Unleashing the Potential of Generative AI: A Game-Changer for P&C Insurance Claims

Exploring the need, urgency, and roadmap for adopting Generative AI across claims operations –

An Everest Group Report

EY

Building a better working world

Foreword

Generative AI presents insurers with an exceptional opportunity to reinvent themselves and deliver enhanced value to customers, shareholders, and society in a holistic manner. It's no overstatement to say that its long-term impact will be transformative, and the immediate-term effects can be profound.

Ernst & Young LLP (EY US) collaborated with Everest Group to share our perspectives on the future of generative AI in property and casualty (P&C) claims. As detailed in the report, while we believe this powerful technology offers huge potential across the entire insurance value chain, claims functions are a likely starting point where return on investments can be significant and achieved with speed. Generative AI has the potential to equip P&C insurers with the tools and capabilities to help them drive operational excellence in claims, reduce claims-related expenses and improve customer satisfaction. Ultimately, that means profitable growth for the business, so claims leaders should be thinking about devising and deploying use cases for their organizations now.

As outlined in the report, the primary considerations for insurers developing their Generative AI road map include:

▸ Use case identification and prioritization
▸ Data preparedness
▸ Talent and skills requirements
▸ Sustainability, ethics and governance
▸ Plans to scale the technology to maximize value realization

Satisfying these requirements and navigating the implementation won't necessarily be easy, but the effort and investment will be more than worthwhile for those insurers that get it right, both today and in the future.

We hope you find the insights within this report to be both useful and actionable as your organization begins to take advantage of this uniquely powerful new technology. If you'd like to discuss the report or how EY can help you on your Generative AI journey, please contact a member of our team listed below.

Ernst & Young LLP Contacts

Chris Raimondo
Americas Insurance
Technology Consulting Leader
Chris.Raimondo@ey.com

Hanif Sidi
Americas P&C Insurance
Business Consulting Leader
Hanif.Sidi@ey.com

Alok Bhargava
Americas Insurance Data &
Analytics Leader
Alok.Bhargava@ey.com

Jim Kremer
Americas Insurance Claims
Leader
Jim.Kremer@ey.com

Unleashing the Potential of Generative AI (GAI): A Game-changer for Property and Casualty (P&C) Insurance Claims

Exploring the Need, Urgency, and Roadmap for Adopting GAI Across Claims Operations

EY This document has been licensed to **EY**

Aaditya Jain, Vice President
Rugved Sawant, Senior Analyst

Contents

Introduction

A global pandemic, geopolitical and macroeconomic risks, along with a recessionary market sentiment, have created an increasingly unstable environment for insurance carriers. Additionally, non-traditional participants offering newer, customer-friendly insurance consumption models have compelled insurers to drive product and experience innovations at speed and scale. To expedite recovery and future-proof the business, insurers have heavily invested in modernizing their IT estate. Most of these transformations have focused on enhancing operational capabilities to achieve efficiency and productivity gains while adopting data-driven decision-making.

Generative AI (GAI) offers insurers a promising pathway to extract additional value from their investments and accelerate their modernization efforts. While GAI has the potential to revolutionize most core insurance functions, it's essential to start small, prove the incremental business value, and quickly scale up as part of a well-thought-out, holistic adoption roadmap. The starting point for this journey will vary for different Property and Casualty (P&C) insurers, depending on the impact of industry headwinds across their different lines of business and the maturity of their current technology estate in various core functions. Hence, insurers will need to prioritize mandates that require urgent attention and those that could result in quick wins.

In the current market environment, we believe that claims would be a logical starting point for most P&C carriers, particularly in personal lines. Implementing GAI capabilities in this area allows for testing with minimal investment and disruption to live claims, making it a good place to start. Moreover, it offers major cost centers such as claims organizations an opportunity to unlock efficiency gains in the near term, improve claims accuracy, and envision a complete reimagination of the claims value chain over the long term.

In this viewpoint, we explore the need and potential impact of GAI across insurance core operations and present our views on:

- Evolving market sentiment and priorities for P&C insurers
- The increasing interest and investment in GAI as the next frontier
- Claims operations as a logical starting point for P&C insurers' GAI adoption journey
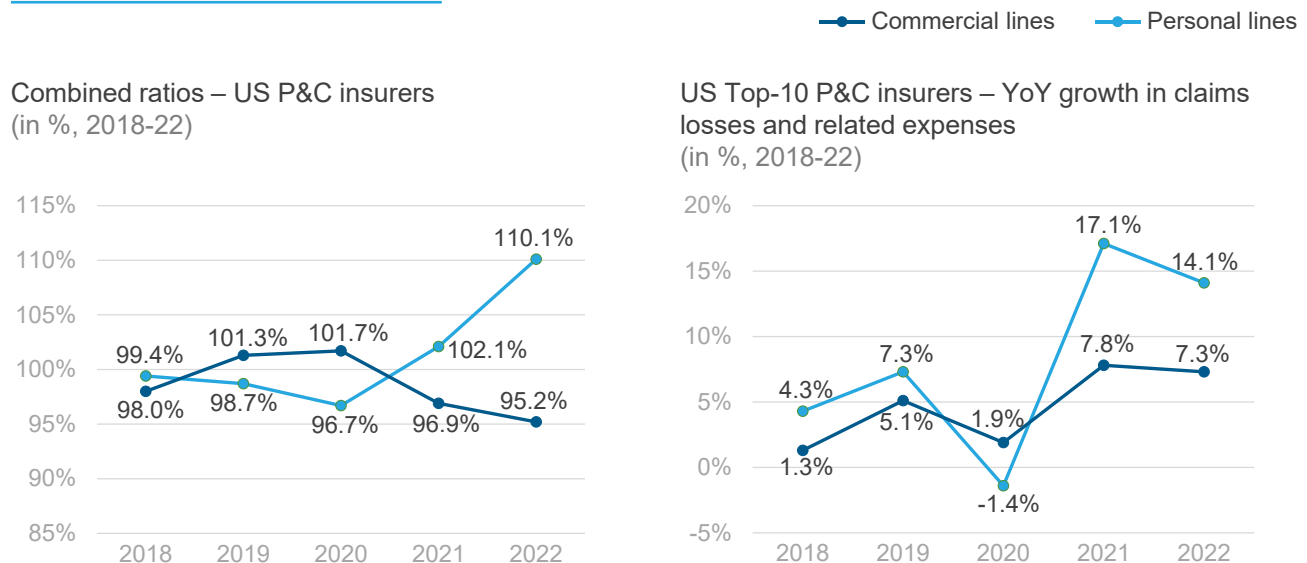- A potential roadmap and key considerations for GAI adoption within claims

State of the market: P&C insurance industry

The industry headwinds have directly impacted the business performance of P&C insurers, leading to a visible deterioration in key industry performance indicators. In the past few years, combined ratios have exceeded the 100% mark. A closer look at the cost base for these P&C insurers indicates that a consistent increase in claims losses and related expenses has been a major contributor to this profitability pressure, particularly in personal lines over the last three years. Exhibit 1 outlines a deteriorating performance for combined ratios as well as claims losses and related expenses.

EXHIBIT 1

Key P&C insurance industry performance indicators
Source: Source: NAIC, regulatory filings

—●— Commercial lines   —●— Personal lines

Combined ratios – US P&C insurers
(in %, 2018-22)

US Top-10 P&C insurers – YoY growth in claims losses and related expenses
(in %, 2018-22)

A snapshot of select lines of business for P&C insurers paints a grim picture:

Personal auto: The combined ratio reached 112%+ in 2022, marking the worst performance in decades. The prices of vehicle parts rose by more than 22% between 2021 and 2022

Homeowners: The combined ratio stood at 104.6%, primarily driven by two consecutive years of insured losses from natural catastrophes, surpassing the US$100 billion mark

Given these circumstances, there are clear imperatives for P&C insurers to optimize their claims losses and claims-related expenses. As such, P&C insurers should explore technology-led interventions to enable an efficient claims intake process, timely investigation and mitigation, and personalized communication with customers.

Shift in market sentiment to drive GAI adoption

Market interactions with over 75 insurance enterprises between 2019-23 reveal a clear trend – conversations have shifted from a dominant focus on growth and experience to prioritizing profitable growth. Subsequently, claims transformation is expected to emerge as a dominant theme for insurers.

They are seeking to deliver superior customer experience during moment-of-truth interactions while also focusing on better management of controllable losses and expenses. The analysis also highlights a consistent focus on scaling data-driven decision-making capabilities, with the intention to scale up AI/ML adoption. However, mass adoption has been limited due to siloed investments and a lack of clarity in envisioning the benefits. Exhibit 2 highlights insurers' shift in focus.

EXHIBIT 2

Enterprise sentiment: evolution of key business and technology priorities

Source: Everest Group (2023)

Over 75 conversations with insurers, May 2019 – May 2022

Resilience ▶ Experience ▶ Growth

>80%
highlighted intent to upgrade core system / move to cloud
"Adopt a faster process to move apps to cloud – need roadmapping support on how to redesign infrastructure, microservices, and containerization"

>75%
focused on a digital experience for their customers
"Modernize the platform, become a consumer savvy digital company"

>60%
indicated underwriting and distribution as biggest priorities for the next three years
"Move to cloud and explore new business lines, broadening the number of use cases, and scale adoption"

>35%
increased investment budgets for AI and data
"Investing on big data, digitization of business using AI and DevOps"

Over 40 conversations with insurers, June 2022 – June 2023

Efficiency ▶ Intelligence ▶ Profitable growth

>60%
indicated focus on realizing value from existing investments
"Improve KPI monitoring, hyper automation; embed more predictive models into core systems, enable more low touch claims"

>50%
scaled investments in becoming a data-driven enterprise
"Scaling up of newer tech such as AI/ML, building in-house data scientist team"

>50%
highlighted claims efficiency as a priority area for investment
"Straight through claims processing, innovation in digital engagement, and multichannel communication on AI module"

>40%
indicated slowdown in large-scale investments
"Investments in newer products, newer features will be more on smaller and focused scale"
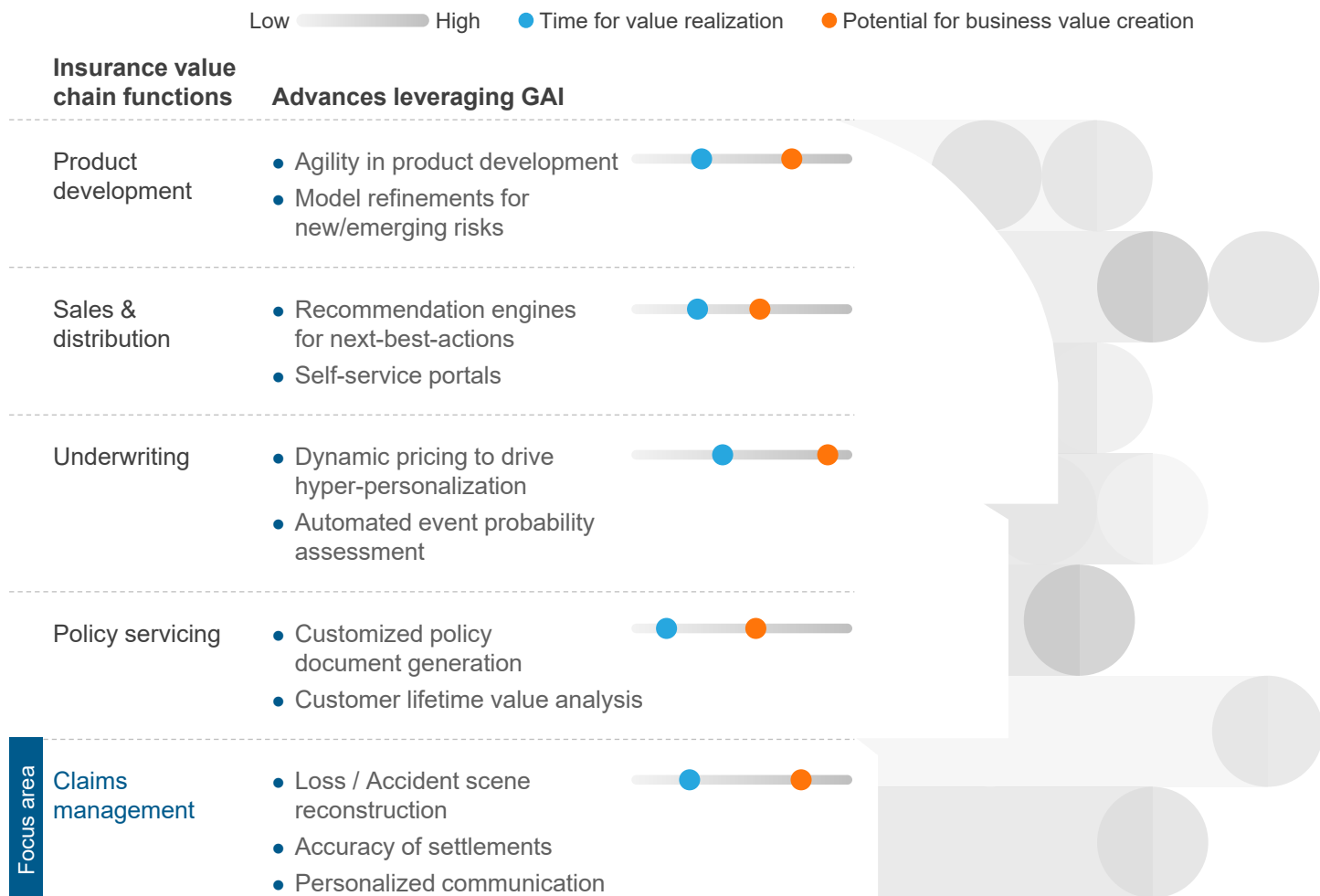
GAI has the potential to address many of these challenges by employing newer technologies and enabling insurers to envision transformation possibilities. It unlocks the ability to create insights from complex, large data sets, facilitating faster and more informed decision-making. Large Language Models (LLMs) play a significant role in processing and distilling complex data efficiently, potentially reducing or even replacing the need for extensive human intervention in data analysis.

The industry has already invested in cloud data platforms and data marketplaces, with the vision of scaling up AI/ML technologies and integrating intelligence throughout the value chain. With increasing sophistication and economical tools and technology, GAI is creating a sense of urgency for change and becoming a potential catalyst for P&C insurers' three-pronged agenda of improving profitability, customer experience, and risk management. GAI can ease the burden of summarizing, synthesizing, and processing data while providing output in a reasoned manner. By streamlining claim-level data and information analysis, it enables front-line claims professionals to make faster, well-informed decisions and focus on delivering a superior customer experience. At the enterprise level, GAI can serve as a creative partner, driving innovation and process improvements collaboratively. Exhibit 3 illustrates the potential impact of GAI across core functions of the insurance industry.

EXHIBIT 3

Potential impact of GAI across the insurance value chain

Source: Everest Group (2023)

Low ⬤ High ● Time for value realization ● Potential for business value creation

Insurance value chain functions	Advances leveraging GAI
Product development	• Agility in product development • Model refinements for new/emerging risks
Sales & distribution	• Recommendation engines for next-best-actions • Self-service portals
Underwriting	• Dynamic pricing to drive hyper-personalization • Automated event probability assessment
Policy servicing	• Customized policy document generation • Customer lifetime value analysis
Claims management (Focus area)	• Loss / Accident scene reconstruction • Accuracy of settlements • Personalized communication

While GAI has the potential to unlock value across insurance core operations, we believe that a dominant proportion of P&C insurers are likely to prioritize claims operations as the first step in their GAI adoption journey. The reason behind this prioritization is the relatively faster realization of RoI

compared to other parts of the insurance life cycle. Claims operations offer enormous value creation through increased efficiency, accuracy, and enhanced customer experience, making it an attractive starting point for GAI adoption.

Currently, insurers are in the early stages of embracing GAI, and proofs of concept are being rolled out. Some insurers are independently driving these initiatives, while others seek assistance from external consulting and technology providers. Tier-1 insurers are taking a more holistic approach to GAI, with efforts in place to unlock efficiency gains, while exploring ways to enhance customer experience.

Reimagining claims management using GAI: a promising journey ahead

P&C insurance claims organizations need to address multiple pain points across the value chain. Insurers have long struggled with a lack of seamless experience across channels, inefficient manual processes for key functions that are primed for automation, and inaccuracies across settlement estimates. We examine these concerns in Exhibit 4.

EXHIBIT 4

P&C insurers challenges across claims operations

Source: Everest Group (2023)

Pain points across the claims value chain

Experience ● ●	Efficiency ● ● ●	Accuracy ● ●
Lack of a seamless omnichannel customer experience across claims reporting, disputes, timely status updates, and final settlements has hampered bottom-line growth and customer experience across the P&C industry, including auto, home, workers compensation, and other lines of business	Insurers rely heavily upon manual processes for claims verification, inspection, assessment, and adjudication. Lack of consolidated claims data, limited rule-based decisioning, and dependence on dated visualization technology has increased the cost of claims management and made claims settlement processes significantly slower for customers	Lack of predictive analytics and AI-driven claims management has burdened insurers with overpayment or underpayment of their indemnity obligations. Insurers need to identify legitimate claims to increase customer satisfaction and lower litigation costs while protecting themselves from false and fraudulent claims that lead to losses, increased cost of processing, and reduced efficiency in dealing with legitimate claims

As an obvious next step of action, insurers are prioritizing investments that focus on improving the efficiency and quality of claims handling. Exhibit 5 highlights how market sentiment is reflected in investment choices.

EXHIBIT 5

P&C insurers' investment priorities across claims operations

Source: Everest Group (2023); based on analysis of 55 case studies focused on claims modernization initiatives undertaken by P&C insurers between 2021-22

48% Improve efficiency and quality of claims handling	**35%** Enhance customer experience	**7%** Adopt cloud-enabled/connected platforms
4% Transform the operating model	**4%** Reduce loss-adjustment expenses	**2%** Leverage ecosystem and unstructured data

Evolution of the claims value chain: embracing GAI

GAI provides a dual benefit to insurers. It catalyzes value realization from existing AI/ML investments while also creating new avenues for value creation. In the near term, GAI is expected to drive improvements in existing processes, leading to quick wins for insurers. Once the baseline for GAI adoption is established, insurers will gain confidence to invest further. These investments may involve optimizing internal processes and enhancing stakeholder experiences. In the long term, insurers envision achieving significant workload reduction for customer-facing claims professionals, resulting in faster and more accurate decision-making capabilities that benefit both the customer and the insurer.

With the emergence of GAI, claims organizations can significantly enhance the claims experience for both customers and adjusters. Human decisions can be accurately informed and accelerated by AI-assisted data analysis, resulting in faster and smoother claims processing. We expect the GAI adoption journey to mature over three phases, involving advances in AI/ML adoption as well as pure-play GAI use cases:

- **Improve:** realizing efficiency gains by streamlining existing processes
- **Optimize:** addressing the needs of the digital-native customer
- **Reinvent:** fundamentally changing the insurance mindset from a risk management process to customer persistence

Exhibit 6 highlights the potential use cases of GAI, the expected business impact, and outcomes over these three adoption phases.

GAI
ACROSS CLAIMS MANAGEMENT

Adoption and value realization roadmap

	IMPROVE →	OPTIMIZE →	REINVENT
INTAKE	Effective summarization of FNOL notes to enhance virtual assistant capabilities	Voice enabled, cognitive virtual CSR to support automated FNOL and scribing	Connected ecosystem-driven FNOL generation
	Adaptive support for dynamic, context and intent-based questions	Enhanced processes lead to workforce agility to support higher claims volumes	Supports the prediction of future claims outcomes based on FNOL data
	Increase CSR efficiency and accuracy	*Automate FNOL process*	*Elevate predictive capabilities*
TRIAGE AND SEGMENTATION	Integrate GAI for improved claims triaging and segmentation accuracy	Improved leakage probability assessment	Boosted triage and segmentation capacity by up to 2.5x
	Enhance automated segmentation and adjuster assignment based on capacity and complexity	Enhanced repository of case and testing scenarios	>80% reuse of existing code base for effective triage and segmentation
	Optimize claims segmentation	*Ease testing load*	*Free-up capacity*
ADJUDICATION AND LOSS ESTIMATION	Faster and more accurate policy coverage reviews, summarization based on loss and policy data	Accelerate medical records evaluation	GAI-driven accident scene reconstruction
		GAI-led assessment of notes and reports to guide investigation referrals	
	GAI-assisted loss and reserve estimates	More effective sentiment analysis and pattern recognition for fraud mitigation	Rationalization of key metrics for tracking adjuster efficiency
	Establish the foundation for STP	*Reduce fraud*	*Increase productivity and accuracy*
SETTLEMENT AND SUBROGATION	GAI-driven compilation of subrogation packages and demand letters	Enhanced subrogation recovery probability analysis	Subrogation recovery analysis specific to lines of business to reduce leakage
	Automated analysis and summarization of plaintiff demand packets	GAI-driven compilation of arguments for settlement negotiations	Litigation recommendations based on plaintiff, jurisdiction, and case facts
	Accelerate subrogation process	*Improve recovery*	*Improve decision and settlement accuracy*

Roadmap for P&C insurers to get started on their GAI journeys

The successful implementation of GAI requires a combination of technical expertise, domain knowledge, and an agile development mindset. Organizations must assess the deployment complexity, associated timeline, and potential business impact to define a relevant starting point for adoption. At the same time, formulating a view on the potential target state is equally important to ensure continuous, incremental advances toward the long-term vision.

While there are enough indicators of GAI making an impact on the industry over time, each organization's readiness dictates the speed of progress. Early adopters are likely to gain a competitive edge by unlocking value and driving differentiation. As insurers try to envision their GAI adoption journeys, we propose two critical considerations to support decision-making and help with the evaluation of the starting point:

- **Ease of adoption**

  This will require assessing:
    - The need for GAI capabilities, such as dataset creation and multi-format content generation
    - The complexity of reasoning, as it directly impacts the feasibility of adopting GAI
    - The availability and quality of data for training GAI models
    - The criticality of tasks, considering the cost and consequences of failure

- **Impact potential**

  This will require assessing GAI's:
    - Potential to maximize operational agility
    - Ability to maximize efficiency and minimize expenses for optimal financial performance
    - Ability to impact customer experience

Exhibit 7 serves as a reference artifact for insurers, helping them define the ideal starting point for adopting GAI use cases based on their unique context.

Organizations must assess the deployment complexity, associated timeline, and potential business impact to define a relevant starting point for adoption. At the same time, formulating a view on the potential target state is equally important to ensure continuous, incremental advances toward the long-term vision.

EXHIBIT 7

Prioritization framework for assessing GAI use cases to define adoption roadmap

Source: Everest Group (2023)

Performance	
Maximizing productivity and optimizing processes to enhance overall performance	

Cost optimization	
Minimizing expenses to achieve optimal financial performance	

Customer experience	
Enhancing customer interactions and service quality	

Impact potential
Measures amenability of use case to application of Gen AI

High

Immediate gains
Define the starting point

Strategic imperatives
Outline scaling up roadmap

Lower priority initiatives
Offers good to have use cases

Non-critical priorities
Suggests suboptimal RoI

Low

Low — High

Adoption complexity
Measures roadblocks or lack thereof in the path to adoption

Need for generative capabilities	Nature of reasoning involved	Data and content quality	Cost/penalty of task failure
Creation of text, video, images, audio, datasets, etc.	Tasks with more complex reasoning will be less amenable	Input data to train foundational models will affect output accuracy	Extent of manual intervention needed to manage/approve critical tasks

Key considerations for insurers

While insurers have shown interest in embracing AI technologies for modernization, their use has been limited to select use cases such as conversational abilities and siloed data augmentation. GAI presents an opportunity to reimagine core operations, driving improved customer experience and more accurate decisions at a lower cost. However, this potential for disruption also brings unique challenges for insurers. As insurers formulate their GAI adoption roadmap, they should consider the following:

- **Data preparedness:** Ensuring that data and content are ready to fuel the GAI engine is vital. A robust data platform will ensure completeness and quality of training datasets, addressing model shortcomings, minimizing issues such as hallucinations, bias, ethical concerns, and fillers

- **Enterprise data privacy and security:** Insurers must prioritize sheltering and protecting data. Clear responsibility and accountability for data sharing and output generated by GAI models need to be assigned, with privacy considered a shared responsibility among stakeholders

- **Talent conundrum:** Managing talent requirements is vital. Skilled resources with expertise in AI models, data structures, ethical considerations, and insurance domain contextualization will be in high demand, necessitating an innovation-heavy culture for sustained impact

- **Sustainability, ethics, and governance considerations:** Insurers should consider how GAI impacts their sustainability score. Training GAI models requires massive computing capacity, resulting in higher energy consumption. Establishing a strong and centralized governance system is vital to ensure ethical and responsible operations
- **Scaling up GAI:** Maximizing value realization requires an integrated business, data, and analytics strategy. Insurers must build mechanisms to measure quick wins while staying committed to their long-term vision

We believe that a cautious approach to these considerations and being open to learning from peers and providers for quick course corrections will allow P&C insurers to design a robust GAI strategy. This approach will enable them to navigate challenges effectively and fully leverage the potential of GAI to transform their core operations and drive business outcomes.

Conclusion

GAI adoption is no longer an optional consideration but a necessary requirement for insurers to remain competitive in today's rapidly evolving technology landscape. It offers a unique opportunity for insurers to reevaluate their existing processes, unlock untapped creativity and productivity levels, and gain confidence to accelerate their transformation journeys. By embracing GAI, insurers can reinvent themselves and deliver enhanced value to customers, shareholders, and society in a holistic manner.

To fully capitalize on this opportunity, insurers must explore the potential benefits of GAI and find sustainable ways to incrementally integrate them across their workflows. As GAI continues to advance and mature, we anticipate even more significant innovations and disruptions across industries. Insurers that can effectively leverage these advances will be at the forefront of progress, meeting the dynamic demands of customers and markets. They will position themselves for long-term success in the transformative AI landscape.

Everest Group®
With you on the journey

Everest Group is a leading research firm helping business leaders make confident decisions. We guide clients through today's market challenges and strengthen their strategies by applying contextualized problem-solving to their unique situations. This drives maximized operational and financial performance and transformative experiences. Our deep expertise and tenacious research focused on technology, business processes, and engineering through the lenses of talent, sustainability, and sourcing delivers precise and action-oriented guidance. Find further details and in-depth content at **www.everestgrp.com**.

This study was funded, in part, by EY

For more information about Everest Group, please contact:

+1-214-451-3000

info@everestgrp.com

For more information about this topic please contact the author(s):

Aaditya Jain, Vice President
aaditya.jain@everestgrp.com

Rugved Sawant, Senior Analyst
rugved.sawant@everestgrp.com