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How IoT can disrupt claims processes
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DEAR READER,

Welcome to edition 54 of the Capco Institute Journal of Financial Transformation.

In this edition we explore recent transformative developments in the insurance industry, through Capco's Global Insurance Survey of consumers in 13 key markets, which highlights that the future of insurance will be personalized, digitalized, and connected. Other important papers cover topics high on global corporate and political agendas, from ESG and climate change to artificial intelligence and regulation.

The insurance industry has been undergoing transformation in recent years, with insurers responding to the needs and expectation of tomorrow's customers, for products that were tailored, flexible, and available anytime, anyplace, and at a competitive price.

COVID-19 has accelerated such change, forcing insurers to immediately implement programs to ensure they can continue selling their products and services in digital environments without face-to-face interaction. New entrants have also spurred innovation, and are reshaping the competitive landscape, through digital transformation.

The contributions in this edition come from a range of world-class experts across industry and academia in our continued effort to curate the very best expertise, independent thinking and strategic insight for a future-focused financial services sector.

As ever, I hope you find the latest edition of the Capco Journal to be engaging and informative.

Thank you to all our contributors and thank you for reading.

Lance Levy, **Capco CEO**

HOW IoT CAN DISRUPT CLAIMS PROCESSES

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ABSTRACT

Internet of things (IoT) devices already provide an infinite treasure trove of data that is often overlooked among insurance companies. Using the example of how data from a water detector can fundamentally change the claims process of an insurer, this article will examine in more detail how IoT can help insurers improve the efficiency and effectiveness of their services and create entirely new customer experiences.

1. INTRODUCTION

In the insurance industry, innovations are still often only associated with new business. Many fintechs, insurtechs, and others concentrate on the application/closing process and new customer acquisition.

However, only a few deal with existing processes and innovations have a shadowy existence in the claims area.

As internet of things proliferates across society, even within people's homes, it is important to get a better understanding of the possibilities it creates, both for policyholders and insurance companies. In this article, we will use the example of a normal single-family homeowner to describe the possibilities that IoT provides, opportunities that tend to be overlooked by most insurance companies as of today.

2. THE CONNECTED HOME AND THE INSURANCE PROVIDER

While the introduction of new technologies and capabilities within people's homes have been gradual, the resulting environment has been nothing short of revolutionary, something that people living in the 1980s would not have even been able to imagine. People are now able to communicate with their homes and within their homes with their appliances. And I am not only referring to gadgets, or to put it more precisely, digital assistants, such as Amazon's Alexa. We can open the house door remotely, make sure it's locked remotely, turn the heater on or off from our offices, or even check who is at our door from thousands of miles away. All of these technological innovations have allowed our homes to become smart and as a consequence have created both challenges and opportunities for the insurance industry. These are opportunities that insurance companies are only now beginning to recognize and have yet to fully develop ideas on how to benefit from them.

The smartness of our homes is not restricted to ease of use, many homes now have devices that can even help prevent damage. Examples include the GROHE Sense Guard and Pontos from Hansgrohe. Both devices offer very good protection against tap water damage. They can detect micro leaks and they can also immediately interrupt the water supply in the event of a burst pipe.

In addition to these functionalities, a lot of data is generated that is becoming increasingly interesting for insurers. The devices, intended for the user, provide consumption and system values via an app. This information could be used at some point by insurance companies to generate premium prices. For example, an algorithm of flow rate and temperature in connection with the type of pipe can be used to predict when and what type of damage is to be expected. System temperatures can also be relevant when it comes to avoiding frost damage.

All of this will have a positive influence on the frequency and amount of damage in households, as well as in the home insurance sector. In terms of process, however, I still see great additional potential.

3. AUTOMATING CLAIMS

Despite all the advancements made in technology in recent years, cases of damages are still reported to most insurers by phone or email, be it directly or through an intermediary. The policyholder must then fill out various forms regarding the cause and the extent of the damage. Some insurers, though by no means all, do allow these forms to be filled in online, but many still struggle in terms of being user-friendly. On the insurer's side, the processes are also still traditional: the claim is recorded by the clerk and a claim is created in the claims system. If necessary, an expert is then commissioned manually. Only then do the claims service providers come into play, once again after manual commissioning, and the claim is fixed and settled.

From the customer's perspective, this is an extremely lengthy and time-consuming process. And it certainly is not in line with the online experience of new insurance business or other online services they purchase. The question is, therefore, why do we not use the data from the IoT to remedy this?

4. IoT AND THE INSURER

When discussing the water damage prevention technologies, I described how customers' homes can be protected from small leaks and bursting pipes using IoT technology. The alarm message of a water burst water pipe that the customer receives from the water monitor on their smartphone can also create a number of opportunities for insurers.

The alarm can automatically create a claim file in real time via a suitable interface with the claims system. Since the contract and customer numbers are known by the water monitor via the user profile, there is a direct assignment of damage to customer. The water monitor also transmits other important information. It is known where the damage occurred (basement, ground floor, etc.) and what happened, e.g., how many liters of water leaked. This allows a damage profile to be created based on some empirical values.

With this virtual damage pattern, the so-called "first notice of loss" is almost fulfilled. With this in mind, the claims process can be further automated. Using artificial intelligence (AI), the insurer can determine whether or not an expert should be called in. It can also notify the suppliers needed in such circumstances.

> *The process costs on the insurer's side are greatly reduced since manual activities are significantly reduced.*

Thus, the process chain of standard tap water damage can be significantly automated. There is an immense gain in time, which not only reduces process costs but also follow-up costs. The earlier that the damage is discovered and mitigation actions are initiated, the lower the subsequent damage will be. The process costs on the insurer's side are greatly reduced since manual activities are significantly reduced. Highly specialized claims handlers can now concentrate on difficult cases and be relieved of standard activities.

The customer experience is also not to be underestimated; the rectification and settlement starts immediately with the loss event. Customers can be informed about the status of the processing directly via the water monitor app and, if necessary, provide additional information (availability for the service provider, etc.).

But how can these ideas be implemented? From my point of view, very few claims management systems are able to be controlled directly via an application programming interface (API) and many subsystems, e.g., for commissioning service providers, are not always linked to these systems or have cloud-based architecture.

Hence, a layer is needed that brings the cloud information from the water monitor into the insurer's core systems. This creates new opportunities for insurtechs to expand their portfolio and to cooperate with insurers. In my opinion, those who have quick solutions ready have a real competitive advantage, because the cost pressure from manual processes is still there and claims processes will increasingly come into focus here.

Insurers are currently focusing on motor vehicle damage, which will revolutionize claims processing with access to telematics data – I see the same potential with IoT data from houses and apartments.

Apart from these technical options, it is still essential that process innovations receive the type of attention they deserve.

Too often innovations are all about new product ideas. From my point of view, a major, if not the major, lever for savings and simultaneous service improvement lies in the procedural issues. Many manual processes are still taken for granted, but these very often have a high potential for automation or digitization. It is important to pay more attention to this in the company.

To take up the question of implementation again: here, too, the classic way of looking at the entire process chain and involving the people who oversee this process on a daily basis still applies. They know best what is cumbersome and time consuming. These time wasters must then be examined to see whether data can be used as a trigger for automation.

5. CONCLUSION

I am firmly convinced that IoT with the corresponding data flows will lead to unexpected process improvements. We have to take the existing data from the IoT into account much more aggressively when trying to automate our processes. We also need to engage in greater dialogue with manufacturers of IoT regarding whether and, if so, which data can be additionally provided and how. It is at that stage that the combination of IoT and insurance will open up completely new possibilities for both the insurers and their policyholders. This leads me to think that perhaps a better title for this article might have been: "How IoT *will* disrupt claims processes".

ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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