Will AI and Virtual Claims Build a Bridge or Widen the Chasm?

A thought leadership article by Sean Carey, President, SCG Management Consulting

Anyone that has spent time in and around the auto claims ecosystem recently can't help but notice that digital and virtual auto claims processing is in vogue, so much so that Insurtech companies and insurers are releasing related new products and services into the market almost weekly.

These new products, be it artificial intelligence tools that determine repair costs using algorithms from data previously collected (one of the beautiful things about deep learning is that every data point enriches the entire data set) or virtual claims handling whereby photos are uploaded and a remote adjuster writes the initial appraisal, are no doubt the future.

All of this is quite wonderful and I for one endorse wholeheartedly the adoption of technology that makes life simpler and more efficient for everyone. My concern however is that we might be leaving two crucial constituents behind here and potentially risking consumer brand dissatisfaction as an unintended consequence.

The collision repair shops for whom the auto claims ecosystem relies heavily to deliver the end product, a safe and proper repair, is potentially being put between a rock and a hard place by being the front-line experts called upon to inform the customer that their initial appraisal might not be enough to get the job done. Equally these repair shops rely on vehicle manufacturers for crucial repair procedure information in the repair of the vehicles. Are we leaving them behind in all this AI and virtual adoption? In my opinion I believe we are.

There has always been some friction between the insurer, shop and OEM's that is naturally caused by the cost of repair conundrum. Insurers want to ensure costs are kept to a minimum, a fair price as insurers would say; OEM's want shops to use OEM parts and procedures and become OEM certified, and shops want to get on an do an honest safe and proper repair as quickly as possible and make a profit doing so.

Over the past number of years with the introduction and ongoing evolution/sophistication of Insurer Direct Repair Programs (DRP's) the friction has been ramped up by the insurers alternative parts requirements to meet DRP repair shop metrics, and the non-scientific approach to adjusting times based on, prevailing market conditions. Nothing new there, this has been happening for the past 20 years and the market has found a way to co-exist and function.

The second constituent being left behind here are the OEM's that invest several billions of dollars into each model to bring a vehicle to market. Decisions are being made about how to repair their products,

what to use to repair them and most importantly if the vehicle is fit for the road without so much as a thought about the OEMs.

More recently however the OEM's, enabled by new technologies, have had more than a little to say about this. Suddenly all the OEMs have begun to invest time, resource and energy into focusing on the collision repair process. Almost en-masse they stood up their certified networks, they issued new position statements on what was required to repair vehicles from direction to instruction, they focused shops on the need to scan and calibrate vehicles pre and post repairs. And why?

There are a few reasons, of which selling more parts is high on the list but there is more to it than that. They know their vehicles better than anyone and they (think 5,000 + engineers per OEM) know what it takes to repair them. Now add in the influx of ADAS systems that are both interdependent across vehicle components and mission critical to the 'nth degree and you can understand why they would be interested. The technical issues are mission critical if you like but with their foray into the collision repair marketplace, they found out a great deal more about how the market behaves during the workflow of an auto claim.

What the OEMs came to realize is that brand defection as a result of a poor collision experience was costing them billions of dollars annually. OEMs know that the more interaction they can have with the owners of their vehicles the higher the brand loyalty and repeat purchase. Vehicle brand defection rates following a collision repair are a net 36% (60% of dissatisfied customers swap out of the vehicle and 63% of those switch brands) and that much churn in any business area where they had until now paid little attention is a wakeup call.

Having identified a brand loyalty weakness, the OEM's took stock of their position and realized they had many tools at their disposal to influence the outcome. The telematics capability of the modern vehicle is impressive when it comes to data rich content. The sensors in the vehicle have the functionality to inform on the most critical aspects of the claim intake, or FNOL, as it is referred to in the insurance world. Demographics, geographics, vehicle dynamics, occupant(s) behavior and in some instances vehicle conditions are all available in real time. This is indeed a treasure trove for a claims department and the OEMs are coming to terms how best to deploy their asset.

We are in the early stages of the OEM deployment of vehicle data and there are some positive signs of partnership between OEM and Insurer to extract value and enhance the customer experience with a view to keeping them loyal to the brands.

But therein comes the challenge. If insurers continue to insist on alternative parts, if the AI or digital claims appraisal fail to incorporate proper OEM procedures, if the shops (yes remember the shops who are currently between a rock and a hard place having to tell the customer that the initial appraisal is not adequate to repair the vehicle) find it more challenging to repair the vehicles without the right data at the point of intake then we have to ask if the technology is building the bridge or widening the chasm.

There are complex business scenarios for both sides to ponder: One is where everyone pulls in the same direction, Virtual and AI claims incorporate OEM repair procedures, and the repair shop has a data package that makes repairing the vehicle more efficient thus enhancing customer satisfaction with all parties.

Another is where the OEMs realize that they are sharing (or selling) data against their own interest (parts sales, vehicle sales and brand retention) and continue explore the road to "branded OEM Insurance" complete with requirements on how, possibly where and most definitely what parts and procedures are required to repair their vehicles.

My advice has been consistent through the years when it comes to collision repair: First, "follow the car", do the right thing by the vehicle and every constituent will ultimately be satisfied. Second and, possibly in this case the more important, understand that "you can't solve an engineering problem using an economic solution".

I am hopeful that the claims and collision repair community can use this wave of technology to solve the challenges together and build the bridge.

ABOUT THE AUTHOR

Sean Carey, President, SCG Management Consultants
sean@careyscg.com

Sean Carey is President of SCG Management Consultants an automotive consulting firm based in Deer Park IL. Sean has over 30 years' experience in the automotive industry and has consulted at the highest level within all sectors of the automotive claims industry and has a keen understanding of the needs of insurers, repairers, OEMs, technology providers and a wide range of industry supply chain vendors. Sean is respected in the industry as a strategic visionary and a leader in growing businesses and markets from concept to implementation. In the past 5 years Sean has become a regular speaker at industry conferences on the subject of telematics and the potential impact this will have on the claims and collision market.

Sean lives in Chicago with his wife of 25 years and has four children.