

# WILL TECHNOLOGY REPLACE CLAIMS PROFESSIONALS?

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Traditionally, claims processing has been a primary function of carriers or contracted out by them to third party administrators. While there has been some automation, claims handling is a human activity.

The claims professional will decide when and how the claim shall be resolved under what terms and for what value. Depending on the circumstance, this may be done in consultation with management in one or more layers.

The insurer's primary objective is to accurately value and pay the claim without unnecessary expense. Thus, accuracy, efficiency and cost effectiveness drive this process. To accomplish this insurers will be under pressure to

adapt technologies that help them accomplish those goals. Currently, advancements in technology are presenting opportunities to eliminate one of the greatest cost's drivers in the process, the human element.

Over the last several decades, we have seen technology develop at an accelerated pace. The current digital age has allowed humans to expand their reach globally. It has also allowed humans to control their personal environments through the use of an ever-growing number of interconnected devices.

Through the distant use of cell phones, people can control the lights, locks and utilities in their homes. They can view security cameras. They can pay debts and move money from banks. They can direct virtual assistants like Alexa to look up information or turn on a coffee maker.

We can see and be seen and tracked through our devices.

As reported by Farhad Manjoo of the New York Times on February 27, 2018, there is a drive to merge artificial intelligence with cameras. Apple's newest iPhone incorporates



facial recognition to unlock your phone. Other companies like the start-up Lighthouse AI are developing thinking cameras that can detect familiar from unfamiliar faces in a distant setting where networked with other seeing devices.

Current advancements in robotics, artificial intelligence (AI) and blockchain technologies are eliminating the need for human control of machines and systems. They will also allow humans to interact virtually and across broad platforms at once.

Alex Williams of the New York Times, reported on December 11,

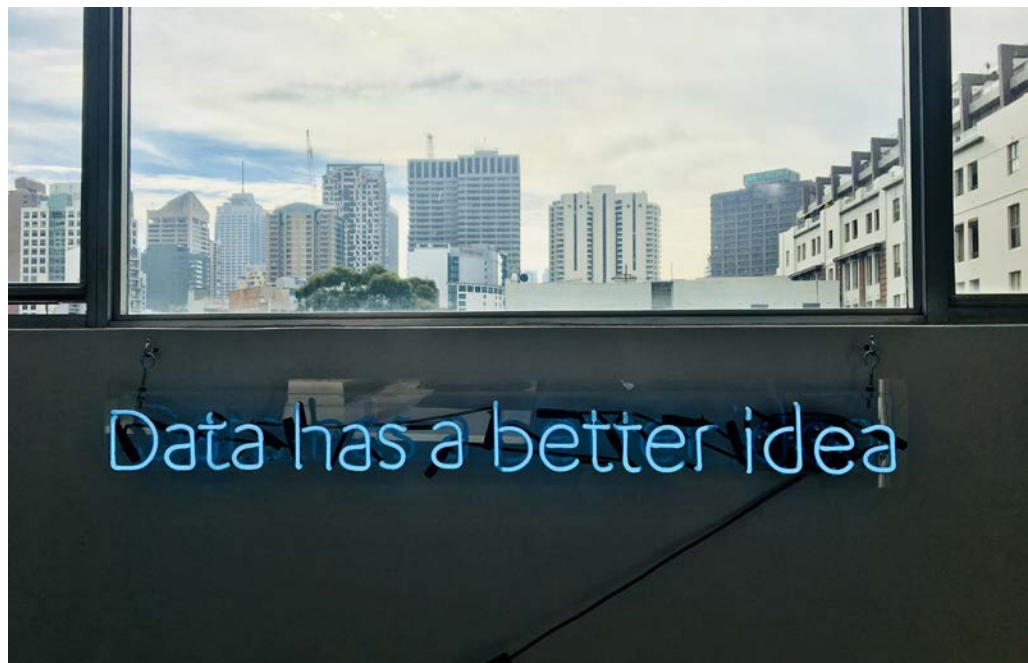
2017 that large banks were already using programs to “suggest bets, construct hedges and act as robo-economists, using natural language processing to parse central bank commentary to predict monetary policy”. He also noted BlackRock’s announcement earlier in 2017 that “it was replacing some highly paid human stock pickers with computer algorithms”.

No longer will human to human communication be essential for completion of tasks. Thinking machines and clone assistants will be able to receive data, apply it to an enormous data universe and provide real time responses through sophisticated analytics. Very shortly, a human will be able to converse with a virtual person. Such a “virtual” will make today’s Alexa seem like the first voice mail system.

A forerunner of this is happening now at UBS. Meet Daniel Kalt UBS’ regional chief economist and chief investment officer or rather his clone. As reported by Ralph Atkins of the Financial Times on July 18, 2018, UBS cloned Mr. Kalt using animation techniques from the computer gaming industry along with other technologies. He is activated on a screen using a touch pad and a voice recognition system. Mr. Atkins reported that it is UBS’ goal to cut costs by using such robo-advisers.

The recent changes in technology have already significantly transformed how business has been conducted in other markets.

The internet and interconnected devices led to the Gig economy for goods and services. The Gig



model seeks to instantaneously match supply with demand on a personalized basis to eliminate inefficiencies that lead to idleness or excess inventory. It also seeks to eliminate intermediaries.

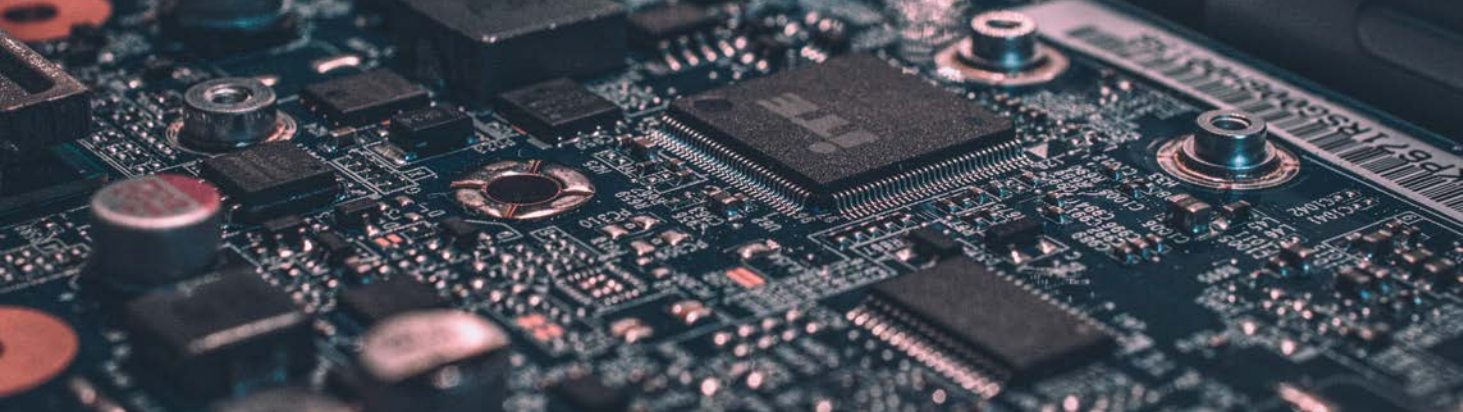
Car services such as Uber and Lyft are examples of how, in a very short time and through the use of mobile apps, they are threatening to replace the use of cabs around the world. Through aggressive pricing, personalized service and convenience, they have become more attractive to consumers and efficient deliverers of service. Now, such car services are developing technology to employ automated vehicles to replace the middleman driver.

Companies like Amazon are another example of how businesses formed to utilize technology are displacing traditional business models. Globally, brick and mortar retailers have been forced to close or dramatically alter the way they

do business to compete with the convenience of online shopping. While online retailers have created jobs in certain centralized locations, the number of closed shops and Malls across the world reflect the human cost of this transformation.

The expectation of enormous profits has caused an unprecedented flow of money into technologies that transform how business is and will be transacted. Don Clark of The New York Times reported on December 17, 2017 that chief executives in the chip industry were driving huge investments into the technologies critical to the development of artificial intelligence.

Clark cited as an example chip maker Marvell Semiconductor’s November 2017 \$6 billion purchase offer to chipmaker Cavium. Clark noted that while chip sales were slowing for many kinds of chips and costs for developing new ones increased, executives were pursuing bigger deals and cutting



spending on long term projects and personnel.

These bigger deals will accelerate the drive for bigger payoffs. This means there will be great pressure from the tech industries to continue to transform the use of these products broadly by all consumers and producers of goods and services, including insurance.

How these changes will impact the workforce is reflected in The McKinsey Global Institute June 2018 report. There it stated that one model showed almost one third of the global workforce or about 800 million workers could be displaced by 2030. Those who remain will see downward pressure on compensation. Those engaged in data collection and processing are at greatest risk for automation while those who manage others, provide expertise and interface with stakeholders are least susceptible.

So, what does this mean for insurance and the claims professional?

In April 2018, McKinsey & Company published "Insurance 2030-The impact of AI on the future of insurance" which anticipated that 70 to 90 percent of the claims head count would be reduced from 2018 levels. Automated systems will

handle claims routing.. Personal lines and small business insurance will be automated allowing insurers to achieve straight-through processing and reduce handling time from days to hours or minutes. Internet of Things ( IoT) sensors and data capture technologies will automatically trigger notice of loss, assessment and repair services.

McKinsey further states that automated customer service applications will handle most policyholder interactions through voice and text and following self-learning scripts that interface with other related systems such as "claims, fraud, medical service, policy and repair systems".

According to McKinsey, human claims management will focus "on a few areas: complex and unusual claims, contested claims where human interaction and negotiation are empowered by analytics and data-driven insights, claims linked to systemic issues and risks created by new technology" such as hacking "and random reviews of claims to ensure sufficient oversight of algorithmic decision making. There will also be increased focus on "risk monitoring, prevention and mitigation".

For independent entities performing contracted claims services, the

challenge will be to identify and adapt technologies that can perform these functions with better efficiencies and cost savings for their insurer clients. While larger insurers may seek to invest in the technologies to internalize the claims process and reap a greater return, some may prefer the benefits of outsourcing. Additionally, smaller carriers or product programs may prefer outsourcing to tech savvy TPAs as more cost efficient.

While the vulnerabilities inherent in technology pose substantial risks, it is unlikely that this evolution of markets will decelerate in the near future. As society becomes more dependent on an ever-expanding array of interconnected and increasingly sophisticated devices, the consumer will surrender control over privacy, personal involvement in process and human to human interaction, in exchange for convenience as time becomes a premium. Conversely, insurers, like other businesses, will seek to respond through utilizing cost efficient autonomous systems that developing technologies are providing. The next decade will see a transformation of the insurance claims business very different and with far fewer people than we see today.