

Dialogue

Insurtechs, “and they’re racing” for the Workers’ Comp Cup

The Thoroughbred horse Spring Racing Carnival is in full swing in the state of Victoria, Australia culminating in the running of the Melbourne Cup, “the race that stops a nation”.



Attendances to what is more akin to a “garden party” setting can well exceed 100,000 on Derby Day, Oaks Day and Melbourne Cup Day and where there are punters there are plenty of on-course bookmakers in the Betting Ring ready to offer attractive odds on the horse the eager punter wishes to bet on.

While the insurance industry lags behind in adopting emerging technologies, “insurtechs” are invigorating and redefining the delivery and servicing of coverages including workers’ compensation.

Bookmakers, like insurance underwriters make their profit from risk by estimating the probability or chance of an event occurring. This is reflected through the bookmaker’s odds and the rates charged by underwriters. The traditional method of managing a balanced book has been as much an art as a science combining deep research, risk parameters, instinct and psychological management which is gradually changing by taking advantage of emerging technologies. While bookmakers are forging ahead with the opportunities provided through technology, the insurance industry has lagged behind providing an opportunity for others, known as “insurtech” or “insuretech” companies to revive some dormant approaches to distributing insurance products. Two such companies are Lemonade in the United States and Huddle in Australia.

Lemonade and Huddle are not insurance companies per se, but rather underwriting agencies which have taken advantage of emerging technologies which include the use of bots to deliver and service coverages on behalf of an insurance company, the underwriter of risks. For example, Huddle is an underwriting agency for Hollard Insurance delivering and servicing three of Hollard's insurance coverages in Australia, private motor vehicle, home and travel insurance. Lemonade Insurance Agency, LLC sells and services homeowners and renters insurance coverage insured by Lemonade Insurance Company in the United States.

The use of bots however is not limited to the coverage types mentioned above. They can be equally and effectively applied to tasks that are structurally repetitive such as in workers' compensation where for example, in the vast majority of cases to determine whether an incident is AOE/COE (Arising out of Employment/Course of Employment) a "yes" or "no" answer is required to nine questions on average. Utilizing bots can reduce this effort to just seconds and for the 75% of all claims which are either medical only or short period lost time claims, processing times can be reduced to mere minutes.

Bots also provide the ideal opportunity for introducing machine learning and artificial intelligence into workers' compensation claims. For example, bots can be applied to monitoring the progress of an injured worker's recovery and if necessary suggest revised treatment plans. Adversarial behavior is not uncommon in this area and bots can be used to alert and prevent a likely occurrence. Returning an injured worker to the workforce can at times be a challenging process. Bots can assist here in developing a roadmap showing how best this can be accomplished. Also as fraud is an ever-increasing problem in workers' compensation a further benefit to introducing the described bots is that their visibility in monitoring the processes can act as one of the best deterrents to fraudulent behavior.

While some may say these tasks are better handled by claims personnel, administrative costs can be exorbitant, especially in California. ULAE (unallocated loss adjustment expenses) and ALAE (allocated loss adjustment expenses) can account for around 40% of claims costs, which if replaced by bots can be dramatically reduced. Whether current claims administrators adopt this approach remains to be seen, however, insurtechs are embracing it and will challenge existing third party administrators for marketshare by providing a better service at a much lower cost. Insurtechs could equally challenge and question the need for an insurance company's in-house claims department.

Between now and 2023, it has been suggested that investors will be investing in insurtech startups like eager punters placing a bet on their favorite horse. However, as with betting on a horse race, there is a high probability that a number of insurtechs will be scratched from the race due to poor performance and for those remaining, the race conditions may be challenging where only those insurtechs with agility and stamina will make it to the finish line. The race is on.



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