



In a changing world,
how do you build a
claims function with
a smarter edge?

Minds made for transforming
financial services



The better the question.
The better the answer.
The better the world works.



EY
Building a better
working world

Building a better financial services industry

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**Minds made for building
financial services**

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Turning disruption into competitive advantage

Insurers are being disrupted by forces inside and outside the insurance industry. Rising customer expectations, technological change and the ongoing need to reduce costs are increasing the pressure on claims functions.

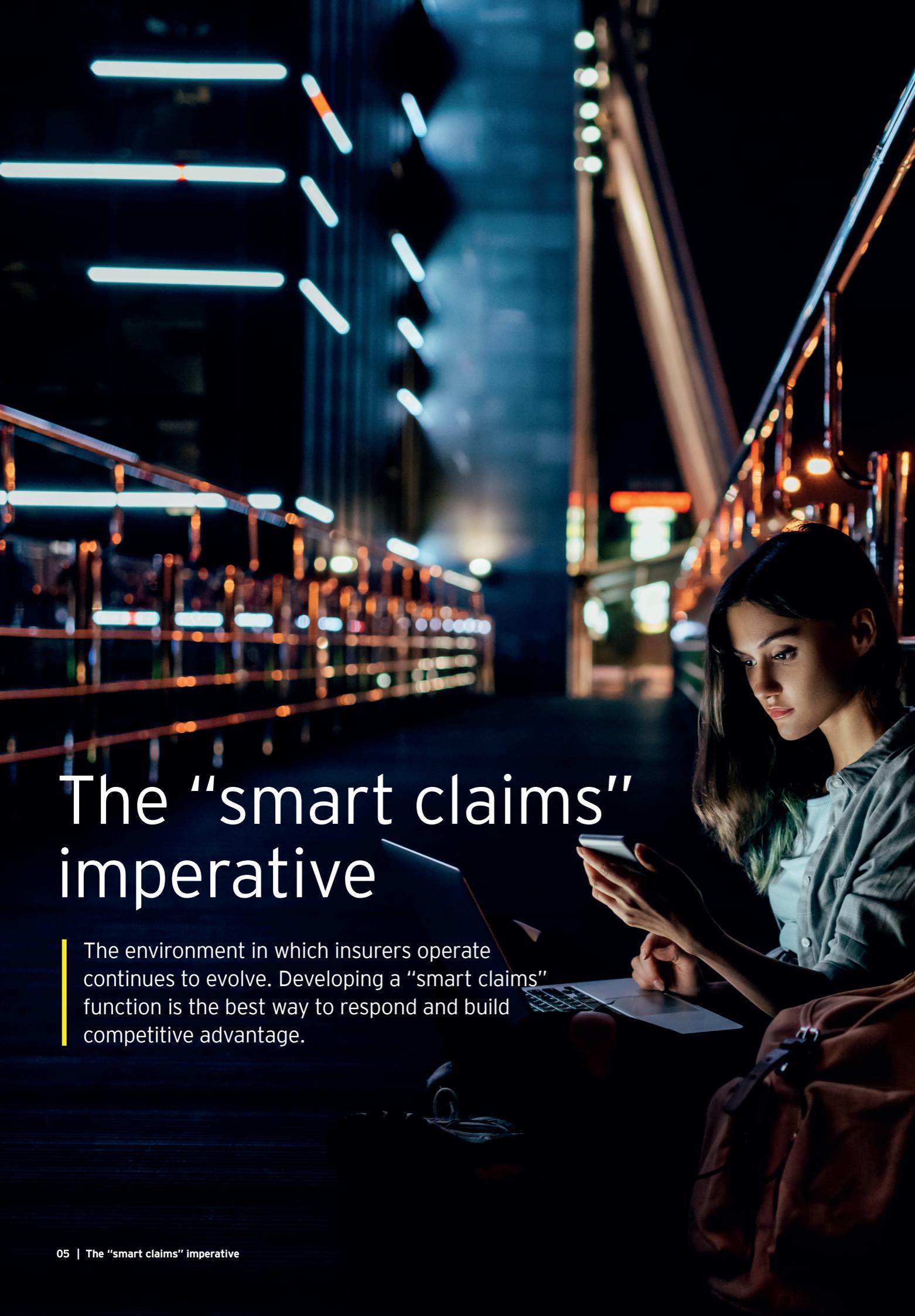
The wave of claims platform modernization over the last three to five years has improved indemnity performance and reduced costs. But considerable transformation is still required across the claims function to create a market-leading, future-ready organization and unlock significant benefits for both the insurer and the insured.

Given the claims function's central role in shaping customer experience, servicing claims in more effective, efficient and customer-focused ways is increasingly important for driving genuine competitive advantage. Insurers need a new style of claims function - one that is leaner, more highly skilled and connected.

In this paper, we consider the external market and customer forces presenting both a challenge and an opportunity for claims functions. We outline our view of the future claims function - one that combines the power of technology, data and people most effectively. We ultimately identify six strategic priorities for insurers seeking to create the future-fit claims functions they need, capable of delivering significant benefit now and in the future.

The “smart claims” imperative

The environment in which insurers operate continues to evolve. Developing a “smart claims” function is the best way to respond and build competitive advantage.



Rising customer expectations

Rising customer expectations for service quality, speed of response and ease of communication need to be acknowledged. Inspired by their use of online retailers and information providers, both personal and commercial customers now expect access to immediate information and regular updates on services being delivered – even when dealing with traditional industries and established players.

Insurers know that the claims department is their “shop window” – the quality of service delivered there will influence perceptions of the business and brand as a whole. For this reason, creating a “smart claims” function must be a priority.

Technological change

Pressure to change is heightened by advances in technology opening up new ways of doing business and serving customers. Disruptive technologies used outside insurance will also transform the way that claims are managed and offer new ways to innovate quickly. Claims functions within established insurance businesses are already working alongside numerous InsurTech players, viewing these agile innovators more as complementary partners than disruptors.

Cost pressure

Insurers also face ongoing internal pressure to reduce indemnity costs. Efforts in fraud prevention and detection make an ever-increasing contribution to indemnity control. Re-platforming has also already helped some insurers to make indemnity savings by enabling better management of supplier costs, stronger controls and greater focus on liability decision making.

However, experience shows that re-platforming itself does not guarantee cost savings. Efforts need to be carefully targeted and combined with wider initiatives that combine the power of new technology and human expertise. Even insurers that have improved the performance of their claims functions recognize the substantial scope that exists to achieve greater benefits.

Developing a “smart claims” function

We see the potential to develop a leaner, more highly skilled and more connected claims function. To achieve this goal, insurers should focus on six strategic priorities:

- Re-platforming core claims
- Maximizing claims data and analytics
- Implementing digital portals
- Developing claims-of-the-future operating models
- Creating market-leading customer experience
- Optimizing supplier and partner management

Claims functions: a new look and feel

The claims organization of the future needs to become leaner, more highly skilled and more connected. It will have five key characteristics.



Driven by the customer experience

Despite some attempts at refocusing on client needs, numerous “pain points” still exist within the customer (and broker) experience of making an insurance claim – and the process remains largely undifferentiated across insurance providers. This creates an opportunity for insurers that take meaningful action now to put customers first. Claims functions must recognize that different customers have different needs and preferences. Effective data analytics can help insurers to understand customers better and develop efficient processes that improve the customer experience. Creating digital-only interactions will not be successful. Our customer research indicates, for example, that 76% of customers expect to notify their claims via phone.

Powered by technology and data

Technology advances – particularly in cloud, analytics, the Internet of Things (IoT) and blockchain solutions – are transforming business. Claims functions must evolve, making use of a flexible API-driven architecture. Gaining competitive advantage will depend on the effective use of data, analytics and straight-through processing. We have seen numerous use cases and benefits associated with implementing industrialized analytical models into the core platform – for example, the identification of “jumper claims” (claims that have a high likelihood to significantly increase in cost from the initial estimate) and litigation assessment predictive models.

Focused on prevention and protection

The development of IoT and connected propositions will enable loss prevention to become an increasingly important part of the claims function’s value-added offering. Real-time notifications will help to avoid higher loss claims, with the benefits feeding back into underwriting and pricing. Claims functions will retain their traditional protection role, but aim to minimize losses through preventative action.

Positioned at the heart of the insurer

Realization of the importance of claims handling to the customer experience – and of more structured insight into losses – will drive a more holistic management approach. Claims functions will work more closely and collaboratively with other teams such as proposition development, underwriting and pricing, enabling greater focus and spend on claims initiatives.

Partnership-enabled

Claims functions will become more outward looking, seeing value from embracing the wider ecosystem in which they operate. Traditional supply chain partnerships around repairers, legal panels and loss adjusters will converge with the new wave of InsurTechs, which will become an ever more important part of the claims value chain. New partnerships will fill skills and capability gaps in disciplines such as data science, loss prevention, machine learning and artificial intelligence.

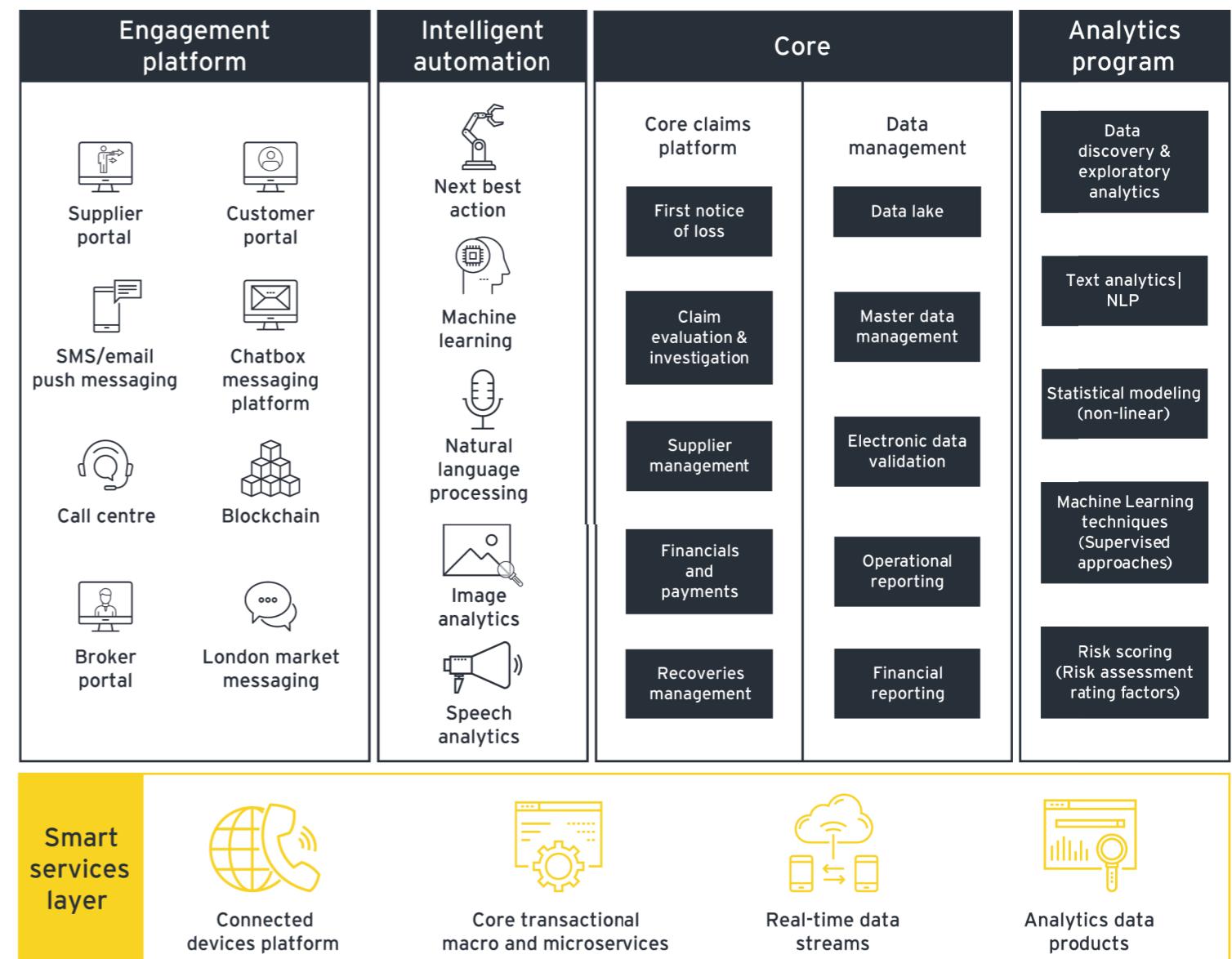
Powered by technology, data and people

To develop the desired new look and feel, the claims function of the future will need to be powered by - and organized around - technology, data and people.

Claims technology will be underpinned by an engagement platform to support effective communication and interactions with customers, brokers and third party suppliers. Core claims and data management platforms will then enable high quality claims management. Intelligent automation and sophisticated data analytics will improve efficiency, customer service and decision making across the claims function. Finally, a smart services layer will further enable data analysis, as well as plug-and-play partnerships with InsurTechs.

Putting all these elements together will create the “smart platform” insurers need to support the claims function of the future: one that is more connected, customer-focused and efficient.

A “smart” platform to support the claims function of the future



A closer look at the smart platform of the future

The engagement platform will shape customer experiences. It will enable insurers to differentiate themselves by reflecting the needs and preferences of both internal and external consumers: customers, suppliers and brokers alike. Omni-channel capability will be key to enabling these consumers to interact with insurers' core systems at their convenience using the technology and devices of their choice.

The smart platform will leverage intelligent automation to enable consistency across the claims value chain and drive efficiency through straight-through processing (STP). natural language processing (NLP) will help insurers to communicate with customers using chatbot messaging platforms, while machine learning and other forms of artificial intelligence will deliver advanced decision support capabilities to handlers, improving the employee experience by allowing individuals to focus on more value-added tasks. Image recognition, NLP and speech analytics will support the analysis of unstructured content such as video, photos and customer calls, automatically assessing loss or damage and enabling early detection of potentially fraudulent cases.

The core smart claims platform will enable automation, interaction to and from digital layers and the use of analytics. It will be the core system for call handlers, incorporating standard claims modules. Enhanced by automation and data analytics, it will improve the ease and quality of management and monitoring activity. The claims platform will also feed a sophisticated core data management platform, which will enable a centralized and standardized view of new and legacy claims and manage large volumes of structured and unstructured data.

This platform will enable a single source of truth for claims management information and analytics, improving data governance and compliance.

Analytics will be key to the "smart claims" function of the future. An analytics platform will enable real-time data ingestion, triggered by events identified within the core claims and digital portals. It will support real-time or near real-time claims analytics dashboards, as well as predictive modeling.

A smart services layer - the heart of the API-driven architecture - will enable a connected device platform to absorb IoT data and perform analysis in real time. It will also enable plug-and-play partnerships with InsurTechs, which can extend the platform through a plugin architecture. This ability to access advanced capabilities available with low integration risks will drive rapid innovation through low regret, "test and learn" projects, enabling the insurers to rapidly deliver tangible benefits to their stakeholders.

Changing human resource requirements

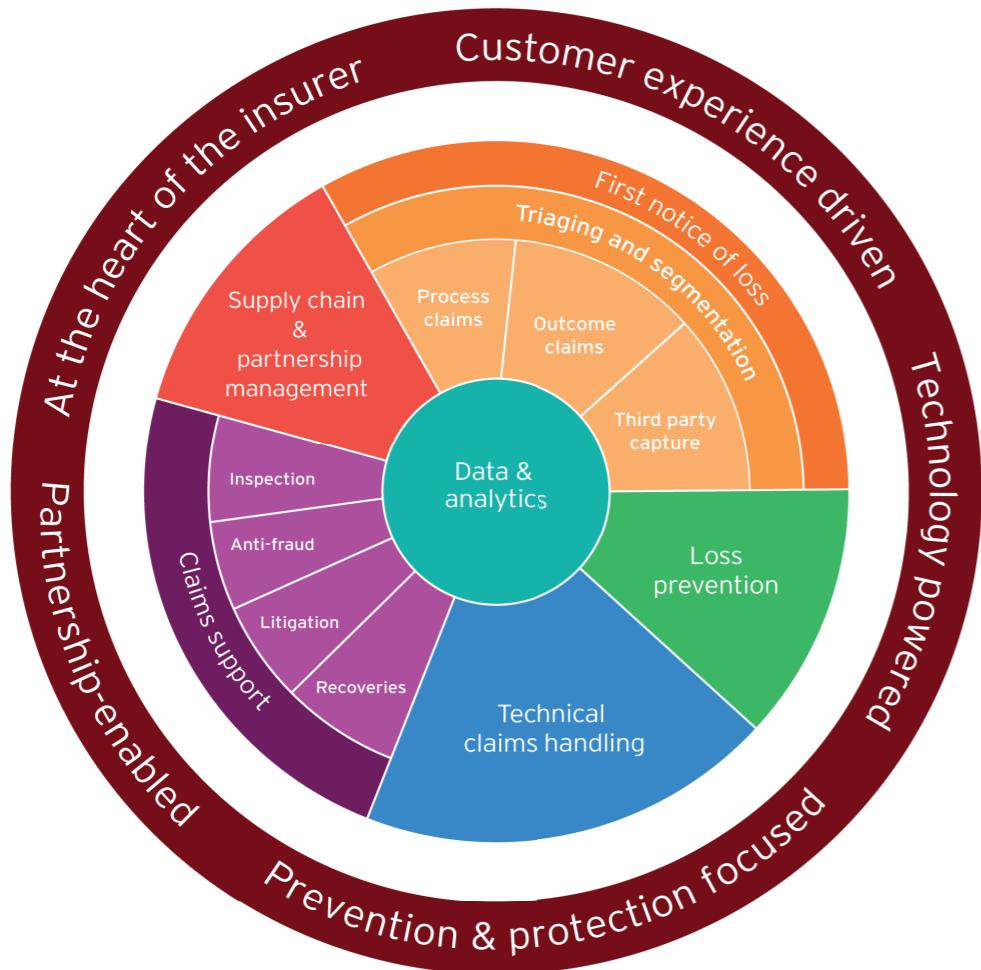
As technology evolves, so do human resource requirements. We will see a rebalancing between technology and human intervention. Claims employees will become more specialist as low-value processing tasks are automated.

For example, claims handlers will need strong data science and other higher skills to handle complex claims. Small but important loss prevention teams will contain experts in customer service, data science and proposition development. Substantial data and analytics teams will require specialist skills and knowledge of numerous analytical tools. Claims support roles will become more analytical, with more demand for capabilities in fraud, litigation and recoveries.



Changing skills of the future claims function

This model shows that the roles of specialist teams across the claims function – from loss prevention through to technical claims handling - will change significantly. Although some teams will need more people, overall headcount across the claims function will fall - while the skill level required will typically increase.



Loss prevention

Number of colleagues ↑ Colleague skill level ↑

- Most claims functions do not currently have loss prevention teams, so will need to hire new talent to create small, expert units.
- The team will need to include a range of skills, covering customer service, data science and proposition development, to help customers whose sensors are triggered, analyze and understand data and ensure loss prevention is included in service offerings.

First notice of loss (FNOL)

Number of colleagues ↓ Colleague skill level →

- The digital adoption of customer portals will reduce the overall number of FNOL handlers.
- Roles will remain largely the same - although training will be needed in supporting customers with digital issues, making liability decisions and instructing suppliers.

Supply chain & partnership management

Number of colleagues → Colleague skill level ↑

- As the role of the function broadens and changes, so too will the role of individual team members, who will need to become more focused on management by exception.
- With better data, the team will focus on ensuring suppliers meet service level agreements and customer experience (CX) targets.
- The team will also need skills to scan for new claims trends, develop new technology partnerships and become far more agile.

Claims support

Number of colleagues → Colleague skill level ↑

- Within claims support, we expect fewer inspection roles and a shift from a mainly field-based function to a desk-based team using new technologies.
- Employee numbers may increase in other areas, such as fraud, litigation and recoveries.
- Roles will become far more analytical in nature, requiring more highly-skilled teams and driving better insights and controls.

Technical claims handling

Number of colleagues ↓ Colleague skill level ↑

- As more claims are automated, fewer will require technical handling. Introducing updates via customer portals will also reduce the number of employees required.
- With only complex claims remaining, an increase in overall skill will be required in the function.
- Increased data science capabilities will be needed to improve understanding of analytical data.

Data & analytics

Number of colleagues ↑ Colleague skill level ↑

- The data and analytics team will increase significantly in size as its work starts driving the activity of the claims function (although this expertise may be sourced in-house or through partnerships).
- Individuals with expertise in data science, analytics, processes and business change will need to work together in agile teams.
- The team will need knowledge of many analytical tools in order to deliver maximum benefit.

Overall

Number of colleagues ↓ Colleague skill level ↑

- In claims organizations as a whole, we expect the number of colleagues to decrease by up to c.40%.
- Increased automation of lower value tasks will mean that claims handlers become more specialist and skill levels rise across the board - resulting in higher average salaries.
- Increased automation will result in fewer simple tasks that provide learning opportunities for junior team members - creating potential challenges for learning and development functions.
- Increased demand for higher, specialist skills could increase dependency on key personnel and business continuity risk.

Strategic priorities

Given the scope to transform claims functions by investing in technology and people, insurers must plan their actions carefully. Most insurers will need to focus on six strategic priorities in order to create the future-fit claims functions they need.

3

Implementing digital portals

New digital front ends are needed for customers, suppliers and brokers to enable new ways of working. Digital portals for customers must enable online FNOL, document and photo upload and claims tracking. Suppliers will be looking for automated instruction and fulfilment, as well as self-serve management information. The success of new digital portals will depend on simple integration with the core claims platform and clear processes for managing omnichannel experiences.

4

Developing claims-of-the-future operating models

The claims organization and supporting functions need the right skills and capabilities to capitalize on a modern core platform, increased data and analytics and increasing interaction through digital channels. Technical expertise should be focused on improving areas most critical to indemnity control. Building the claims workforce of the future will depend on sound strategies for attracting, training and retaining the right talent.

1

Re-platforming core claims

Re-platforming to a modern core is an essential step. A modern core platform enables an API-driven, smart services architecture to support analytics models, digital portals and partnering with InsurTechs. It drives automation across the claims business and enables efficiency and indemnity benefits.

2

Maximizing claims data and analytics

This is an iterative journey, starting with the optimization of the overall architecture and tooling and using current forms of structured data to gain insights. Phase 2 focuses on creating new structured data through optical character recognition (OCR) and NLP tooling to gain additional insights. Phase 3 will see claims functions ingest external data sources from the market to improve analytical modeling. Ultimate benefits will include more straight through processing and better decision making.

5

Creating market-leading customer experience

Claims functions must focus on what customers really want, drawing on primary and secondary research. Any aspects of customer journeys that are negatively affecting customers, brokers, suppliers and employees need to be identified. Customer priorities should underpin any changes in technology, process and people - with the goal of delivering the optimal experience for all parties across all channels.

6

Optimizing supplier and partner management

Creating supplier portals and achieving the complex integration of multiple external data sources with internal platforms should enable automated instruction, fulfilment and payments, as well as self-serve management information to monitor service levels and costs. Alternative supplier arrangements should be explored, including the use of reverse auctions in supplier management. Engaging with InsurTechs could support innovation within the claims organization, aiming to improve experience, indemnity performance and costs.

Building the “smart claims” function of the future

Building the “smart claims” function of the future with customer needs at its heart depends on effective use of both technology and people.

Insurers are being disrupted by forces from inside and outside of the industry - with changing customer expectations and advances in technology topping the list.

Although the recent wave of platform modernization in claims has improved indemnity performance and reduced costs, considerable scope remains to transform the claims function further and create a truly future-ready organization.

Such transformation is vital because the claims function is increasingly considered central to delivering on the customer promise and providing competitive advantage. Insurers need to focus on how to service claims in more effective, efficient and customer-focused ways.

We believe huge scope exists to transform claims functions and unlock significant benefits for both the insurer and the end customer. Success depends on the intelligent use of new technology, processes and human resources.

Developments in technology, particularly increased automation and intelligent use of data and analytics, will inevitably have an impact on people and capability requirements - with increased demand for higher skilled individuals in many areas.

The degree to which insurers choose to digitize their claims functions - and at what speed - will depend on the level of their ambition and their starting point. We recognize that some entities are further advanced along their digital journey than others. It is also likely that insurers will want to focus on specific areas or opportunities - rather than try to digitize all areas at once.

Regardless of the start point, decisions about how to create a customer-focused claims function need to be taken - and taken now. The disruptive forces challenging the industry are not going to disappear. Insurers that rise to the challenge can create a “smart claims” function capable of driving their organization’s future success.

How EY can help

Creating an effective claims function starts with a clear and concise vision and strategy - so that the claims function is aligned with the organization’s wider strategic goals. The optimal operating model for claims can then be determined, including the desired capabilities of personnel and whether these should be built or bought.

Developing the business case for change can be complex, involving multiple benefit levers (e.g., effecting expense and indemnity) and broader non-financial benefits (e.g., customer satisfaction, cyber risk and improved controls). Change and transformation initiatives also require careful management so that they run to schedule and deliver the desired benefits.

EY is experienced in advising insurers on building their optimum claims function. We can help with:

- ▶ Technology
- ▶ Data and analytics
- ▶ Operational transformation
- ▶ Customer experience
- ▶ People

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EYG no. 002772-19Gbl
ED None

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