

Facts, fears & fallacy: Why AI?

The Executive's Guide
to Claims Management
Cost Reduction

The insurance industry is undergoing more disruption than any other sector.

Senior executives are under pressure to increase profit and grow market share. It's a time of exciting and frightening technological innovation, the stakes are high for those who fail to invest wisely and strategically map out the future of their operation. It's about survival of the fittest in a jungle of fraught hype, false promises and pressure to survive the profit squeeze.

This short guide, looks at the commercial benefits of AI and the true reality of financial return and solution deployment (all the things the AI industry don't want you to know). It considers what you can do today with blended technology approaches for profit growth today and migration towards the AI future.

Digital and technology go beyond the term "Artificial Intelligence". In fact,

"insurers must look for logical solutions."

AI over the last year or so has developed into a generic term.

What does it mean to you?

If your future profitability and ROI hinge on being responsive to business and market conditions and making business processes smarter through digital and technology transformation, then you must look for logical solutions that can deliver demonstrable benefits today whilst being prepared for the long term future development of AI.

This short guide is about claims management technology options that can increase your profit whilst preparing you for the future of AI.

It's all about delivering something today whilst preparing for tomorrow.

Introduction from **Michael Nixon** CEO Inter-est

"Why not connect with me"



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e-guide looks
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THE FOMO FRENZY

74%

Three in four insurance companies believe that some part of their business is at risk of disruption. **Is yours one?**

If you're one of the lucky few, no doubt you'll be looking at many of your industry colleagues and wondering why they are procrastinating on taking action to reduce costs today, preferring the FOMO carousel of (fear of missing out).

Against a backdrop of hungry to prove AI enthusiasts, an industry seeking investment, technology driven shifts in consumer expectations and an insurance sector genuinely facing more disruption and profit risk than ever before

fear is to be expected. In many respects the fear of missing out, is valid. AI is here and its further development could radically change processes in the insurance and claims management processes for the better. We all need to be considering AI in our long-term business plans and defining its application. **But what about the commercial problems we face right now?**

Tomorrow's Promise Vs Today's Problem

The fear of missing out is rife within the insurance sector as they look at disruption in retail and massive consumer change.

Amazon are a prime example of consumer disruption who have given the high street retailers a good kicking and their announcement to consider launching a UK insurance comparison site may well cause more than a ripple of concern across the sector.

As an industry are we truly getting left behind and does insurance need a fundamentally different approach?

It might be we can do something really disruptive to change how we process moto or household claims; or it might be the way we do it now is the best way but can still be refined and polished with improved technology application.

But this sense that we should strive for disruption because other industries have shouldn't be reason enough. We must not target change simply for changes sake.

It's not good enough to say the way we are doing things is horribly wrong and we need to change it, our needs are different and so are our customers when using what is a distressed product.

And the fact that someone else in insurance is going to change it well, maybe if someone else produces a whole new and radical insurance model, maybe they'll go bust over night because no one wanted it or maybe it works and we can learn from their investment, so why not wish them luck?

New Start-Up Disruption: **Lemonade**

A Catalyst for Change

Let's face it, insurance is one of the most mistrusted industries by consumers, ranking fourth after banks, car manufacturers and supermarkets for trustworthiness in a recent Earnest and Young Global Consumer Survey.

Lemonade have made a niche in the global insurance market by promoting social good and transparency supported by a new tech platform to enable it.

Co-founded by Daniel Schreiber and Shai Wininger in September 2016, New York based Lemonade has rippled concerns through all quarters of the insurance sector with many now asking the question, how will this disruption impact us?

From its name to its business model; nothing about Lemonade resembled a traditional insurance company. That's why it's been heralded as a revolutionary alternative to other insurers; capturing the interest of younger consumers looking for a fairer alternative to traditional insurance.

Even the product's launch strategy set it apart. Lemonade launched on Product Hunt – a website that lets users share and discover new products and was the first insurance company to feature on the site.

As the company's co-founder Shai Wininger says:

“Lemonade is a tech company doing insurance, not an insurer doing an app.”

How Lemonade uses technology

To complement its transparent approach, Lemonade uses technology to make its processes simple and efficient.

Everything from buying insurance to making a claim can be completed via the App and Lemonade says it takes as little as 90 seconds to get insured and just three minutes to get paid.

Making a claim is also simple and uses technology to appeal to consumers. Rather than filling in forms, customers simply record a video testimonial on their phone via the App.

The company was also the first insurer to process a claim from start-to-finish with no human interaction. In just a few minutes, a Lemonade customer can submit a claim using his mobile phone. Then with no paperwork or form filling involved; the claims bot processed the claim, using a series of algorithms to review and check the claim before takes the payment. Amazingly, approving and wiring the claim took the bot just three seconds.

Despite its high profile launch, industry excitement and nerves and “revolutionary” tech platform, Lemonade known for its disruption rather than its market dominance, only insures 100,000 homes in 2017 out of the 126,000,000 households throughout the United States. In terms of keeping the cost of handling claims low, a primary goal for every insurer, how is Lemonade doing?

According to the Insurance Times:

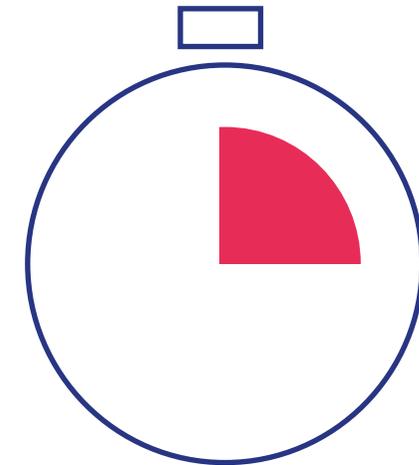
“Its loss adjustment expenses (LAE) were around four and a half times net incurred claims for both the fourth quarter of 2016 and the first quarter of 2017.”

Accounts show that the company is relying heavily on reinsurance, potentially making it susceptible to fluctuations in the price and availability. Reinsurers, which include Berkshire Hathaway and Lloyds, paid 91% of gross incurred claims in Q1 this year.

Although Lemonade’s business model is predicated on using artificial intelligence (AI) and behavioural economics, as well as giving back unused premiums, it will still ultimately be judged on the same metrics as its more traditional competitors.

“Too Good to be True?”

**90 seconds
to get insured**



**3 minutes
to get paid.**

Lemonade's reliance on AI could also prove to be a challenge.

Other start-ups that have introduced automation and AI into the claims process, including Trov, have been dogged by questions over these systems' ability to separate fraudulent claims from genuine ones.

There is no evidence to suggest fraud is of particular concern to Lemonade. It is, however, integral to their marketing: The price will be paid by its customers, who will see donations to their chosen charities diminished, as claims – fraudulent or otherwise – are processed.

While the company sells itself on its use of AI, it admits that its famous three second paying artificial intelligence claims bot, AI Jim, handles only around a quarter of claims without human intervention.



As a result, the process appeals to young consumers who don't want to spend hours filling in forms. 81 percent of Lemonade's customers are aged between 25 and 44; and 87 percent have never bought insurance for their homes before.

Chasing the AI Dream of Cost Reduction

1950

Alan Turing creates
"Turing Test"

Stanford Research
Institute creates
Shaky, first robot
with self-reasoning

1969

Symbolics Lisp
Machines
commercialised
- AI renaissance

1956

Term "Artificial
Intelligence" coined
at Dartmouth

1980

Can you afford to wait 5 years?

60% of CEO's

plan cost reduction as the number 2 priority for growth profitability

AI is really exciting stuff for techies (and that includes the Inter-est AI team!). They love to play with it, they want to be part of this trendy, limitless neural technology and they want to put their name on it. AI is brilliant technology but it is important not to get lost in technology for technologies sake. **Solutions need to address specific challenges, improve processes and deliver demonstrable benefits today as well as tomorrow.**

1997

IBM Deep Blue defeats Garry Kasparov at chess

2008

Google speech-to-search iPhone App

2016

Google DeepMind's AlphaGo defeats Lee Sedol at Go

2017

Alexa skills surpass 10,000 in US

Playing with AI is great and beneficial for the future, the question is, what are you going to do today to harness technology to overcome today's challenges whilst road mapping AI into your future operation?

Right now across every AI business and insurance AI team, accuracy gaps remain which **MUST** be closed before the profit targets can be achieved.

Bridging the Accuracy and ROI Gap

The key driver for technological transformation and investment is profit through smarter processes that drive down cost and enable an enhanced customer journey.

The question many senior insurance executives should be asking themselves right now is, which technology solution is right for them today and tomorrow?

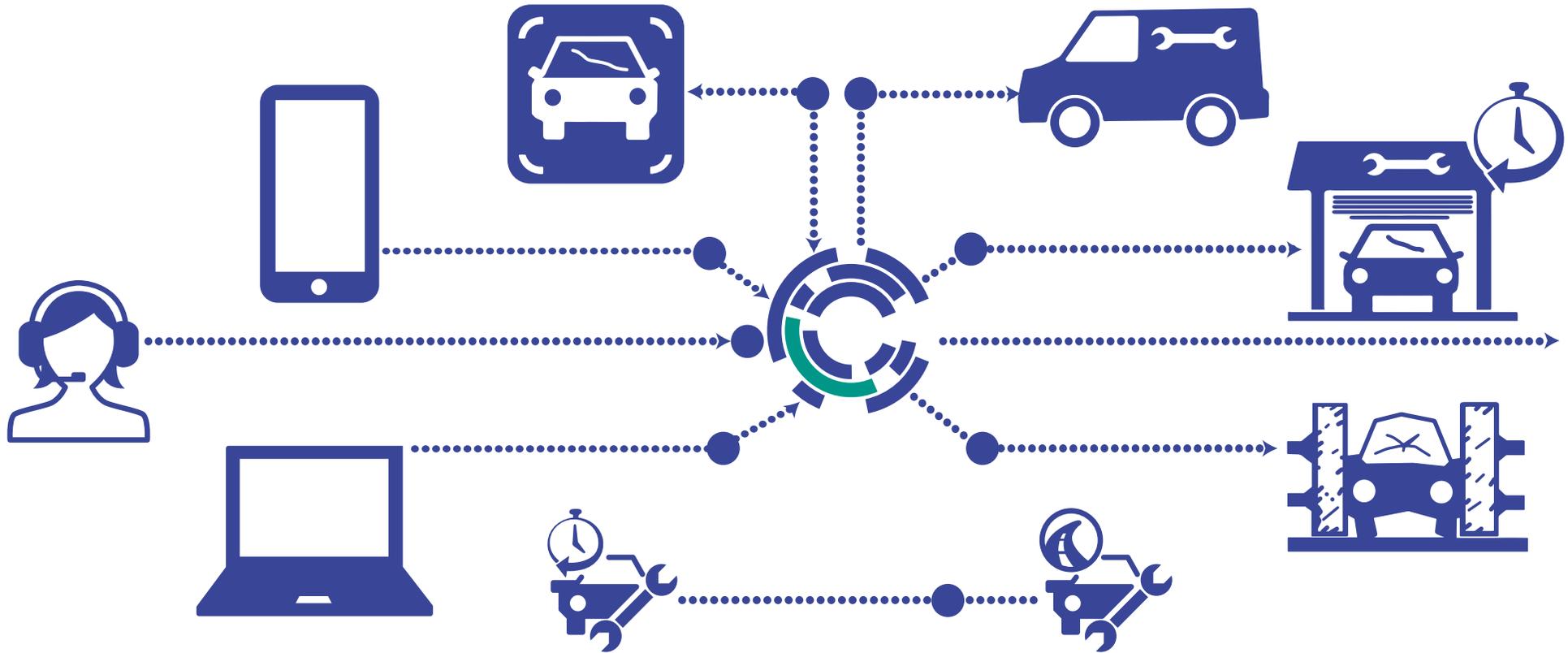
For claims management, what we're ultimately looking for is a solution to support, enhance and speed up our decision making capability from the FNOL, triage through to estimation through to repair or write off. The outcomes we want are speed, accuracy and efficiency to cut costs, along with real time expert knowledge and communication flow to and from the contact centre.

What can AI do today and what are the timescales for its maturity to improve on human decision making both in terms of cost, accuracy and consistency?



MIND THE GAP

Today's Reality: The Approach to Achieving 98.5% Accuracy & up to 30% ROI



During its work with the UK arm of a leading global insurer, Inter-est advanced claims decision making technology (DMT) with the creation of the Inter-cept platform through blending aspects of AI with other proven intelligent DMT to achieve a 98.5% accuracy and delivered an 8 to 30 times ROI depending on where it was delivered. Commenting on the project and the Inter-cept platform, Michael Nixon, CEO, Inter-est said:

“The key metrics for the insurer where ROI and accuracy. Whilst we as developers get excited by AI, for the clients it is the results that are important.

Inter-cept is focused on enabling human beings to make more authoritative, better quality, more consistent decision when using the Inter-cept application. Whether we do it, whether it does it with AI, whichever way it does it”.

it's about making good quality decisions quicker, better and at less cost.”

AI: 5 Things the Techies Might Not Tell You

1

The 20% accuracy gap may not go away any time soon

2

AI could be the future but it's early days

3

Being clever technically doesn't mean being right

4

There is no one big solution

5

The technical possibilities of tomorrow can deflect away from the commercial needs of today

Every Penny Matters...

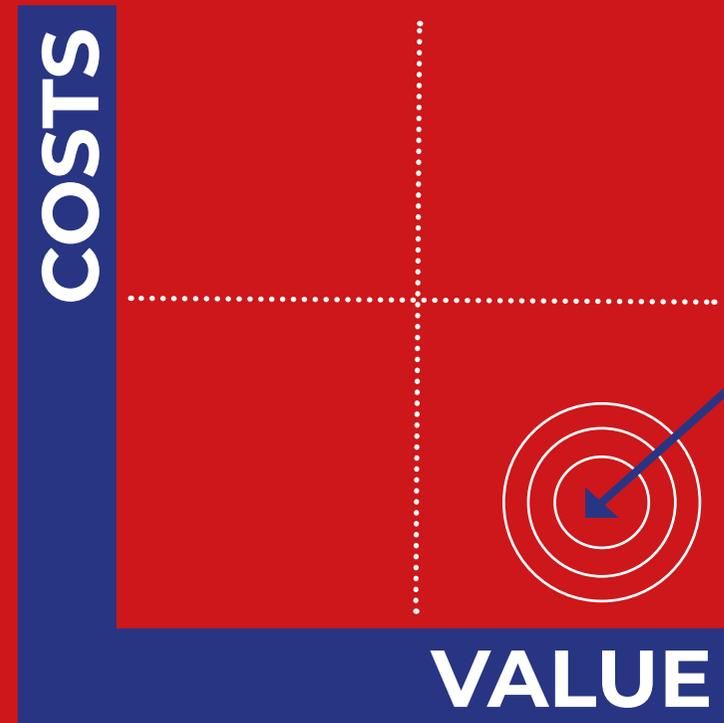
The Drive for Efficiency

On the table for discussion in nearly all insurance companies, is how best to drive growth in a highly competitive and disruptive market with the answer pointing to AI and technology. But balancing long-term technology investment cost with the low profit environment is a difficult challenge, particularly for mid-tier motor insurers.

The general conversation around claims management goes something like this:

“If I can make my business more profitable by making the process less time consuming and more efficient, I can look to take costs out of the process to make things cheaper.

I can look to make processes more efficient and find ways to lower the costs of processes. I can look to improve my customer experience and improve it which might lead to cost reduction, increase renewals and promote positive customer promotion. AI might help with this and help reduce fraud.”



We are all looking for smarter processes through technology. But smarter processes need accurate decision making and herein lies the problem with many AI solutions. There is still a 20% inaccuracy gap with no closure date in the immediate future.

The BIG Misconception

The common misconception is for example, an 80% accuracy will lead to an 80% improvement. Often for an AI solution to deliver demonstrable benefit or to improve a process, **it has to be hitting close to a 100%**.

Whilst we might be getting excited about emerging technologies hitting 80%, **80% is not commercially viable**. And any developer knows, getting from 0% to 80% is easy, 80% to 100% is where it gets tough and this is where many emerging technologies and companies are at.

So if 80% to 100% was going to take five years (and it could take a lot longer!), **maybe a better way is to incorporate aspects of AI with intelligent data decision support platforms that can achieve this now**, work with existing infrastructure and enable migration into full AI solutions when they can achieve the critical accuracy for reliable and demonstrable cost reduction.

If you are not saving on the claims management process from FNOL through to triage, estimation, repair and contact centre knowledge and speed, you are in effect, wasting money by not knowing more sooner and processing claims faster.

This is where hybrid solutions such as Inter-cept really come into play for insurance companies who want active cost reduction today whilst preparing for the future of AI.



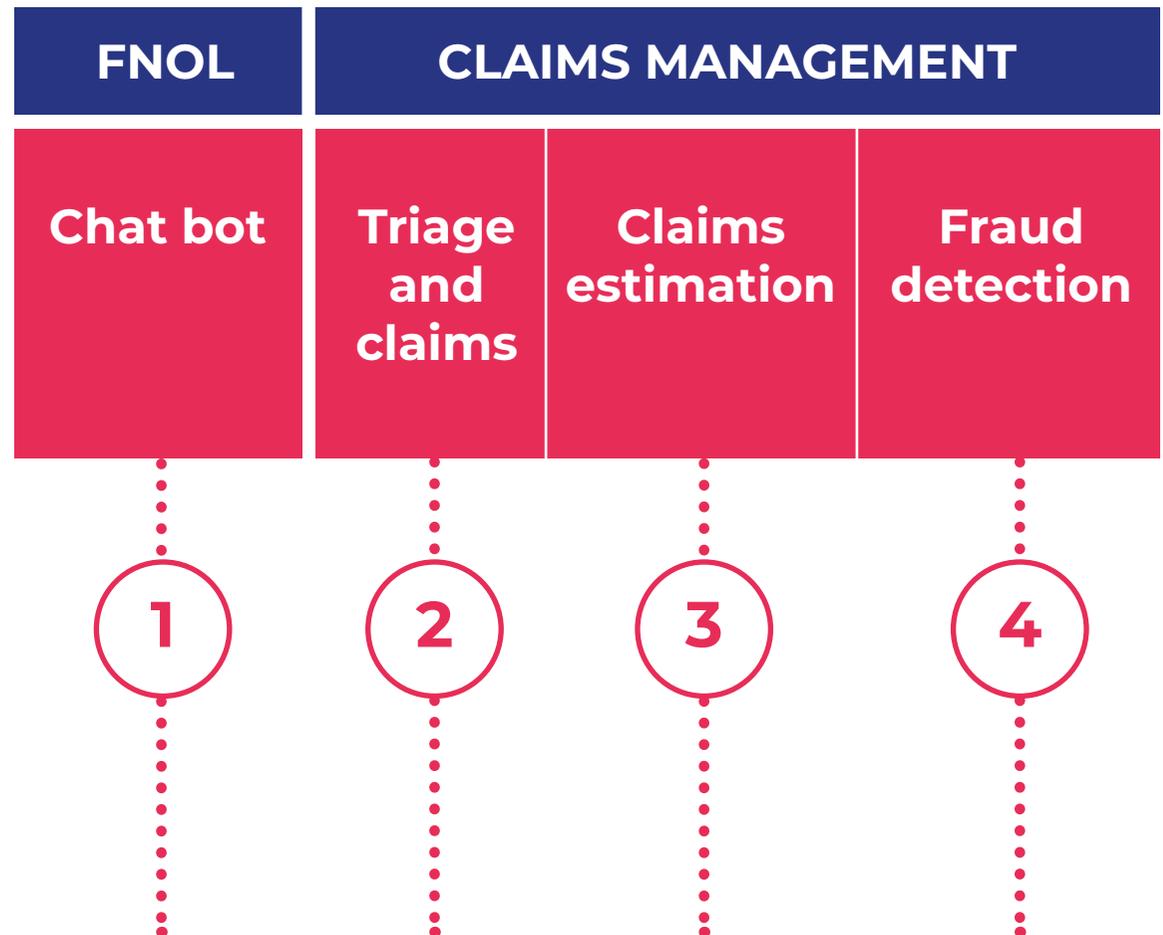
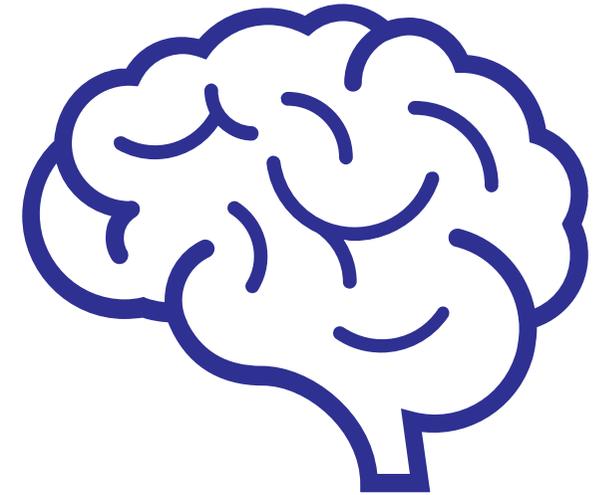
The Pros & Cons of AI

The opportunity: Opportunity Gains Across Claims Process Motor Claims

In its most basic form, AI analyses data, initiates rule-based actions and in doing so replaces repetitive, manual work. What is more, it assesses much larger amounts of data than any human ever could.

As new data is fed into the AI, it is able to independently adapt its models and refine its output. When we look at the claims process, it is clear that AI offers major potential for automation, namely through assessing, classifying, estimating and validating claims without human interaction.

In a nutshell, artificial intelligence can shorten the claims lifecycle, save costs and enhance customer satisfaction along four major opportunities:



Today & Tomorrows AI Power Opportunities Along the Claims Process

1

Customer interaction/Chatbot based on natural language processing, so called Chatbots can engage in human like customer interaction. As for the claims process and in particular for the first notice of loss, Chatbots are able to answer questions from the claimant, request the relevant data, retrieve and process evidence and initiate first actions. What is more, they can be given any identity to reproduce human facial expressions and increasingly, AI driven Chatbots are being developed towards holding empathy.

2

In theory, through its ability to detect patterns in the data fed into it, AI can classify claims and then take rule based actions accordingly. For example by scanning claims data for specific variables. AI can filter out claims that can be serviced in a straightforward manner from potential cases of fraud, litigation or subrogation etc. After classifying a claim by its potential severity, AI can determine which level of validation is needed, decide on claims routing and assign a claim to a claims handler accordingly. To date and with no short term development date, the role of AI in triage and claims routing is hindered by inaccuracy rates due to its learning and decision making ability, preventing the desired ROI and cost reduction.

3

AI systems are beginning to develop abilities to automatically appraise from images. This is, however, one aspect in which AI is not yet very developed; still, this capability holds great potential for insurance companies in the future. From photos of damages, AI systems are increasingly able to assess the damage and match it with previous claims data to then estimate repair or replacement costs in a fully automated manner. by inaccuracy rates due to its learning and decision making ability, preventing the desired ROI and cost reduction.

4

Have the claimants shown fraudulent behaviour in other contexts or have they exhibited characteristics that tend to coincide with fraudulent behaviour? Through processing enormous amounts of data and detecting correlations, artificial intelligence systems are perfectly suited to fight one of the largest cost drivers in claims: fraud. Based on algorithms, AI can determine the fraud potential of a claim or claimant and automatically assign conspicuous claims to human experts.

AI must close the 20% inaccuracy rate through more teaching if the true opportunities are going to be realised and AI can make decisions equal or better than a human.

Insurance companies need to carefully assess their current business processes for AI based automation potentials; and to **set a strategic road map** that meets the process and profit needs of today whilst preparing for the AI future.

Summary

Your Options for Today and Tomorrow

Many leading insurers are moving beyond the claims transaction and leveraging advanced and long-term development technologies centred in AI to transform their business

They are rethinking and optimising processes, reducing costs and enhancing the customer experience with the goal of positively impacting profitability of the company with typically a five year development plan. This may be right for the top tier insurance companies but what about the middle tier and smaller players?

In an ideal world, we want to adopt technology today that has a **road map to adopt additional technology in the future or is sufficiently mature** to allow you to migrate or integrate with future technologies as they become sufficiently mature.

If you've got an ambition to transform into something in the future and you've got to wait 5 years for that, then in an ideal world your focus would be on the AI technology of the future and on something that can deliver something today with a view that this will turn in to that in five years.



It's about keeping sight of the future but deploying a solution today that can achieve the demanded

98.5%
accuracy &
ROI at least
8 times.

About Inter-est

Established in 2003, Inter-est has partnered with the motor insurance market to pioneer smarter and more cost effective methods to accelerate the end-to-end claims management process to reduce cost and deliver a smoother and faster customer journey through technology innovation.

100% focused on insurance claims technology, Inter-est has been at the forefront of harnessing, blending and advancing both intelligent data, AI and decision support technology to create the first Cloud platform to unite and streamline every process point from accident, triage, estimate, repair and knowledge share in real time.

Inter-est's solutions are built on logic, innovative thinking, commercial outcome and today and tomorrow's realities.

Working with insurance, accident management and body repair companies, Inter-est's aim is to optimise process, time and deliver cost reduction.

Inter-est makes life easier across the accident claim chain, to give your customers the knowledge, speed and confidence they need post-accident; your contact centre the expert knowledge and real time information they require; your IT staff the support, expertise and deployment muscle they need to excel and undertake infrastructure transformation; your repair network the essential image recognition and estimator tools for speed, accuracy and cost reduction.

Inter-est is trusted and recognised for its logical, intelligent and collaborative approach. We accommodate for today's reality whilst ensuring our clients are equipped to keep the pace of advanced technology changes.

That's why we invest heavily in advanced decision support technology and AI specifically for the needs of motor insurance claims and make migration and digital transformation smoother with a module and integratable approach to solution design.

Your next move

Call 01625 616 020

or why not connect with
Michael Nixon direct.



The claims **accelerators**
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