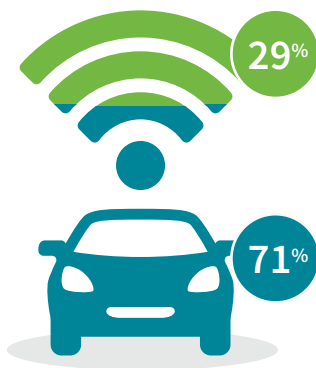
Today’s technology positions the insurance industry to use data and analytics in ways that were unthinkable just a few years ago. As we found in our research, some believe that data and analytics will be used to automate minor injury claims with a few even considering ways to leverage data and analytics to automate some minor worker’s compensation claims.

Telematics and new uses of data and analytics will contribute to a future “Touchless Claims Process”.

All respondents believe telematics data will be used in claims investigations within the next 5 years; most believe that data and analytics will be used to automate minor injury claims within the next 3 to 5 years.

■ Significantly   ■ Somewhat   ■ Not at all

Telematics Data Being Used in Claims Investigations



Data & Analytics Being Used to Automate Minor Injury Claims



Figure 3-1

## What Touchless Claims Could Look Like

Though the carriers we talked to are not yet unilaterally embracing Touchless Handling, we believe touchless claims are a viable and inevitable emerging trend—at least for the types of non-complex claims that are currently being addressed through Virtual Handling.

We also see how today’s market dynamics, along with emerging technology, are creating an environment conducive to Touchless Handling, including:

- Changing customer preferences focusing on the digital experience
- Expanding virtual and mobile applications and services
- Telematics advances beyond just rate pricing
- Autonomous vehicles and expansion of rideshare options
- Increased pressure to lower LAE



## FUTURE OF CLAIMS 2017: THE “TOUCHLESS” CLAIM

These developments open the door for automation to play a much more cutting-edge and prominent role in the claims handling process. For example, carriers must be able to reduce expenses without negatively impacting the customer experience, yet at the same time offer services that align with new customer demands in a digital world. Automated claims processing—including mobile and remote features that give customers more control and expedite claims closure—can reduce costs while improving customer satisfaction. Telematics automatically provides information that can further simplify and accelerate claims processing. Rideshare options and autonomous vehicles are driving demand for new coverage and claims liability models that can be well-served by more flexible, automated processes.

These dynamics and capabilities offer new data sources and new opportunities for minimizing the amount of human interaction required to process a claim. Currently, the average number of touches on a non-complex claim is three or more, predominately driven by limitations on data. Robust data sources and data analytics, combined with telematics, have the potential to reduce insurance carrier employee touches on a claim to one—or even zero.

Regardless of where carriers are positioned on the continuum of the evolution of automated claims processing, the trend towards virtual—and eventually touchless—claims is inevitable. Clearly, the industry is moving toward increasing automated claims handling processes driven by technology-enabled solutions that yield benefits for both carriers and customers.

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