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STRIKING THE RIGHT BALANCE OF ART AND SCIENCE WITH CLAIMS AUTOMATION

Blending Automation with the Human Touch

Featuring as an Example:

Sapiens

An SMA Perspective

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Published Date: September 2022

This perspective is based on SMA's ongoing research on claims automation in personal lines insurance. Sapiens has purchased distribution rights.

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TABLE OF CONTENTS

The State of Claims Automation in Personal Lines 3

Blending Automation and the Human Touch 4

The Four Dimensions of Claims Transformation

The Human Impact

About Sapiens 7

Company Overview

Breadth and Functionality

Strategy Meets Action Commentary 9

About Strategy Meets Action 10

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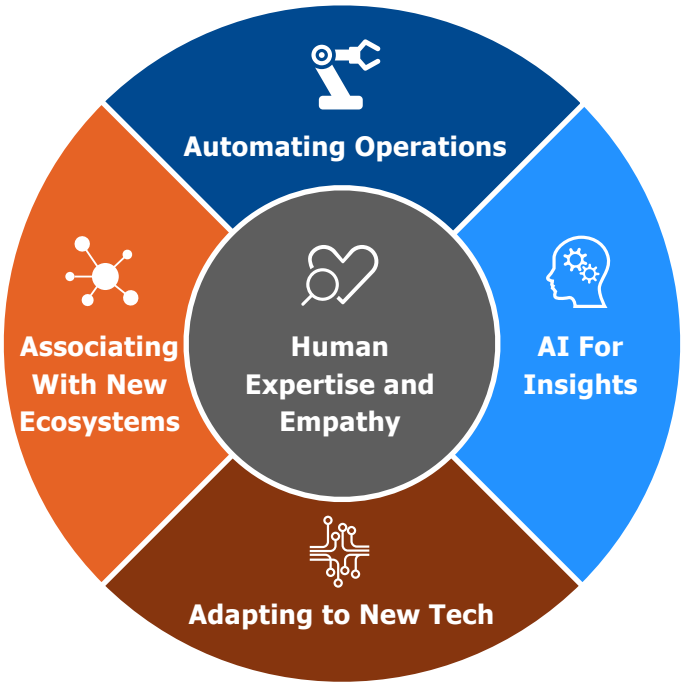
THE STATE OF CLAIMS AUTOMATION IN PERSONAL LINES

The P&C industry has been on the path toward automation for many years. When the pandemic hit, it became a catalyst for accelerating automation and digital transformation. Straight-through processing, self-service portals, virtual inspections, and digital payments are just a few of the areas that insurers focused on sharply. But automating tasks and workflows does not mean machines will take over and leave industry professionals out in the cold. In fact, the opposite may be true. A case can be made that automation initiatives will increase the need for skilled professionals with deep industry domain knowledge and relationship skills.

All the automation occurring is beneficial for the industry. However, there is one dimension of tech progress in the P&C industry that is being overlooked – skilled individuals. Ultimately, automation and AI will elevate the role of industry professionals and reinforce how vital relationships are in the industry.

SMA believes that the future of P&C claims will be driven by four key dimensions, as illustrated in Figure 1. The "Four A's" represented around the center circle (automating operations, AI for insights, adapting to new tech, and associating with new ecosystems) are all critical and interrelated. However, note that human expertise and empathy are placed at the center – leveraging the technology capabilities and highlighting the central home of experienced industry professionals.

Figure 1. Four Dimensions of the Future of Claims



Source: SMA

This paper spotlights the implications of task automation and AI – specifically the need to manage it – as well as the critical importance of adapting to new technologies and tapping into new ecosystems. Several examples that expose the challenges are explained for each of the "Four A's" in the following section. The role of claim professionals in the future will then be discussed in the context of expected advances in technology.

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BLENDING AUTOMATION AND THE HUMAN TOUCH

Understanding the fundamentals of how to blend automation with human interactions can reap benefits for customers and internal stakeholders. Every claims organization must balance four key dimensions to achieve perfect harmony.

The Four Dimensions of Claims Transformation

There are four areas of focus – the "Four A's" – that will have an impact on claims operations. However, it is critical to keep in mind that perhaps the most important aspect of capitalizing on these tech capabilities is the integration and coordination with the core claim administration system. These capabilities may be embedded into the claim system itself or integrated with other solutions from the core systems provider or others in the ecosystem.

1. **Automating Operations:** Efficiencies in claims have always been imperative – managing lost adjustment expenses (LAE) to reasonable levels will remain important in any era. This is probably the easiest area to understand, and it is where the focus has been for decades. But now, technologies like robotic process automation to automate tasks and natural language processing for document intake (extracting and analyzing information from scanned documents and other unstructured data sources) enable us to get to new levels of automation. Expanding digital connections into new networks also automates workflows.

   The primary objectives of task automation are to decrease cycle time and offload simple tasks from adjusters. It is well known that there is a direct correlation between the time it takes to resolve a claim and the payout. So, in addition to reducing claims operational costs (LAE), there is the potential to reduce the claim loss payouts as well. Removing some of these simple repetitive tasks from claim professionals also enables them to focus on more important activities.

2. **AI for Insight:** The claims environment receives a lot of data from many sources, making it a prime candidate for leveraging various AI technologies to gain more insight. Research from SMA's 2021 Transformational Technologies survey reveals the areas in which claims executives within personal lines believe AI technologies will provide the most value in claims – granted, some of this value is for automation, but a lot of it is for new insights.

   - **Reporting the claim (FNOL or FROI):** Half of the respondents to SMA's study expect AI to transform reporting. Prominent examples include the use of chatbots or AI-guided interviews for data collection.
   - **Triage/assignment:** There appears to be great potential to automate triage and assignment, especially for more complex claims. Today, complex property claims or those involving bodily injury require claim managers to manually assess the claim, determine the next steps, and who should handle the claim. Intelligent triage facilitates the shift to more no-touch claims and getting the right resources involved as soon as possible.
   - **Damage assessment:** Claims executives see significant potential in damage assessment. Even though it is early in the maturity of the tech, there are already very interesting solutions and pilots in the marketplace that use computer vision and machine learning to identify damage and replacement parts and develop an estimate.
   - **Litigation:** Machine learning can be used to identify not only the potential of a lawsuit but also the implications of whether a claimant is represented or not represented. And the conclusions on this are not always obvious. Identifying potential legal action earlier in the process allows the claim department to be more proactive in handling the claim and preparing for potential litigation.

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- **Recovery:** Machine learning can also achieve early insights into subrogation and salvage opportunities. Although these areas have sometimes seemed to be lower priority and more execution-oriented, there is significant potential to positively affect claim results with intelligent recoveries. Identifying potential subrogation and salvage as early as FNOL can enable insurers to prepare and plan to maximize their financial recoveries.
- **Fraud detection:** Not surprisingly, executives identify fraud as the number one area of potential for using AI in claims. With at least 10% of premium dollars lost to fraud, this is a major opportunity for improvement.
- **Leveraging AI for reserving:** Setting claim reserves has always required human judgment. While reserves for simple claims or events can be set via rules that leverage historical data, more complex claims or CAT events require significant expertise. The human element will still be needed for these, but now many claim executives expect AI to augment that human expertise.
- **CAT response:** Finally, there is the catastrophe response itself. Over time, we will find even more use cases and potential for various AI technologies in CAT situations. Whether it is for planning, monitoring, advising, and interacting with policyholders, deploying CAT resources, or using visioning and ML to analyze aerial imagery or other cases, there will be lots of opportunities.

3. **Adapting to New Technologies:** A wide variety of advanced technologies have important implications and specific use cases for P&C claims. Some, like autonomous vehicles and the IoT, will affect claim frequency and severity in the long run. However, many others present significant opportunities today for claims. A few examples and their usage in claims include the following:

- **Bots:** Chatbots to automate interactions, robotic process automation to automate tasks, and voice bots to respond to phone calls are all examples of how AI removes the burden of simple, repeatable tasks from humans and speeds up the claims process.
- **APIs:** It's an API world – APIs standardize and improve connections between systems and make integrations faster and easier. After all, integrations and data exchanges between systems have been some of the big challenges for the industry for a long time.
- **Models:** Rules-based or AI-based models are widespread in P&C, and their number and the variety of use cases continue to expand. When done well, they can help improve product design, risk selection, pricing, profitability, claims processing, and many other parts of the business.
- **Digital Payments:** The pandemic dramatically accelerated the usage of new, digital payment methods in claims. Claim departments were limited in their ability to print and mail physical checks and turned to new capabilities such as PayPal, Square, Venmo, and many others. In addition, they increased their usage of basic ACH payments.
- **Computer Vision:** Advances in aerial imagery and the wide range of coverage now provide new insights for evaluating before and after views of property that has been damaged. In addition, AI-based visioning technologies are beginning to be used for damaged assessments – identifying the extent of the damage sustained by a vehicle and providing input for determining estimates.
- **Telematics:** The adoption of telematics in vehicles has increased significantly due to the pandemic – now estimated to be active in 20% of the vehicles on the road. Data capture devices in vehicles can provide new data and insights about an accident that can be invaluable for adjusters investigating a claim.

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4. **Associating with New Ecosystems:** Property and casualty claims departments have always had complicated ecosystems – they must work with many parties for damage estimation, restoration, settlement, litigation, and recovery. But now, new players are entering. Many offer new technology-based solutions for digital payments, leveraging connected devices for rapid response to accidents/incidents, coordinating repair and restoration efforts, and tapping into specialized or required data and expertise.

   It has become evident to many claims executives that they must be able to dynamically partner with new claim service providers as well as connect to new tech solutions capabilities. Emerging new ecosystems around smart homes and connected vehicles are just two examples of where a network of existing and new players can collaborate to prevent and manage claims on behalf of policyholders.

The Human Impact

The business focus will be on the capabilities that enable the two "E's" featured in the center of Figure 1 that impact the future of claims:

- **Expertise**
- **Empathy**

There is a great deal of angst among claim professionals who believe advanced technologies will reduce or eliminate the need for adjusters. However, this view does not recognize the value of the human element. Although efficiency is important in claims, there are two other elements that distinguish claim organizations and are instrumental in delivering on the true promise of the insurance contract.

When a claim occurs for a policyholder, it is usually an emotional and highly stressful time. 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. If you remove the human touch from the claims process, the claimant loses the element of empathy that can make or break their claims experience and ultimately influence whether or not they stick with their insurer for the long term.

At the same time, the human touch delivers unparalleled expertise in claims handling. Although many personal lines claims can be simple, they also have the potential to be complicated and require the attention of experienced adjusters, such as claims involving bodily injury or catastrophic damage to a home. With these claims and others, humans need to deliver the expert knowledge that drives claims forward and identify nuances that impact outcomes, leading to better results for the customer and insurer.

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ABOUT SAPIENS

Company Overview

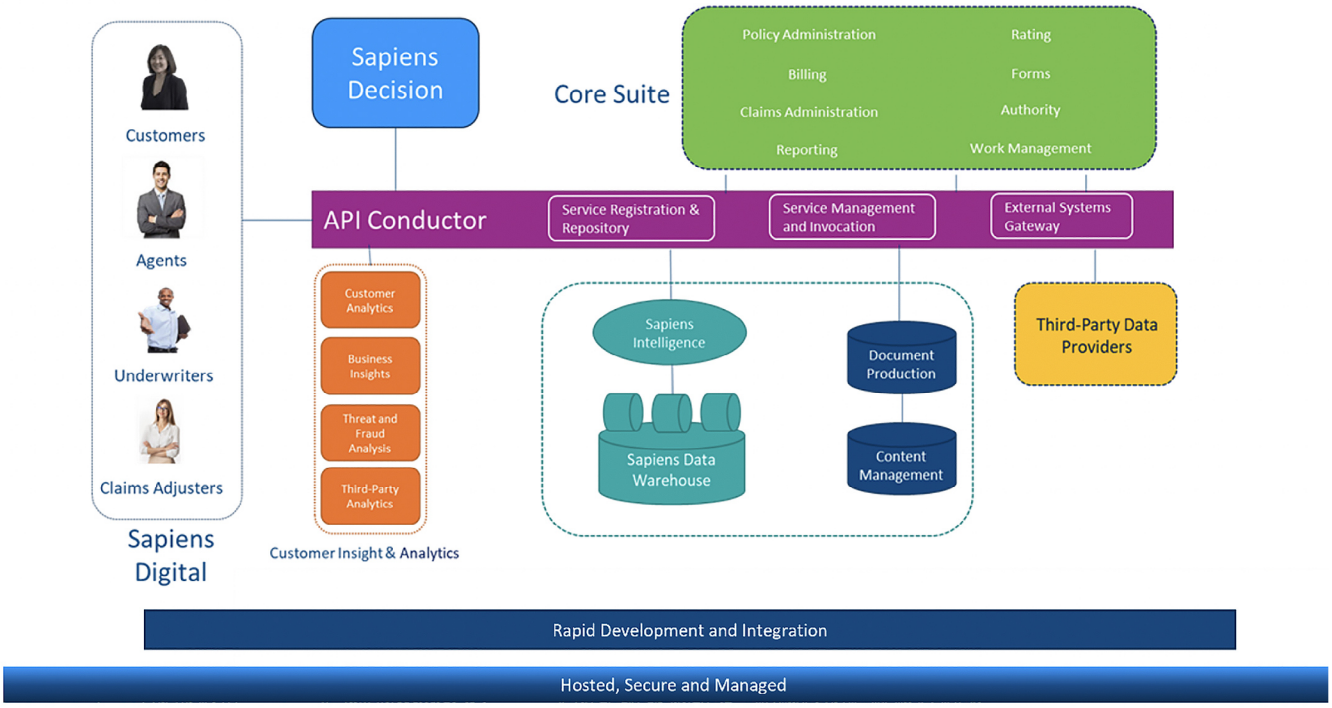
Sapiens Americas Corporation works with insurers to become digital, innovative, and agile. Backed by 40 years of industry expertise, Sapiens offers a complete insurance platform with pre-integrated, low-code solutions and a cloud-first approach that accelerates customers' digital transformation. Serving over 600 customers in 30 countries from 10 development centers, Sapiens offers insurers across property and casualty, workers' compensation, annuity & pension, and life markets an extensive repository of solutions, from core to complementary, including reinsurance, financial/compliance, data analytics, digital, and decision modeling.

Breadth and Functionality

Sapiens provides holistic cloud-based solutions as well as standalone functional modules to enable P&C insurers to compete successfully in the digital world. The solutions are flexible and highly configurable, providing for complete end-to-end automation.

Sapiens' CoreSuite combines the automation capabilities of the firm's claims, policy, billing, and reinsurance applications for a customer-centric core operating environment that supports all P&C personal and commercial lines of business. Deployment with modernized decision management enables business rules to be managed centrally. An overview of how Sapiens' Insurance Platform operates is illustrated in Figure 2 below.

Figure 2. The Sapiens Insurance Platform



Source: Sapiens 2022

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One of the key components of the CoreSuite is ClaimsPro. ClaimsPro leverages metadata and rules, coupled with a service-oriented framework and an open architecture, to enable an agile and rapid ability to support the evolving needs of the claims business. Key capabilities of the ClaimsPro solution include:

- Digital experience facilitated through customer and agent portals that support the digital intake and claims updates to claimants and policyholders.
- Decision management that provides the ability to automate decisions such as setting reserves, accepting liability, issuing payments, closing claims, and distributing documents based on any relevant claim information. This supports faster claims settlement, lower costs, and increased customer retention.
- Claim assignment automation leveraging business rules, claims data, and artificial intelligence models with over 20 out-of-the-box models to automatically assign the claim.
- Analytics and machine learning models that facilitate automation in areas with fraud and legal potential, as well as detecting claims that require special handling.
- The Sapiens partner hub provides for pre-integration into InsurTech value-add solutions throughout the claims life cycle.
- Leveraging ClaimsPro, Sapiens Decision, and artificial intelligence to provide configurable, repeatable, and auditable automation, carriers can optimize their automation strategies ranging from full STP to automation of any subset of the claim-processing chain.

For more information, visit **sapiens.com.**

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STRATEGY MEETS ACTION COMMENTARY

The industry need to leverage automation and AI for insights as we aim to blend the resources and technology needed to deliver the exceptional level of service customers expect. Perfectly balancing technology and people will be critical as the need remains for industry experts who understand how to execute tasks in compliance with evolving regulations, exercise judgment based on experience, and manage all the automation activities. Some of that automation management will demand IT experts, but much of it requires an understanding of how business is conducted, the details of different customer segments and insurance products, and the requirements imposed by the many regulatory bodies involved.

Foundational technologies, such as claims systems, must operate within this changing and open landscape. Adaptability, interoperability, and agility are key to successful claims handling that will support a business in this rapidly changing time. As companies look for foundational technology to provide for the industry's new automation needs, capabilities provided by companies such as Sapiens will create an adaptable and open ecosystem to support the needs of today and the future.

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ABOUT STRATEGY MEETS ACTION

At Strategy Meets Action, our clients advance their strategic initiatives and accelerate their transformational journeys by leveraging our forward-thinking insights, deep vendor knowledge, and vast industry expertise.

The business benefits from an engagement with SMA are:

- **Clarity on Strategy:** Gain an outside-in perspective on trends relevant to your strategies and plans.
- **Transformational Focus:** View your strategic initiatives and investments through a transformational lens.
- **Informed Decisions:** Obtain business and technology insights aligned to your strategies, focus, and investments.

Strategy Meets Action, a ReSource Pro company, is an advisory firm that works exclusively with insurers, MGAs, and vendors in the P&C market, offering advisory retainers and project-based consulting services.

Click here for www.strategymeetsaction.com.

This SMA Perspective is a summary of SMA's ongoing research on claims automation in personal lines insurance. Sapiens has purchased distribution rights for summary results of selected research and opinion.

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