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# The Realization of Claims Virtualization

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4 MIN READ

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Five years ago, if someone mentioned “claims virtualization,” it most likely referred to an insurance carrier’s mobile application, or possibly just conjured visions of VR goggles used for high-tech simulations. These days however, the idea of virtual claims handling, or as Lexis Nexis[1] defines it, “photo or video estimating in which no insurance employee physically inspects the vehicle,” has firmly taken hold with touchpoints from First Notice of Loss to Total Loss and all points in between. It seems everyone is racing towards virtualization now, so to understand the solutions, it’s important to first understand the market drivers that have converged to make this virtual concept a reality.

## 1. The Shift in Consumer Preferences

According to the Boston Consulting Group (BCG), millennials have overtaken baby-boomers as the largest living generation[2] and will outnumber all non-millennials by the year 2030. So what do they have to do with virtualization? Born just before the turn of the century, millennials are the first generation to grow up in an internet-enabled world. For the younger millennials, smartphones and handheld internet devices were an integral part of life, beginning in their grade school years. Those “kids” are 25 to 40 years old today, having spent their formative years learning how to research, shop and provide feedback from a piece of glass in the palm of their hand. Naturally, this has influenced their expectations. This is critical to understand when looking at the move towards claims virtualization as millennial preferences and communication norms are different than their predecessor generations. For instance, BCG’s study, The Millennial Consumer: Debunking Stereotypes, affirms that millennials tend to “put a premium on speed, ease, efficiency, and convenience in all their transactions.” JD Power found in their 2019 US Auto Claims Satisfaction Survey that, “(p)reference for digital status updates during the course of a claim has increased 6% over the past two years of the study.[3].” The old paradigm of waiting on hold to file a claim then driving to a repair facility to get an estimate, or waiting for a field appraiser, simply does not fit the expectations of millennial consumers, or the up-and-coming younger counterparts—Gen Z (now entering college). It is critical for carriers to understand the role that changing demographics play in their customers’ expectations and how virtualization can help to meet them.

## 2. Increasing Industry Cost Pressures

The average cost of repair continues to climb year after year with 2019 posting an increase of nearly 4% in both the United States and Canada with few signs of decreases in claims frequency.[4] At the same time, bond yields, a traditional part of Property and Casualty (P&C) investment portfolios, have continued to fall for the past year and a half, reducing some of the returns for P&C industry. These headwinds, along with changing consumer expectations, create a perfect storm—and a perfect opportunity—for virtual claims. Virtualization is an ideal strategy to reduce Loss Adjustment Expense (LAE) as companies are able to shift expensive operational costs from centralized offices to a more remote model that costs less, with lower capital requirements for vehicle fleets (along with the associated fuel, maintenance and insurance coverages) and service center or office leases. This model gives carriers the ability to meet customer expectations for expediency; for example, by enabling remote team members to write estimates from the home office or the field, using vehicle photos. Additionally, carriers can recruit appraisers from a larger workforce pool since geography is not a limitation, and at the same time improve efficiency by reducing the need for appraisers to drive hundreds of miles for rural appraisals.

# 3. Rapid Advancements in Technologies

Finally, the move towards a virtual claims model is possible because of advancements in mobile and machine learning technologies. That means, however, that achieving improvements in efficiency while preserving trust and accuracy relies heavily on using these ever-advancing technologies in the right way, at the right time guided by industry experience. The goal of these technologies is to empower the insurance workforce to provide service and make claims decisions that will help guide customers to the desired outcome of a proper and safe repair. With advancements like the Mitchell Intelligent Estimating solution, carriers can leverage technology to gather photos from a multitude of inputs, use expert-driven AI models to analyze images and combine that technology with decades of collision repair data and expertise to drive recommendations. This means insurers and their customers can feel confident that improving efficiency does not mean having to sacrifice accuracy. While there is no virtual substitute for a complete teardown in order to fully evaluate all damage to a vehicle, emerging virtual solutions are providing substantial efficiencies in claims processing. Several carriers are already using or exploring virtual claims handling, with more automation on the way. Whether each company is poised to be an early or gradual adopter of virtualization, claims handling is changing as quickly as the technology and consumer expectations driving it. In this rapidly changing environment, it’s important for every industry partner to understand the landscape, and understand how virtualization can deliver solutions as we navigate this new reality.

[1]LexisNexis Risk Solutions, 2019 Future of Claims Study: Balancing Claims Automation and Empathy
[2] https://www.bcg.com/documents/file103894.pdf
[3]https://www.jdpower.com/business/press-releases/2019-us-auto-claims-satisfaction-study
[4]According to Mitchell Data