Cloverleaf
ANALYTICS

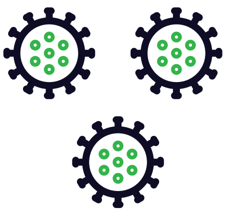
HOW AI CAN HELP INSURERS BEST PROTECT CUSTOMER RELATIONSHIPS & GROWTH DURING ECONOMIC UNCERTAINTY

Imagine a world where every aspect of our personal and business lives is fully connected and monitored (with permissions) to deliver incredible personalized experiences that meet the needs of an exact moment or customer desire. These benefits could impact insurance, healthcare, consumer purchases, home buying, grocery shopping, and so many other areas automated to customer preference with instantaneous intelligence and satisfaction. This is in fact the way our world was progressing with technological advancements and creations of digital service ecosystems, and in 2020 the world hit a fork in the road with many industries still scrambling how to find a path forward. Individuals and businesses alike are wondering how to protect their valuable assets whether it be home, wealth, intellectual property, or perhaps, most importantly, their physical and mental health.

For the part of protecting assets, people have a long history of turning to insurance for this. However, in an age where a pandemic could resurface, some are questioning the value of traditional insurance. For insurers, they are becoming increasingly perplexed with how to effectively create new products or modernize existing services to adapt to the COVID era and all its complexities in terms of economic uncertainty including the mindset driving the Great Resignation. With major companies like Amazon [announcing]() that their workforce shrunk by 100,000 the past year in the summer of 2022, no business is immune to the challenges in front of us. However, insurers do have the opportunity to be at the forefront of being a safeguard for their clients while also sparking a new era of predictable and scalable growth.

In an era of confusion, insurers have the opportunity to provide the intelligence businesses and individuals need to safely, securely, and profitability thrive in the 2020s. First, before delving into what this looks like, it is important to truly set the stage regarding the headwinds facing the world on the macro level and that is impacting the insurance industry on a micro level.

AN UNPRECEDENTED STORM



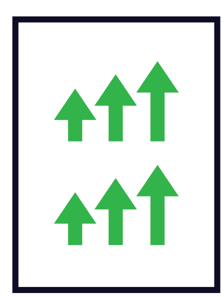
A major global pandemic is usually enough to tip the scales to economic uncertainty. The last major pandemic to kill over one million people was in 1957 – 1958 with the Asian Flu. According to this article on Investopedia showing the impacts of pandemics and economic turmoil in the last few hundred years, there was nearly a 20% drop in the stock market at the outset of the pandemic in October 1957 with the recession lasting to April 1958.

With the current pandemic, our connected global society that is more dependent on technology than in the 1950s has several curveballs coming at us from supply chain issues to chip shortages, to talk of famine, inflation, gas price hikes, and others. This is not to mention the geopolitical challenges facing many countries around the world connected to these challenges.

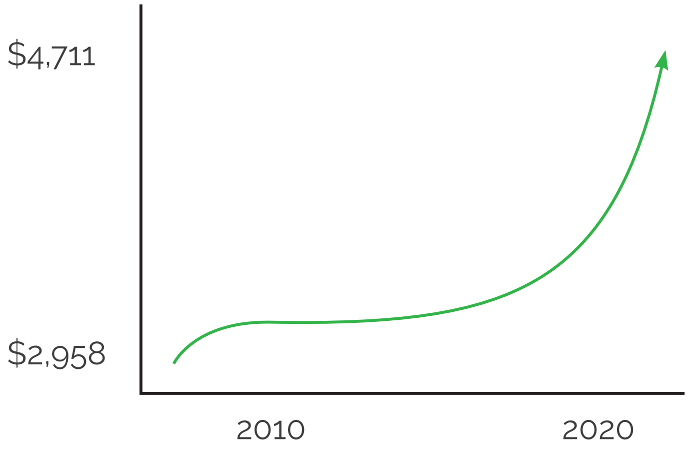
For consumers that used to rely on insurance as an easy-to-afford must-have product, economic pressures and price increases for coverage are not making this purchase as easy as it was before.

According to data from the Insurance information institute the average nationwide cost to insure a vehicle increased by 70% since 2010 from $789.29 to $1342 in 2021. From 2012 to 2021, 2015 saw the smallest increase in the national cost of living at 0.1%. After that, the next smallest increase was in 2020 at 1.2%. The largest increase during this period was 2021 of 4.7%.

However, auto insurance rates relative to the cost of living only rose by 3.8% after a 4.6% decrease in 2020 during the COVID lockdowns. The two years that saw the biggest increases in insurance during this period were 2017 of 7.7% and 2018 of 7.4% with 2018 and 2021 being near the same index score on the cost-of-living index.



In addition to the rising cost of insurance, consumers are dealing with theof auto repairs. According to the annual Vehicle Health Index report recently issued by CarMD.com, the average “Check Engine light” related repair charge in the U.S. last year was $392.52. That includes $249.22 for parts and $143,35 for labor. A decade earlier it was at $333.93. The average approved national auto insurance rate increase in 2022 is 4.9% according to S&P Global Market Intelligence. Minnesota has the highest approved annual increase of 14%.



INSURANCE CLAIMS

Closing the summary about auto, the cost to pay insurance claims is also up for insurers. In 2010, the cost of claim severity was $2,958, in 2020 it rose to $4,711 according to data from III.

Another segment of insurance dealing with significant price fluctuations as mortgage rates have hit 35-year highs is home insurance. Based on S&P data from January 1, 2022, to May 18, 2022, home insurance companies have been approved for rate increases in almost every state, with an average rate increase of 4.48%.

The last major data point besides the aforementioned other challenges is that in June the Consumer Price Index rose by the largest amount since 1981 with a 9.1% increase over 2021.

Amidst these challenges, how can insurers put their best foot forward to stimulate growth and protect customer relationships this year and beyond?

TECHNOLOGY ALONE IS A TOOL NOT THE SOLUTION

Before the world began experiencing recent challenges, we were racing to the golden age of technology that is mentioned at the start of this paper. No matter how shiny and amazing the tool, technology quickly proved from 2020 to 2022 that it is no match in stopping challenges that are not based in technology at all. This begs the question, should businesses and consumers continue to race after technology alone like it did prior to COVID as the means of a solution from troubles? As the saying goes, insanity is doing the same thing over and over again and expecting different results. Unfortunately, less than a few years since getting caught off guard with the pandemic, the world is getting cozy focusing on the new way of COVID-era technology innovations that will save the day.

For insurers, the above saying about doing the same thing coupled with the drive to look only to the shiniest new technology could be a detrimental trap with impacts they may not recover from. The best thing insurers can do is to first look to what has made insurers one of the most trusted services for hundreds of years and that is personal relationships

. The world is recovering from being locked at home for a good part of a year, speaking to loved ones, friends, and co-workers through computers. While there is greater value placed on virtual meeting technologies, there was nothing added in terms of value other than being able to hold a meeting online. If your company was already using Skype for Business, Teams, WebEx or other tools, using Zoom wasn't such a ground-breaking innovation. If you were insurer determining how to ensure smooth meetings with clients in the digital era, it could sometimes result in poor customer experiences that needed to be remedied via offline methods. As this Forbes article shows, corporate gift giving became a major priority with the pandemic.

This reinforces the point that more is needed beside virtual meeting technologies and even AI. If you have been following Cloverleaf, you will have likely read our article in Carrier Management magazine, AI, BI or Insurance Intelligence: Which Matters Most?. In that article, Cloverleaf CEO Robert Clark defined a new path forward for insurers when building a technology strategy leveraging emerging innovations called Insurance Intelligence.

Insurance Intelligence puts the priority on business problems and customer value including predicting new risks, creating modern products, and improving profitability. After this is done, then insurers work with their technology vendors to create a customized technology environment using emerging and traditional technologies with other insights. Insurance Intelligence goes against the status quo of how our industry has done things where a technology platform or tool is built in a vacuum without these considerations and then force fit into carriers.

There is no doubt that this perspective will include a mix of solutions that are on opposite ends of the spectrum for being on the edge of legacy to the cusp of innovation. When insurers look at their customers first and not on buzzwords about the hottest technology, this could stop the endless cycle of being severely vulnerable to having entire investments in the latest thing flushed down the toilet when an unpredictable factor impacts the global economy.

From the side of technology innovation, two of the most exciting tools that insurers should begin taking a more strategic and less impulsive look at are machine learning (ML) and artificial intelligence (AI).

WHY ML & AI SHOULD BE A PART OF AN INSURANCE INTELLIGENCE STRATEGY

In the previous section, we mentioned the importance of relationships over technology. With the vast amounts of customer data available, insurers have been slow to extract the value of this information to transform their relationships. From a machine learning and prediction perspective, insurers could be analyzing client behavior and customer preferences to refine coverage and adjust insurance packages. From a risk management perspective, insurers can couple the analysis of customer data with regional data on natural disasters, health risks, or other external factors to predict vulnerabilities to the insured and offer customized products as solutions.

Additionally, insurers can analyze diverse factors regarding national and local rate increases to remain competitive at the right price without losing value customer relationships due to being too expensive or last to the party to offer more competitive rates.

From a foundational standpoint, being able to anticipate the needs of the insured and be agile to create new products is going to be a major key to growth in this decade. This along with being able to predict when an insurer could be at a financial risk will enable greater confidence in the long-term viability of an insurer to know when and where to make the right moves.

AI is an entirely different category of technology which unfortunately is being misused by some insurtechs as a means to drive sales by tapping into a hot buzzword without actually delivering what the technology is actually about.

If insurers get ML right, the next phase with real AI is very exciting in terms of cultivating customer relationships, loyalty, and trust. Insurers could use the insights from ML to create personalized, autonomous digital insurance advisors that counsel and protect the insured. As an example, from the advice perspective, the autonomous insurance advisor would be able to have permission from the insured to integrate with the insured's wearable device or smart phones to give them forward-looking insights to help them better manage their lives.

From a protection standpoint, if the insured has provided permissions to their autonomous insurance advisor, it could proactively make changes to a consumer's plan for a workday or vacation based on certain risks that it is aware of through ML. The consumer would not have to think about these actions, and neither would the executives or IT team inside an insurer. The intelligent advisor would be empowered through ML insights to act in the best interests of the insured without a delay in waiting for approval to act. This AI innovation within the insurance industry could position us as the leaders in how to best innovate with the customer in mind.

The sentient advisor could also have permission from insurance executives to create new customized insurance products without waiting for permission from humans inside an insurer or it could proactively adjust rates or internal processes to protect growth and profitability. No, AI does not mean eliminating jobs it means the opening of more time for humans to think longer term about where to direct the insurer without having to worry about routine operations or how to parse large amounts of data and make the right near-term decisions from the information.

More Real-World Examples of How to Use ML Today

Insert multiple ML demo videos from Rob, and tee up the section to be about here's how Insurers can value from ML today using Cloverleaf. Explain the business value in the supporting written text in the paper aligning with the video.

How Can Insurers Get Started with Cloverleaf?

For the conclusion section, I recommend a harder sell about what it looks like for an insurer to get started with Cloverleaf using ML within weeks. We would provide actionable steps that they need to take to get ready for an engagement, and then discuss what an engagement and deployment look like.