Claims Transformation –
Where is the Industry Today,
and How to Get to the Next Level?

Table of Contents

Introduction

In this whitepaper, we examine the results of our new survey of insurance carriers regarding their current status in claims transformation as well as best practices for advancing to the next level.

Claims Transformation — Where is the Insurance Industry Today?

ISG surveyed over two hundred insurance companies to gauge their progress in claims transformation. The respondents included carriers, reinsurers, brokers and MGAs with a fairly equal spread across different organization sizes.
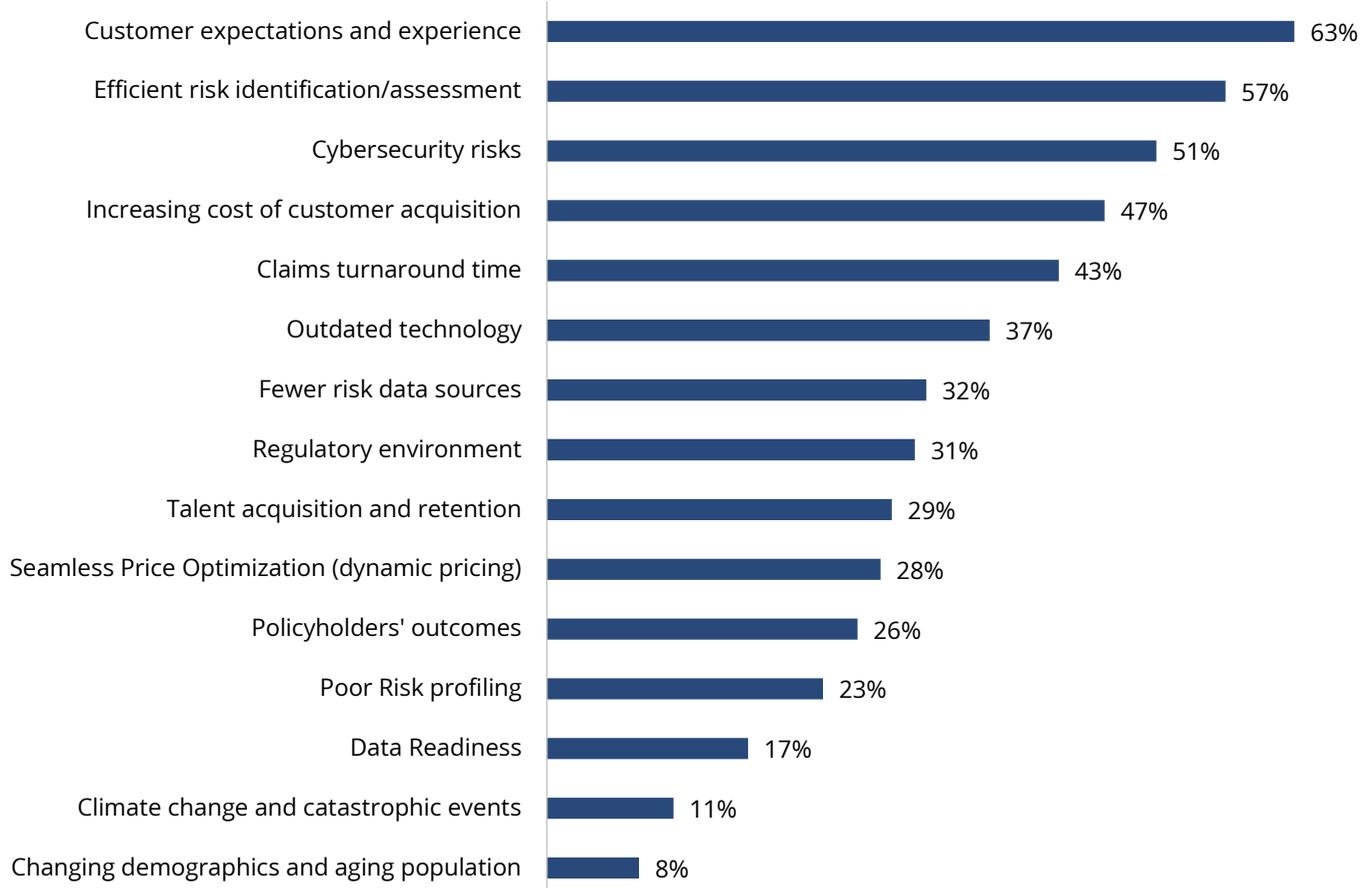
Figure 1: Organization's Size

Source: ISG
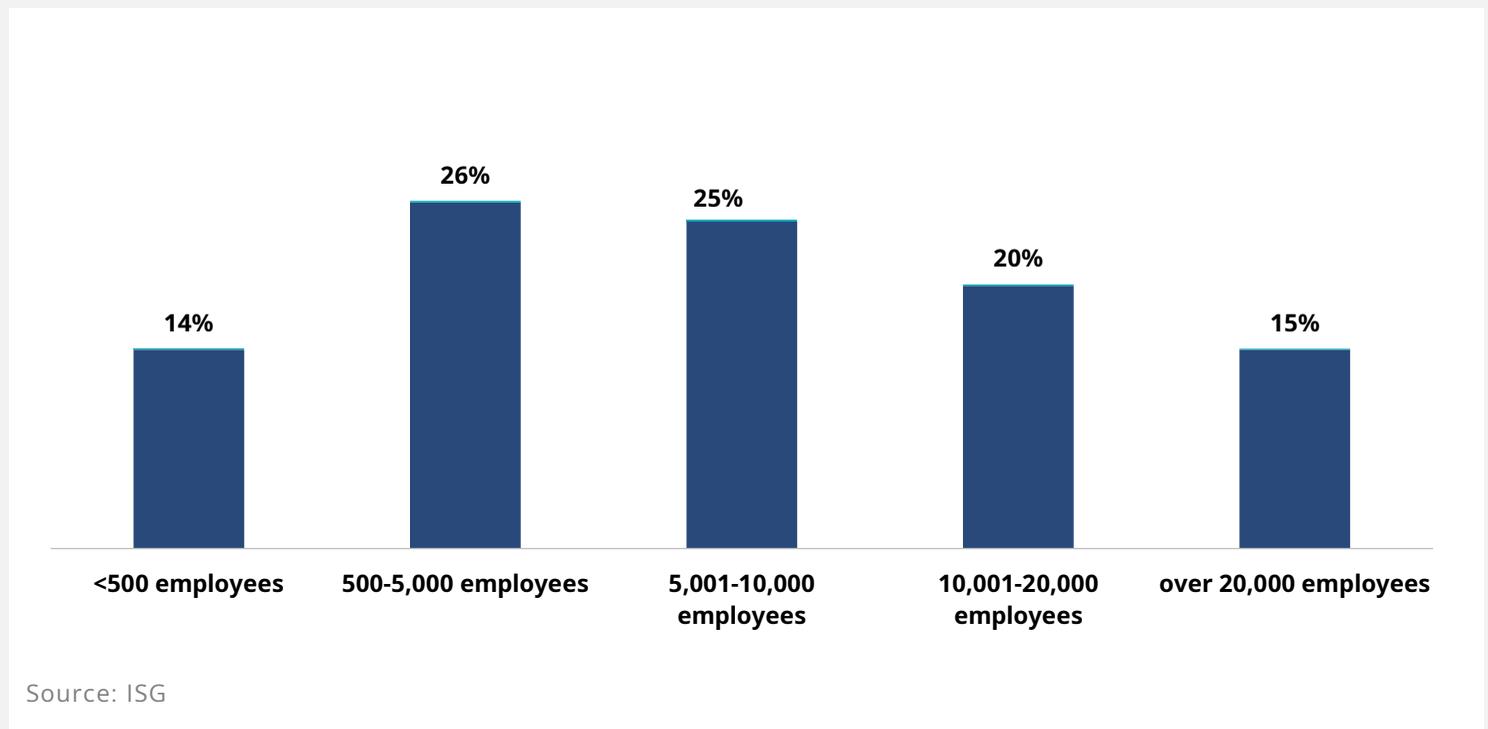
The data provides fascinating insights, confirming some known factors while refuting others. Let us first explore the big picture responses, starting with the five most significant pain points.

Figure 2: What are your top 5 most significant business pain points?

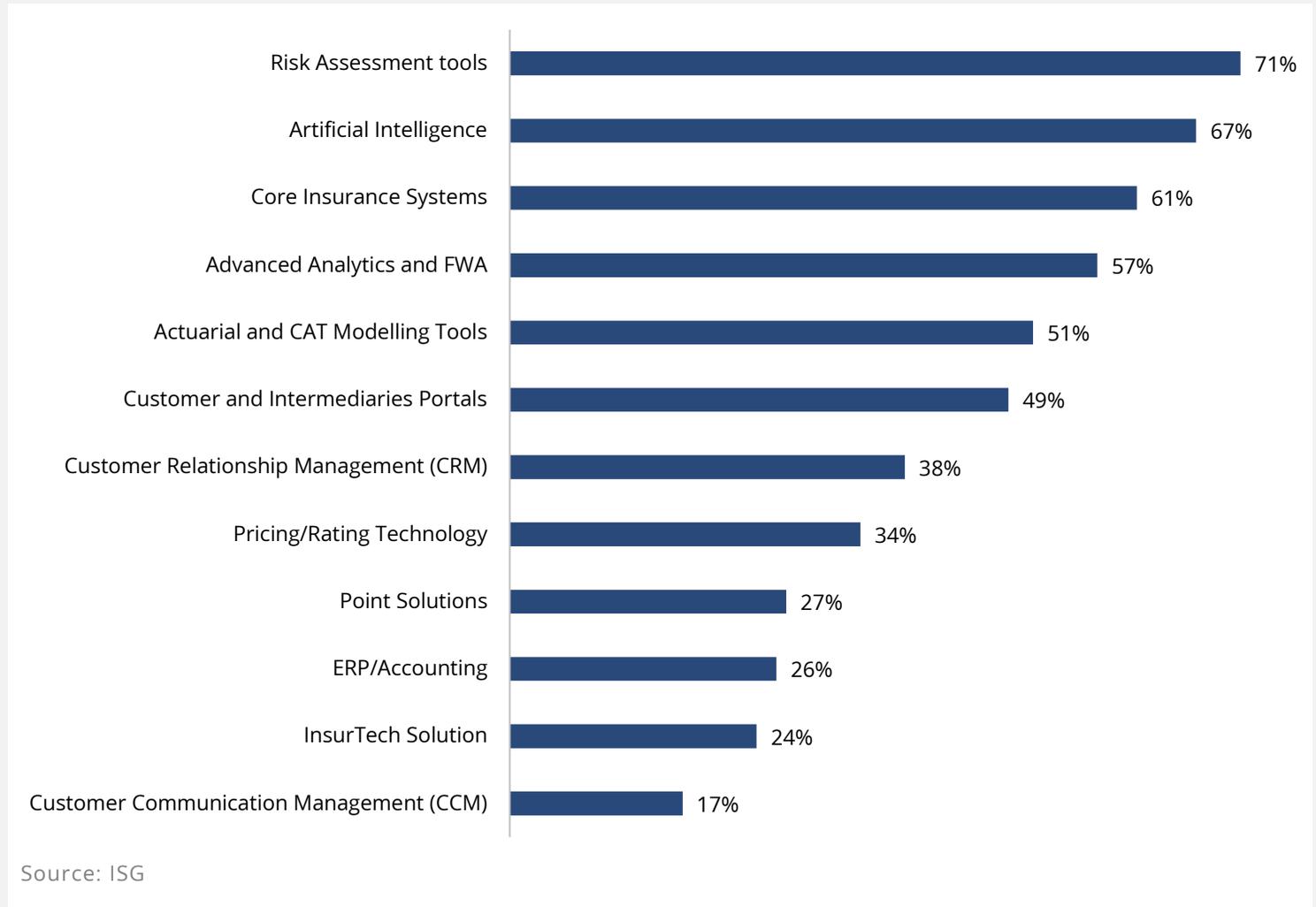| Pain Point	Percentage
Customer expectations and experience	63%
Efficient risk identification/assessment	57%
Cybersecurity risks	51%
Increasing cost of customer acquisition	47%
Claims turnaround time	43%
Outdated technology	37%
Fewer risk data sources	32%
Regulatory environment	31%
Talent acquisition and retention	29%
Seamless Price Optimization (dynamic pricing)	28%
Policyholders' outcomes	26%
Poor Risk profiling	23%
Data Readiness	17%
Climate change and catastrophic events	11%
Changing demographics and aging population	8%

Source: ISG

Meeting ever-increasing customer experience expectations is the top pain point for 63% of respondents, followed by risk assessment, cyber risks, increasing customer acquisition costs, and claims cycle time. A new pain point, fewer risk data sources, was identified by 32% of respondents and ranked third in P&C, reflecting recent U.S. Department of Government Efficiency workforce reduction initiatives that have eliminated once reliable data sources, diminishing the accuracy and timeliness of data used for underwriting, risk modeling, and claims assessment. Interestingly, outdated technology and talent acquisition and retention challenges, which were once among the top pain points, have now slipped out of the top five. Insurance technology has been a focal point for years, and most P&C and Group companies no longer consider their technology "outdated" except for Life & Retirement, where this is still a concern but has dropped to fourth. However, the quest for technology upgrades continues, as shown in responses to the question: "Which technology solutions will you replace or install?"
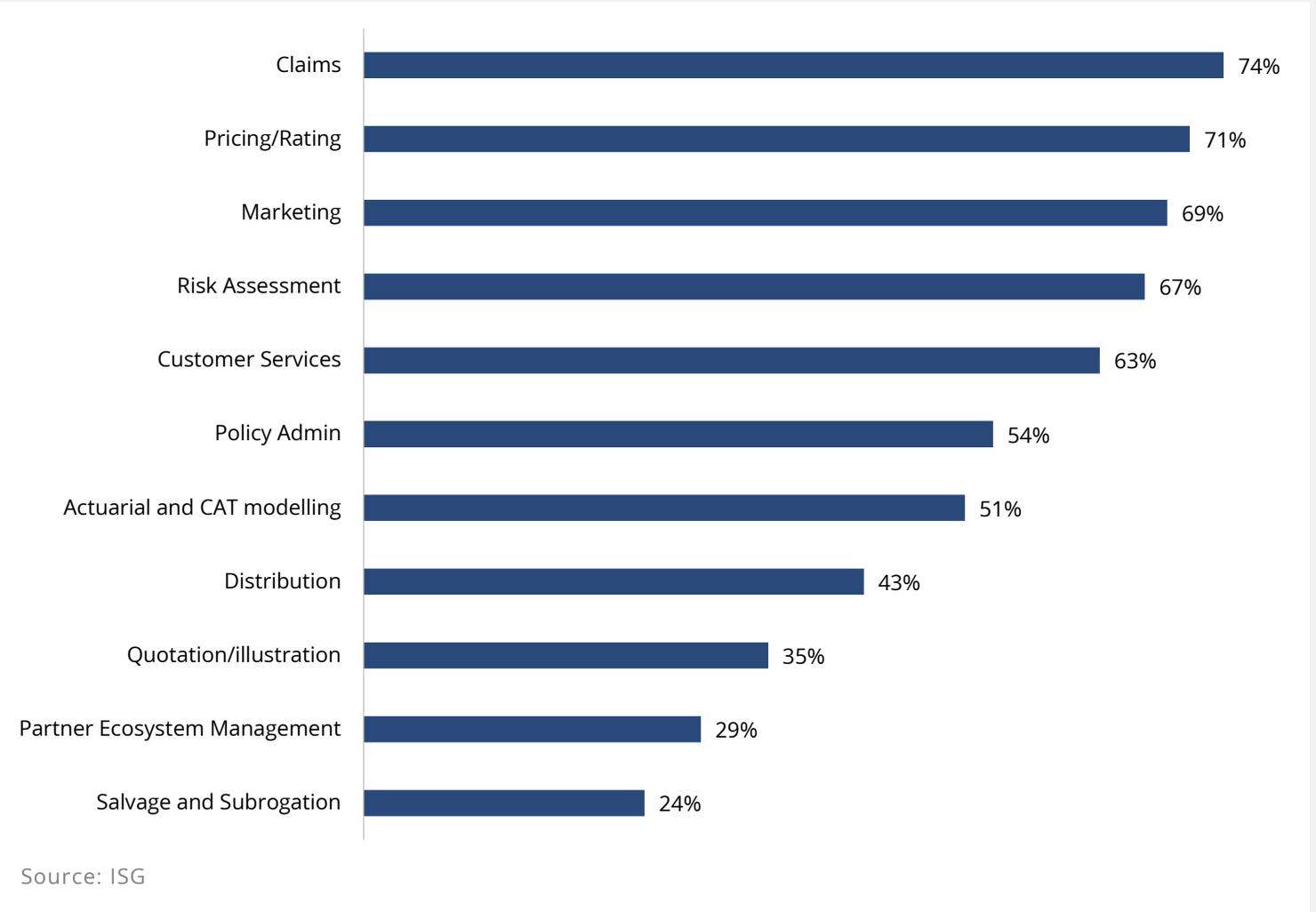
Figure 3: Which technology solutions will you replace or install in the next 12 to 24 months?

Technology Solution	Percentage
Risk Assessment tools	71%
Artificial Intelligence	67%
Core Insurance Systems	61%
Advanced Analytics and FWA	57%
Actuarial and CAT Modelling Tools	51%
Customer and Intermediaries Portals	49%
Customer Relationship Management (CRM)	38%
Pricing/Rating Technology	34%
Point Solutions	27%
ERP/Accounting	26%
InsurTech Solution	24%
Customer Communication Management (CCM)	17%

Source: ISG

Risk assessment ranked as the second most significant pain point, and new tools for assessment topped the technology planning list. Artificial intelligence (AI), which has captured the carriers and the media's attention as the hottest technology in insurance, comes in as number two. Core systems, previously the top concern, now rank third, with analytics and actuarial/CAT modeling tools rounding out the top five. This indicates an overall market shift toward insurance carriers favoring an ecosystem of process-specific tools and automation, rather than relying on the policy admin system as a comprehensive solution. Actuarial & Cat modeling tool upgrades, which placed fifth overall, were number one with P&C personal lines. While AI as a specific tool came in second, it is integrated into virtually every technology today, and insights into how AI will be used in the near term were evident in the following responses.
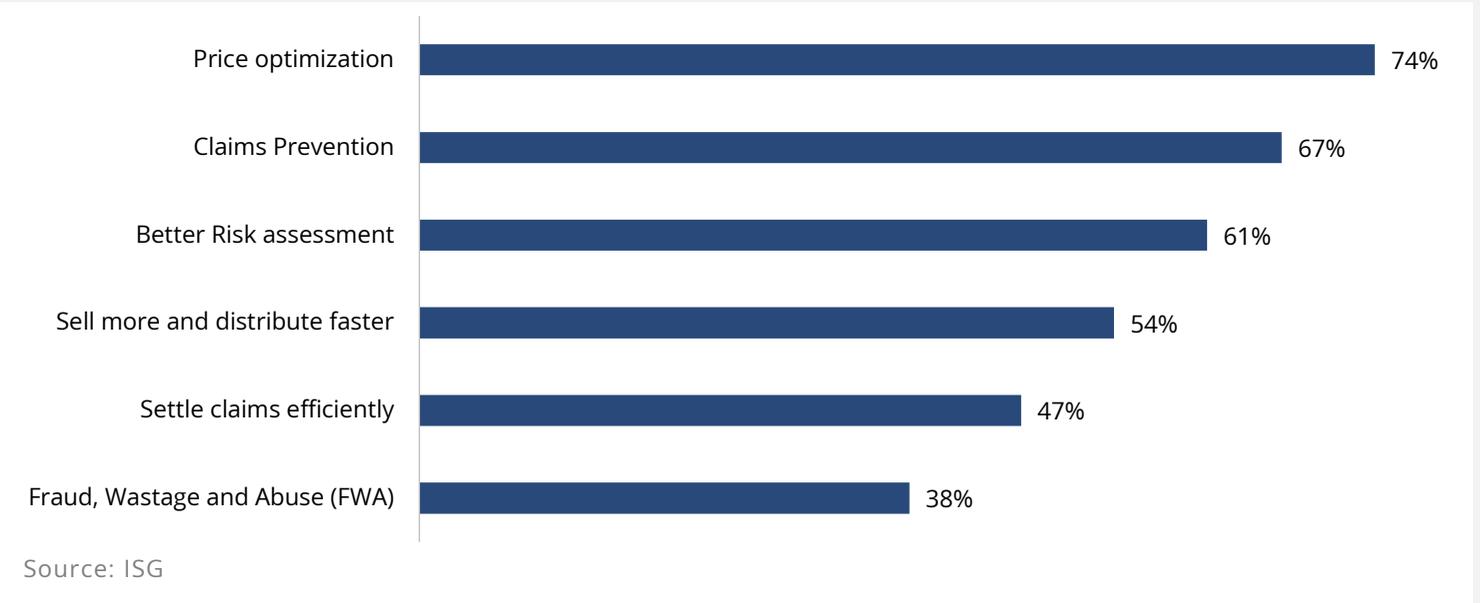
Figure 4: Which part of your value chain will use AI/GenAI/Agentic AI in the next 12 to 24 months?

Category	Percentage
Claims	74%
Pricing/Rating	71%
Marketing	69%
Risk Assessment	67%
Customer Services	63%
Policy Admin	54%
Actuarial and CAT modelling	51%
Distribution	43%
Quotation/illustration	35%
Partner Ecosystem Management	29%
Salvage and Subrogation	24%

Source: ISG

We see AI everywhere, as reflected in the fact that seven processes had a greater than 50% response. Claims holds the top spot, with 74% of respondents looking to infuse AI into their claims process. AI usage in Pricing and Rating was second overall, but number one with Life & Retirement, P&C Commercial lines, and MGAs. Our next set of responses shows where AI is planned to improve operational efficiency.
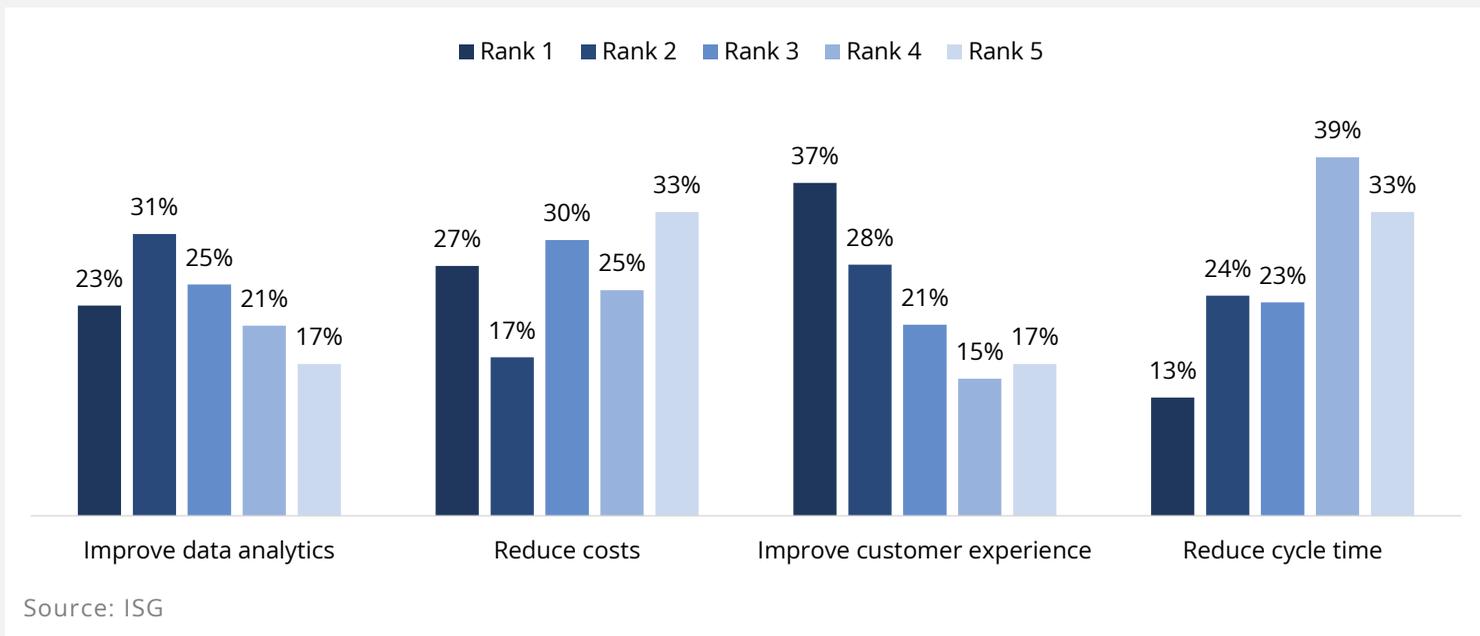
Figure 5: How would you like AI to help you operate more effectively?

Category	Value
Price optimization	74%
Claims Prevention	67%
Better Risk assessment	61%
Sell more and distribute faster	54%
Settle claims efficiently	47%
Fraud, Wastage and Abuse (FWA)	38%

Source: ISG

The biggest impacts are expected in sales (price and distribution optimization) as well as claims, focusing on reducing fraud and increasing settlement efficiency and claims prevention. With AI targeted to help drive claims transformation, we asked what goals you are trying to achieve through claims transformation.

Figure 6: What are the goals of your claims transformation?

Legend: Rank 1, Rank 2, Rank 3, Rank 4, Rank 5

Goal	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
Improve data analytics	23%	31%	25%	21%	17%
Reduce costs	27%	17%	30%	25%	33%
Improve customer experience	37%	28%	21%	15%	17%
Reduce cycle time	13%	24%	23%	39%	33%

Source: ISG

The top-ranked goal was to improve customer experience, with improved data analytics and reduced costs close behind, while reduced cycle time was ranked as the lowest priority. Improving data analytics was number one for P&C Specialty and Commercial lines. When we asked, "Where are you in your claims transformation journey?" almost two-thirds were in the early or mid-stages of transformation.

Figure 7: Where are you in your Claims Transformation journey?
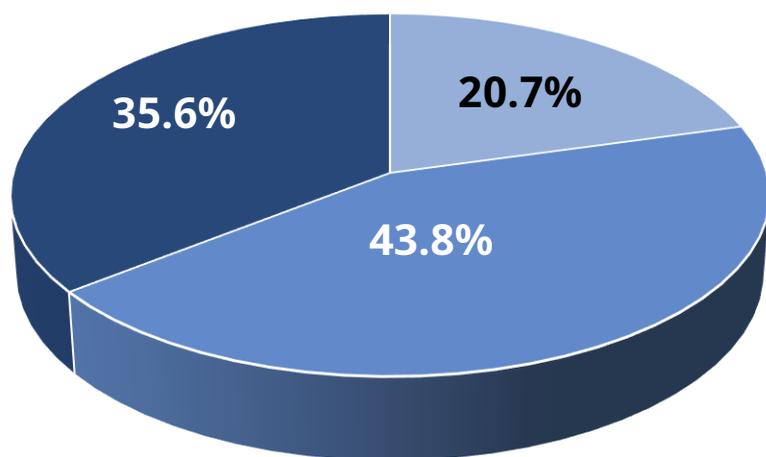
- Early stages – analysing updating legacy technology. doing POC of AI and other automations
- Mid-transformation – updating legacy technology, implementing some AI and other automations in certain processes
- Advanced stages – completed updating policy admin and major legacy systems and leveraging automation (AI and others)
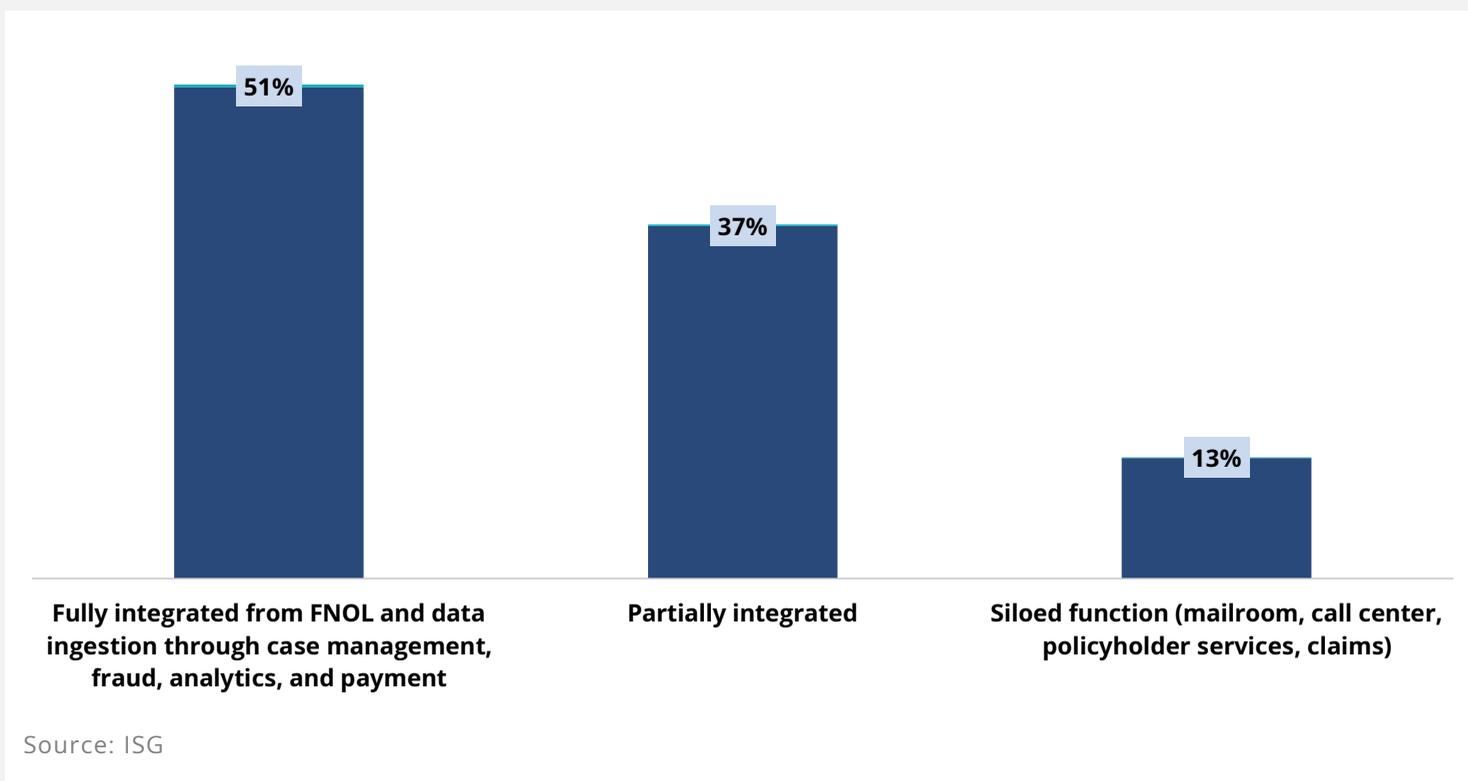
Source: ISG

Claims Transformation – How to Get to the Next Level?

Our survey results indicate that insurance companies are embracing technology in claims, making claims the number one target for AI. Many insurance companies are conducting AI proof of concepts aimed at a single point in the claims process, such as fraud detection or analytics. However, is this the right strategy?

integrated. P&C and Group had twice as many respondents with partial vs. fully integrated, indicating there is still a long way to go to achieve best practices.

With ever-increasing large loss events, insurers are struggling to deliver at the speed customers expect. The biggest improvements in customer experience come from mapping the end-to-end

Figure 8: How would you describe your end-to-end claims process?

- Fully integrated from FNOL and data ingestion through case management, fraud, analytics, and payment — 51%
- Partially integrated — 37%
- Siloed function (mailroom, call center, policyholder services, claims) — 13%

Source: ISG

Best Practice #1 – End-to-end approach to claims transformation

The primary pain point, as noted above, is meeting the ever-increasing customer experience expectations. The best practice is to approach this as an end-to-end transformation rather than focusing on just one point in the process.

Our survey data shows that while half of the insurance companies have adopted this best practice, half are either siloed or partially

customer journey and designing an integrated digital process to enhance every step in the process to personalize based on customer data and analytics leveraging "AI/automation" (as used herein, this includes the broader process enhancing technology ecosystem of AI, GenAI, agentic, LLMs, NLP, workflow, and RPA – all are unique tools that get blended based on the specific needs). Based on your product mix and sales channels, you likely have multiple "customers" and should develop a mapping for each, addressing the following for each:

- First Notice of Loss (FNOL): Customers need a multichannel approach to match their needs at the moment, including a phone app/website with chat, a call center for voice and email/mail.

- Document indexing: Customer data from calls, chat, emails and mail can be extracted to fuel the claims process and provide data for the claims processing system.

- Inspections and assessments: The use of drones and digital twins has greatly impacted the speed of claims processing after catastrophes. After a major event, drones can capture imagery immediately, and use AI to triage the claim by comparing the before and after data (satellite photos, IoT readings) to rapidly estimate damage and reduce fraud (the images/data verify the extent of damage). This not only saves costs but also increases customer satisfaction with quicker settlements. Drones and AI are also being used more frequently to replace in-person assessments.

- Analytics: AI, ML, LLM and other automation tools can verify coverage, detect fraud, push notifications to customers and brokers, and perform initial desk adjustments and estimations based on the data. This AI/automation support allows adjusters to do quick verifications of simple claims, frees their time for more ma complex claims and enables them to spend more time with customers.

- Payment processing: Once claims are finalized, AI/automation can book the expense, adjust reserves based on the approved amount, and generate the payment in the system.

There are significant benefits in looking at the end-to-end approach before starting your AI/automation journey. We have observed some "worst practices" where expensive, siloed work was performed in one area (call center, mail room/documents management, payment processing) that created an unnecessary data handoff to the next step in the process. Once an end-to-end approach was adopted, with process optimization enabled by automation, this new handoff was totally eliminated, consolidated or automated.

Best Practice #2 – Provide change management for new technology

The goal of mapping and automating the customer journey is not to eliminate customer interaction, but to enhance customer experience through AI/automation, allowing adjusters to focus on customer service. Human interaction remains more important in the claims process than in any other customer interaction, including the initial sale. The empathy and ethical business judgement needed to provide context of data and reach a fair and accurate resolution in complex and unique cases are beyond the current capabilities of AI/automation, particularly when collaboration and negotiation among multiple parties are necessary.

Policy administration systems, AI and other advanced automation tools enable customer self-service and can facilitate some levels of straight-through processing. However, regardless of how sophisticated the technology is, it is ineffective if it is not adopted. Employees may fear that AI/automation will reduce or eliminate their roles. It is essential for employees to recognize that not leveraging AI/automation could reduce or eliminate their roles. Employee communication, hands-on training and change management must be implemented to ensure that agents understand the goal is to enhance human experience (for both employees and customers) rather than eliminate it.

While AI/automation indicates we are "technology enabled" and may eventually lead to straight-through processing for straightforward claims, we are not yet "regulatory enabled," and the "human in the loop" is the most essential piece of the puzzle in the claims process. As such, strategic thought should be equally invested in change management and technology, as both must function together to achieve success.

Best Practice #3 – Leverage your existing technology

The insurance industry has invested heavily in policy administration systems (PAS), yet many companies do not fully utilize all the capabilities these systems offer. Most insurance IT departments have focused on cloud migration and related initiatives rather than on operational technology enhancements. We are observing operations play a much larger role to led the effort to implement these enhancements, as virtually all major PAS players have digital claims management workflow with low-code/drop-and-drag process mapping to simplify and document the process orchestration in an easy to use, scalable, intelligent way.

Your PAS should be your initial shopping destination to accelerate claims automation before building your own AI applications, as leveraging existing technology is typically better, cheaper and faster. With the rise in disaster claims events/volumes, your PAS is better equipped to manage the necessary scale, and PAS providers invest more in ongoing modernization and security that most carriers can sustainably manage.

While you will not find every automation solution for every product type and customer need within one PAS, it should be the first step in your claims technology planning. Each PAS likely offers capabilities for a more dynamic workflow that you may not be aware of, whether it's Guidewire Autopilot, Duck Creek automated data verification and alerts for natural catastrophes, or Verisk's specialty claim workflow engine.

Best Practice #4 – Leverage the provider ecosystem in the market to drive transformation

The same "make or buy" rationale regarding purchasing a PAS system with AI/automation versus building custom applications applies to other sourcing decisions in claims technology and staffing.

The number of technology and service providers supporting the insurance claims market has grown significantly over the last ten years, as has the maturity of the service providers. Traditional claims TPAs who focused solely on basic claims processing with claims processed on time as the only service level, have now been surpassed by a new breed of TPA providers who leverage AI/automation to create a more customer-centric process and deliver higher service levels and customer satisfaction at lower costs. These providers function as partners with carriers, bringing their experience and AI/automation IP to support end-to-end customer journey process mapping and streamline and automate processes through technology that would be used by both the carrier and service provider.

The cost per claim for the top twenty-five insurance carriers is typically significantly lower than that of most companies in the industry. While some may attribute this to the larger volume of claims handled by these carriers, the real reason is that the larger carriers leverage sourcing and maintain an ecosystem of partners to deliver AI/automation and business process outsourcing support, thereby reducing costs and improving customer experience. We are starting to observe carriers outside the largest players take advantage of sourcing partnerships to:

- Accelerate their AI/automation journey: An experienced partner with AI IP and a scale of experienced resources allows carriers to implement significant AI initiatives in weeks instead of months.

- Launch new products quickly: An experienced SI can help carriers go live with new products on a new, cloud-based platform in a fraction of the time and costs that most companies would typically spend.

- Provider broader solutions (technology and BPO support) to transform operations and guarantee cost savings: We have seen subrogation support providers deliver guaranteed improvement in subrogation, with gainsharing when they deliver beyond

the agreed baseline. Significant transformations in actuarial, underwriting, and processes beyond claims have also been witnessed, where providers offer both technology modernization and operations optimization.

We are at an interesting point in time, where those who are late to AI/automation have the greatest opportunity to benefit from the provider marketplace, enabling and accelerating their transformation by leveraging partners who have invested the time and resources to develop AI/automation products and expertise, allowing you to leapfrog the competition in your claims transformation journey.

About the Author

Dennis brings his 30+ years of experience leading clients through both operations and technology optimization and transformation. He offers clients his proven expertise and extensive knowledge of insurance operations and technology trends. Dennis' clients appreciate his meaningful thought leadership and market insights to help them understand what similarly situated organizations have achieved. He has advised hundreds of clients conducting negotiations on MSAs, SLAs, RFP/RFS development, SOWs, pricing structures, and governance services.

Dennis Winkler
Director – Insurance
Practice Lead

![xceedance logo]

Summary Facts

Headquarters
Worcester, MA, U.S.

Employee Strength
5000

Key Industries Served
Insurance

Portfolio Highlights
P&C Insurance BPO Services, L&R Insurance BPO Services, Insurance ITO Services

Geography Focus
Predominantly North America (>60%). Also has Europe and RoW presence

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Xceedance delivers insurance-focused consulting, technology, operations support, and data solutions to many of the world's largest P&C insurance organizations. With 5,000+ team members across the Americas, EMEA, and APAC, our rightshoring delivery model blends deep insurance domain knowledge with AI and next-generation technologies to provide localized services and digital-first platforms. We empower 350+ diverse clients, including commercial, personal, and specialty lines re/insurers, mutuals, program administrators, brokers and agents, and Lloyd's of London entities, to navigate market challenges and propel business growth.

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