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The next level *- New technologies are fundamentally changing the ways in which insurance business is conducted and many of the benefits have already been realised within claims management. Graham Buck takes a closer look at some of the developments* *p28*

Claims, disrupted *- Times have changed since brokers visited the lead insurer's office to show a claim for the claims handler to scratch. CIR spoke to Tokio Marine HCC's Carlos Fane about the impact of digital disruption and claims management on insurance claims* *p30*

Digital disruption & claims management

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The next level

New technologies are fundamentally changing the way in which insurance business is conducted and many of the benefits have already been realised within claims management. Graham Buck takes a closer look at some of the developments

Digital disruption has set the winds of change sweeping through all insurance departments, from underwriting to claims handling. As new technology triggers demand for products ranging from drone insurance to 'on-demand' cover for single items such as a laptop, it is also the catalyst for approaching claims management differently.

"New technology has assisted in the management of large volumes of data and storage retrieval," reports Carlos Fane, Senior Claims Council in the Financial Lines Sector of insurer Tokio Marine HCC. "That's reduced the need to instruct external counsel to do the 'heavy lifting' in trawling through information.

"There is also some downside in that digital technology also makes it easier to generate more communications, so to an extent it's undermining progress by creating greater volumes."

Fane adds that the use of artificial intelligence (AI) is increasing across insurers' underwriting operations and is likely to extend to their claims departments. "It could be very useful in classes such as warranty and indemnity insurance. If you have a case where the seller maintains that a material fact was disclosed and the buyer insists otherwise, AI can help in refining the search."

Ideally, insurers will have a fully integrated system linking both underwriting and claims. Tokio Marine HCC believes in investing in insurtech to maintain a competitive edge, although as Fane notes: "Implementing a new system involves a great deal of upheaval and also the risk that it will swiftly become outmoded – so there is a case for outsourcing some elements of insurtech."

Nonetheless, other pan-European insurers have also made major investments in insurtech in relation to consumer lines. Allianz, for example, set up Allianz X as an investment unit to identify and invest in digital growth companies that are part of insurance-related ecosystems. Among these is Lemonade Insurance, a three-year old New York-based company operating in 18 US states.

Lemonade uses AI and bots and specialises in tech-powered renters and home insurance for Millennials. Its claims handling has already gained much publicity: claims can be submitted via a mobile app, AI then runs 18 anti-fraud algorithms and if instantly approved, payment can be made within seconds.

In Europe, Allianz's customers in Austria use a smartphone app, Schadenexpress (claims express), to photograph damage to their cars and submit the evidence. The cost of repair work is assessed via 3D computer modelling and claims can be paid in a couple of hours.

The group's Turkish customers can use a single mobile app, My Allianz, for a range of services. They include viewing the progress of a claim, checking their policy information, uploading documents, viewing customised informational videos, and live chat with an Allianz employee. The app also includes one-touch emergency services for calling roadside assistance or an ambulance.

Moment of truth

Digital disruption is accelerating change, but a claims notification still represents the 'moment of truth' for both insurer and insured, notes Harriet Parkinson, head of portfolio claims for Hiscox UK and Ireland. "For a customer, this is the first time they will truly know the quality of the product and service they have purchased.

"We find that in these stressful and often emotional moments, many customers still prefer to pick up the phone and talk directly to claims experts. This gives them reassurance that the matter is in safe hands and immediate guidance on how we will assist."

The efficiencies offered by digital disruption can be used to meet the key points of customer demand, which are still giving an indication of when they can expect the claim to be paid or how quickly they can be back on the road, adds Gareth Hemming, director of SME insurance at Aviva UK. "We use both analytics and classic business process engineering in order to simplify the process – focusing on what do we need to find out from the customer and how can we use automation most efficiently?"

Parkinson reports that where Hiscox has noted a shift in digital expectations is post-notification, with customers requiring convenient methods to stay up-to-date with the progress on their claim. "For a growing number of customers the most convenient option is email or online," she says. "We expect this trend to continue to grow and also anticipate additional digital channels, such as Alexa and Google Home, will become the norm for our customers.

"After claims notification, one of the key customer needs we identify is speed. While some claims will inevitably require more time to bring to resolution, the smaller value, low complexity ones are prime for an easy and quick settlement.

"New technologies give insurers the opportunity to further improve settlement times, through solutions such as automated repair cost validation and video calling. Combining this technology with claims underwriter expertise will be vital, to balance speed with a pragmatic and human approach."

Among the new technologies being applied to claims handling is cognitive document processing (CDP). Developed jointly by professional services and business consultancy group Capgemini and cognitive automation provider HeavyWater, CDP is a solution that evaluates the type, state and relevance of documents and prepares them for secure storage, presentation and sharing.

"Most insurers will tell you they're digitised, but this may only involve claims documents received to produce an image in the form of a JPEG or similar," says Michael Carroll, global insurance services leader at Capgemini Financial Services. "In recent years, that process has moved a step further and insurers now input data based on the image and can transfer this work to low-cost locations.

"The development of new technology and robotics enables them to do more with the document once it has been converted into an image. Optical character recognition (OCR) – a technology enabling different types of documents, such as scanned paper documents, PDF files or images captured by a digital camera to be converted into editable and searchable data – has developed rapidly over the past couple of years. OCR now has capability to read all forms submitted – even handwritten ones – and extract all of the relevant data."

"So, for example, on a motor claim form you can extract the relevant info and put it into an XML file before intelligent automation software such as WorkFusion adds it to the claims set. OCR and robotics have taken over the work of putting claims data into the system. Despite this, it hasn't made claims examiners redundant but instead freed-up their time for more valuable work."

A newer development is concept extraction; technology able to spot key features about an individual and formulate concepts on that person. For example, a worker's compensation form submitted for a 50-year old employee with a cut foot might reveal that he/she takes insulin. Cognitive artificial intelligence (AI) will pick up this detail and investigate whether the employee is diabetic.

Photo estimating is becoming increasingly sophisticated and UK company Tractable, utilises AI to extract valuable information from photos. By checking the X-ray of an oil pipeline to identify any faulty or sub-standard welding, pre-emptive action can be taken to prevent a potential claim.

Back to basics

Speed of settlement continues to be a key element in customers' assessment of their insurer, confirms Matthew Wright, business insurance analyst at NFU Mutual. "New technology is helping loss adjusters get a better understand of the extent of damage, for example the use of drones to

"Concept extraction is able to spot key features about an individual and formulate concepts on that person"

reach areas quickly that they wouldn't normally have been able to inspect without the use of scaffolding or other means. This produces more accurate estimates and reduces both time in assessing the extent of the damage and the number of surprises when repairs begin.

"Telematics and the considerations of technological developments in vehicles themselves, with features such as integrated computers and smart window screens, are developments affecting the motor insurance market. These require the claims teams to develop knowledge of more than just the vehicles themselves but also an understanding of computer technology, mostly in terms of time and cost estimates, as well as picking the right garages when sending the vehicle for repairs."

Finally, does digital disruption mean the end of the traditional claims form? "For the moment it still has a place, but as with Aviva's 'Get a Quote, Not a Quiz' campaign, we're applying similar thinking to claims management," says Hemming.

"The basic questions are 'what's happened?' and 'what would you like to see happen next?' which means the claims form will become outmoded over time."

Claims, disrupted

Times have changed since brokers visited the lead insurer's office to show a claim for the claims handler to scratch. CIR spoke to Tokio Marine HCC's Carlos Fane about the impact of digital disruption and claims management on insurance claims

Digital innovation brings both benefits and challenges – in equal measure?

A decade or so ago, it was commonplace for a broker in the City to visit the lead insurer's office to notify a claim. The broker would 'show' the claims file to the claims handler who would 'scratch' it with his comments and then show these to each member of the following market. Generally, business was transacted in person to a far greater degree than it is now. Those days have been swept away by digitalisation. A key aspect of this, which has been developing over recent years, is the widespread use of the Electronic Claim File (ECF) and the Claims Loss and Advice Settlement System (CLASS). This change has created opportunities for streamlining and efficiencies. The increased outsourcing by brokers of many of their functions to operations outside Europe is one example.

Digital innovation has also increased the possibility of instantaneous communication of claims developments. Decisions can be made rapidly, and service levels monitored, irrespective of how dispersed geographically the parties involved may be. However, ease of communication has also encouraged brokers on behalf of insureds to err on the side of caution when deciding whether or not to notify (for example, to excess layer insurers). This has led to an increase in claims notifications and administrative demands (on brokers as well as insurers) without always reflecting any increase in the number of losses.

Earlier this year, the Single Claims Agreement Model was introduced in the London Market. This model increases the scope for a London slip lead to bind all followers on a risk, provided this has been agreed by insurers at placement. Such initiatives reduce the number of stakeholders who have to be consulted in relation to claims, thereby reducing the number of communications required when handling each claim. This may be viewed as a welcome counterweight to the trend towards an increased number of communications that digital innovation generates. As the insurance industry seeks to adapt to the digital age, we are likely to see more developments in this area.

How is Tokio Marine HCC using digital technology to improve the customer experience?

During the past year Tokio Marine HCC has introduced a new electronic underwriting and claims management system in its continental European operations. This innovation allows claims responses to be monitored closely and ensures consistently high service standards apply to all aspects of our client-facing activities. These changes have been complemented by the increased use of cloud-based storage of underwriting and other information, improving access for claims professionals to the information they need to adjust claims, which improves service levels.

> **"These changes have been complemented by the increased use of cloud-based storage of underwriting and other information"**

How are disruptive technologies changing approaches to policy wordings at Tokio Marine HCC?

A disruptive technology or innovation is often understood to mean a new technology or innovation that radically changes the market for goods or services in a particular sector. The introduction of the Ford Model T motor car is an example of a disruptive technology or innovation, as the mass-production techniques it introduced to the automobile industry made cars more affordable and caused them to be seen as less of a luxury item and more of a household necessity. The availability of insurance apps and other innovations affecting the distribution of insurance products may in this sense be disruptive. However, while this kind of disruptive innovation may have reached consumer lines insurance, it has yet to make a significant impact on business lines insurance, which continues to operate along traditional lines.

How is Big Data changing the way Tokio Marine HCC does business?

Big Data is clearly having an impact on the way we do business on the underwriting side, given the implications it has for the availability of information. A recent example of this is the 2015 Insurance Act in England and Wales. Those responsible for drafting the act considered it necessary to add a provision which prevented "data dumping" by prospective insureds.

Therefore, they made it a requirement of the duty of Fair Disclosure to not engage in these practices. Undoubtedly, the increasing trend is too much information, not too little.

Technology developed for use in legal proceedings to assist with disclosure/discovery can assist underwriters with sifting through large volumes of information. This possibility is particularly attractive to underwriters working in lines of business such as warranty and indemnity insurance (W&I), where it is often not practical for an insured to "filter" the information it discloses to underwriters.

On the claims side, the impact of Big Data is felt due to its effect on the frequency of third party claims faced by insureds. One aspect of Big Data is that anything anyone says can be recorded and, once recorded, will remain available for years to come to anyone with internet access. Adverse publicity, perhaps due to a whistle-blower going public with allegations of wrong-doing, consumer complaints or short-selling activism, combined with media interest, can lead to companies and senior executives finding themselves in the regulatory spotlight. The widely publicised investigation of the state-owned oil company Petrobras, 'Operation Carwash', in Brazil, is a case in point. Increasingly, we are seeing third party claims and related notifications under the D&O liability policies Tokio Marine HCC writes arising in this way, due to a combination of Big Data and media interest that in turn prompts regulatory interest.

Big Data (sometimes on its own, sometimes having been brought to light by media and/or regulatory interest) also provides a rich source of potential claims for the plaintiff bar to pursue, mainly in the US but also, increasingly, in other jurisdictions. The plaintiff bar has been quick to exploit this opportunity by filing class action complaints in the US and other kinds of group action lawsuits in other jurisdictions. Such complaints and lawsuits have been further encouraged by an increase in the number of litigation funders.

These are all developments that insureds increasingly wish to see reflected in the D&O liability cover they take out with Tokio Marine HCC and other insurers. We have adapted to this environment by tailoring policy wordings and by working with stakeholders to find innovative ways to accommodate these requirements. Sometimes this can involve pricing adjustments. It may also involve extensions of cover and changes to sub-limits and retentions.

How might regulatory frameworks need to change to address some of the emerging challenges?

Digital and other technological innovation in the insurance industry brings many potential benefits. However, it also brings the possibility of operational disruption due to, for example, potential cyber attacks and technological failure, which can impact service levels negatively. It is, therefore, important that insurers manage their businesses in ways that minimise potential disruptions and ensure that, in terms of severity and duration, they do not reach levels the business cannot withstand. This issue, as it applies to the financial services sector generally, is the focus of a recently published Bank of England (BoE) Discussion Paper, 'Building the UK financial sector's operational resilience'.

The BoE points to aspects of the existing regulatory framework for UK insurers that indirectly address the need to ensure operational resilience. For example, the BoE refers to the requirement under Solvency II on insurers and reinsurers "to have in place an effective risk management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks … to which they are or could be exposed". The BoE also refers to the PRA's Threshold Conditions requiring businesses to act prudently and specific PRA rules on risk management, monitoring and reporting and planning. A recent insurance sector specific development in this area, referred to by the BoE, is the forthcoming extension to insurers of the PRA's Senior Managers and Certification Regime. As part of this, there is also the requirement to have a senior management function responsible for internal operations and technology.

New regulatory requirements, contemplated by the BoE to ensure operational resilience include requiring insurers (and financial institutions generally) to identify intolerable levels of disruption to their most important business services ('impact tolerances') and the circumstances under which it would be acceptable to breach these impact tolerances. It is envisaged that this would increase transparency, allowing supervisory authorities to work with companies more effectively to ensure greater operational resilience.

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Mind over risk:

The secret behind cyber resilient businesses and the people who insure them.

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Companies are increasingly vulnerable to a widening range of cyber threats, including data breach, network interruptions, cyber extortion, as well as third party claims and regulatory penalties. Our experienced experts have in-depth knowledge about cyber risk insurance. This allows us to create tailored coverage that guarantees business continuity and bridges potential gaps between policies effectively. Wherever you are based, our dedicated team of internationally focused underwriters and claims specialists are ready to provide an intelligent approach as well as a fast and efficient service worldwide.

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