

PROPERTY INSURANCE CLAIMS INNOVATION: IT'S TIME HAS COME

The Personal and Commercial Property claims process has traditionally lagged well behind other segments of P&C insurance in the adoption of technology and innovation. That officially ended in 2020, ironically aided in part by the effects of a global pandemic that changed virtually everything about life and business as we knew it. Understanding the factors behind the historical lack of innovation in property claims provides good insights into why and how this segment is suddenly undergoing such rapid transformation.

Auto vs. Property Claims Process Transformation

Change is relative and, when compared to the recent impressive rate of change in Auto claims, property claims appeared to be a more of a laggard than it really was – but a laggard nonetheless. To put this in perspective, U.S. Auto insurance policies, premiums and claims in 2019 were approximately four times larger than property. Further, auto claims are generally more visible, higher profile and more consequential to the public than property claims. And the auto claims process was so “broken” until about 1990 with the emergence of Direct Repair Programs enabled by internet and database technologies that its transformation has been that much more visible and impressive.

Industry Fragmentation

The property claims repair market is characterized by extreme fragmentation which exceeds that in the auto insurance claims industry. This is due to several factors;

- the relatively large number of service providers specializing in distinctly different major damage types, especially managed repair networks as well as independent contractors in general
- the complexity of property claims themselves which involve the coordination of numerous general and specialty provider types for a given claim
- proliferation of task specific software solutions which are generally not integrated with one another
- the smaller influence of property insurers on the repair process as compared to the much higher degree of influence which auto insurers have over the auto repair process (due to less consolidation of property insurers and because they collectively represent only about 33% of repair industry revenue while auto insurers represent almost 90% of collision repair revenue)

A high-level comparison of market fragmentation of third party auto and property claims repair provider markets provides another important explanation of the emerging transformation in property claims. The collision repair industry has undergone significant consolidation both in terms of the numbers of repair shops and shop ownership – and consolidation continues. Since 1990, the number of U.S. repair locations has fallen roughly 50% to approximately 32,000. Moreover, consolidators have created large multi-location multi-regional and national MSOs (Multi Shop Operator) and now control almost 30% of the repair industry revenue. Private equity investments and relatively inexpensive debt has provided the enormous pools of capital required to enable this consolidation.

Property Claims Ecosystem

In studying the property claims, mitigation and restoration ecosystem, we identified 110 companies with material market share which we grouped within nine distinct categories, including:

- Software applications for:
 - Property estimating
 - Restoration management
 - Claim management platforms
 - Accounting/financial, measurement, documentation, communication and productivity
 - Payment solutions
 - Imaging/aerial inspection
- Services:
 - Third Party Administrators (TPAs)
 - Property claims adjusting and estimating
 - Managed Property Repair Networks

Industry Consolidation

When we researched corporate ownership profiles for these 110 firms, we discovered that 45 – or 39% of them – are funded and/or controlled by private equity, venture capital and a few strategic investors. While there is some degree of such investor activity in every one of the nine segments, it is most pronounced in Managed Property Repair Networks, claims management platforms and imaging/aerial inspection verticals.

These investors are fueling consolidation in these segments in much the same way as they are in the auto claims ecosystem, and will result in greater adoption of cost-effective and process innovation technologies. This is already in evidence by the emergence and adoption of artificial intelligence, computer vision, augmented, virtual and extended reality, machine learning and natural language processing across property claims.

Opportunities

Emerging Property Repair Market Opportunity

Relatively speaking, the property repair industry is 40% to 50% mature vs. the auto claims industry which we estimate is approximately 80% mature. This is partially illustrated by direct repair claims penetration of the collision repair industry which is at or over 50% for the higher market share carriers and more for some auto carriers versus less than 10% industry average for property repair.

The Homeowners property insurance claims and ecosystem software and technologies market, viewed holistically, represents a significant and mostly unaddressed market opportunity. This closely parallels the auto insurance claims process and collision repair markets of 1990 which saw technology and economics drive vendor consolidation and carrier adoption of managed national repair programs which were enabled by automated estimating software development, digital communications, imaging and end-to-end claims workflow tools.

Property Claims Solution Platforms

Property insurance carriers are now and increasingly will be seeking technology-driven end-to-end property claims management solutions featuring;

- connectivity between all parties from report of loss to remediation to payment and closure
- hybrid insourced/outsourced carrier claims and repair network management capabilities, including universal, standardized contractor onboarding, performance metrics, automated skills/needs matching, user reviews and vendor rankings.
- integration with Guidewire's claims platform or similar partner ecosystem

Property Claims Technologies

Artificial Intelligence (AI), Machine Learning (ML), Robotic Process Automation (RPA), Computer Vision (CV), Natural Language Processing (NLP), aerial imagery including drones and digital payments are being aggressively adopted across the P&C insurance claims process, and specifically Property.

- Smart Home technology adoption will mitigate and in some cases eliminate claims and losses; Bain Capital predicts that in just five years there will be 50 billion connected devices and a trillion by 2030. According to Statista Market Forecast, the global smart home market was valued at \$55.65 billion in 2016 and is projected to reach \$174.24 billion by 2025, growing at an annual rate of 13.52 percent. And while 32.4 percent of homes currently have a smart device, that number is expected to reach 52.4 percent by 2025.
- the impact of these technologies to the property claims and restoration industries is already - and will become even more - significant
- as residential policyholders become more comfortable with self-administered smartphone photo and/or video inspections of property damage reported directly insurers will gain more control over the restoration assignment process which will promote the use of national repair networks (and the claims management software that can manage the end-to-end process)

- It is estimated that the use photo inspection services can reduce field claims cost from an average \$550 down to between \$60 to \$90 and the use of technical inspections from \$550 to \$300
- Technical inspections or VAIP (virtual adjusting and inspection programs) is the fusion of both services; includes the use of a licensed adjuster. Claims to offer faster cycle times and savings of 35% in LAE
- similarly, providers of satellite and aerial images including drones, are gaining in importance in the residential property damage identification, validation, damage assessment and repair estimation process
- satellite and aerial imagery are increasingly being used by the property insurance industry for Catastrophe* planning and response, including damage evaluation and estimation

Property insurance carriers now seek to avoid the effort and responsibility of managing restoration contractor selection or oversight but require a complete end-to-end workflow management platform in order for that to become a reality.

The Property Insurance claims and repair industries continues to move through a multi-segment structural transformation caused by prevailing market conditions including industry fragmentation, consolidation, investments, revenue and geographic scale, end-to-end technology and software integration, emerging technology adoption and claims process improvement. Companies and investors that recognize the numerous opportunities presented by this transformation and solve for these dynamics are likely to be the future industry leaders.

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