AI and Automation in Insurance

Insights from the filmed webinar hosted by Insurance Innovators in partnership with Pega

AI and Automation in Insurance

Once the stuff of science fiction, AI and automation are rapidly moving into the mainstream in many industries, from retail to banking. The insurance industry is finally waking up to both the opportunities and pitfalls of these new technologies but must first undertake some housekeeping to make the most of their transformative powers, according to panellists on the recent Insurance Innovators' AI and Automation in Insurance webinar.

> **"*The majority of insurers are just getting started on their automation journey***
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> *Kate Fowler, Pega*

"The majority of insurers are just getting started on their automation journey," said Kate Fowler, Director, Industry Principal at Pega. "Insurance is still a very paper-based industry and by optimizing internal processes, you can give the end user an improved experience that is faster, more efficient, and more relevant."

Kate Fowler, Pega

These changes are being driven by customer expectations, which have been reshaped by the seamless, highly personalized and convenient experiences they routinely enjoy with tech leaders such as Amazon, Netflix and Uber.

"The insurance industry has all of this data but still isn't operationalizing it or optimizing it to really understand people as people," said Kate Fowler of Pega. "Customers want to be known as individuals, not as part of a broader segment."

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With customers more ready than ever to switch to providers that can offer the smart, personal solutions they crave, there is no time to lose. “If you are not doing it [using AI and automation] and your competitors are, then they are gaining ground against you,” said Stacey Brown, Founder of InsurTech Hartford.

AI: augmenting human intelligence

No discussion of AI and automation is possible without examining the potential impact on jobs. Yet our panellists were keen to stress that there’s no looming jobs apocalypse, with the emphasis on augmenting human intelligence rather than replacing it. In underwriting, for example, the technology will ensure the humans have the right data at their fingertips to make better decisions and improve accuracy.

“This helps underwriters rather than replaces them,” stressed Stacey Brown of InsurTech Hartford. “It’s about bringing the right data, to the right place, at the right time to improve the process.”

Thomas Sowinski, AVP, Business Applications at Berkshire Hathaway, said AI can make sense of useful information that insurers currently hold but which is inaccessible to decision-makers. “Lifting information from unstructured data, such as scanned documents, and providing it in a format that can be consumed by actuaries and the people that make the decisions will let them make better decisions, and ultimately reduce risk,” he said.

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Tracey Steger, The Hartford

Tracey Steger, Assistant Vice President, Data Science at The Hartford, agreed. “We talk about augmented intelligence rather than AI,” she said. “It’s about giving the workers what they need to support them and drawing their expert eyes to where we really need them, rather than being distracted with the manual straight-forward processes.”

Realistically however, there will be impact on employment, both in terms of headcount and the skill sets that will be needed in the future. Thomas Sowinski of Berkshire Hathaway highlighted a McKinsey study which forecast that the insurance workforce will be reduced by a quarter in the coming years as a result of automation and AI. "The report also found it will change the type of workforce, with more data scientists and people who can write the code and help automate the existing processes, which currently account for a lot of the overhead of an insurance company," he said.

The human touch

"*You cannot take away the human empathy aspect of insurance*

Thomas Sowinski, Berkshire Hathaway

AI and automation may make processes faster, smarter, and slicker, but our panellists agreed that the human touch still matters. While AI-powered self-serve channels will increasingly be the choice for customers seeking a speedy, convenient resolution to simple queries, there will always be some who prefer the reassurance of human interaction. This is particularly the case when it comes to those with more complex insurance needs or when it's time to make a claim. "You cannot take away the human empathy aspect of insurance," said Thomas Sowinski of Berkshire Hathaway.

Thomas Sowinski, Berkshire Hathaway

Tracey Steger of The Hartford agreed that eliminating the opportunity for humans to reassure and empathise would be to lose a powerful tool for building engagement and trust. "You have to let your customer engage with you the way that they want to," she said. "There are some claims where what the customer wants is automation and straight-through processing, but there will be some moments of truth where you don't want to lose the opportunity to really help the customer and build that loyalty."

Counter-intuitively, by automating routine tasks, gathering all the relevant data, and prompting agents on next best steps, AI and automation can actually make interactions more human, said Kate Fowler of Pega. "As we remove some of the low hanging fruit internally, customers will have better interactions as employees are able to engage with them in ways that are out of reach at the moment because they are dealing with all the manual inputs and moving pieces they have to keep track of day to day," she said.

A new model for customer engagement

Insurers have never had such an abundance of data, from postings on social media to data streams from connected devices and the Internet of Things. This offers the potential to not only more accurately identify and price risk but also to mitigate and even eliminate certain risks. This raises the possibility of a new relationship between insurance carrier and policyholder.

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Stacey Brown, InsurTech Hartford

"There's definitely an opportunity for insurers to look at how they can add value to their customer rather than just collecting premiums and paying claims," said Stacey Brown of InsurTech Hartford. "How can insurers help customers reduce their risks, change their habits and behaviors to reduce risk?"

Yet our panellists don't expect this data-rich future to be risk-free. "Risk will continue to evolve and change but it will never go to zero," said Stacey Brown. "Maybe the frequency will go down but the severity will go up, or we will see the emergence of new risks that will need the development of new products, such as the growing need for cyber products."

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There's an opportunity to reframe the customer relationship so that rather than a once-a-year contact at point of renewal, insurers start to reach out and become more proactive. "We talk about forging partnerships with other companies but our customers should feel like they're in a partnership with us too," said Tracey Steger of The Hartford.

Rise of the chatbots

Much of the heavy lifting of AI and automation takes place behind the scenes but one of the more visible applications is the deployment of chatbots. Kate Fowler of Pega said most insurers are at least dabbling with chatbots. “Mostly it’s to gather information, but in the future, I can see this technology through the whole life cycle of what we can do with your policy, from data collection to claims handling,” she said.

Stacey Brown pointed out, however, that insurers need to make sure they focus on the user experience and make it as intuitive and seamless as possible. “For a good uptake of chatbots by the consumer, we need to make sure it’s a good experience for them,” he said.

This means chatbots should be part of a channel mix that allows customers to switch between channels according to their needs in that moment. “You need to be able to drop out of the chatbot if you want to,” said Tracey Steger. “You have to have that flexibility.”

Legacy barriers: systems and people

Flexibility, of course, doesn’t always come easily to incumbents, with their legacy systems, siloed data sets, and conservative mindsets. Indeed, while our panellists noted the huge challenges posed by the industry’s legacy of mainframe architectures that are a roadblock to adoption of AI and automation, they were equally concerned by its “legacy people” - an embedded risk averse culture that inhibits innovation.

“One of the big challenges is the mindset that says ‘we’ve always done it this way’ or ‘it’s an audit requirement’ but when you peel it away, it’s not an audit requirement, it’s a business requirement,” said Stacey Brown of InsurTech Hartford. “We have to start thinking differently.”

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This needs to be a top down culture change

Thomas Sowinski, Berkshire Hathaway

Thomas Sowinski of Berkshire Hathaway agreed, stressing that this transformation towards a fail-fast, test-and-learn pro-innovation culture, starts at the top. “Even though a lot of these changes are being driven by technology and the IT department, this needs to be a top-down culture change,” he said. “The entire company needs to be brought into this because there are painful and difficult decisions to be made, but they do need to be made. Someone needs to say ‘this is the direction we are going in because this is where the market is going.”

It helps to break it down into smaller projects that can demonstrate the ROI and build buy-in for further investment

Kate Fowler, Pega

One problem is securing investment and buy-in when the value may not be immediately apparent. Kate Fowler of Pega recommended addressing the legacy issue and deploying AI and automation through a series of small steps rather than one vast multi-year change program. “These change conversations can be difficult, so it helps to break it down into smaller projects that can demonstrate the ROI and build buy-in for further investment,” she said. “Then you just keep going and continually adding through small projects until you're eventually off that legacy.”

Stacey Brown of InsurTech Hartford pointed out that companies sometimes underestimate just how powerful these advanced algorithms can be when it comes to fixing data problems, unplugging bottlenecks, and streamlining processes. Brown cited one insurance carrier that discovered a problem in its calculations that would take many man years to correct manually, but which automated tools tackled at scale and speed, saving the firm US$46 million.

“When you are looking at these technologies and how to make the business case for the investment, it’s worth remembering there will be things you won’t even have thought about that these tools will be able fix,” he said.

It’s vital that companies have a firm vision of what they want to achieve, rather than being distracted by the possibilities of this admittedly very exciting technology. “We need to stay close to the customer,” said Thomas Sowinski of Berkshire Hathaway. “We can build all this cool technology, but if the customer doesn’t want it, then they won’t use it.”

Kate Fowler of Pega agreed. “Talk to your customers, talk to your agents, so you can really tie this to business outcomes,” she concluded.

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