Insurance Buyers' News

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How Will AI Impact the Insurance Industry?

Generative AI value-creation opportunities abound across the insurance value chain," according to a new report by Deloitte.

However, the report says, since Gen AI is in its infancy, insurers are trying to strike the right balance between harnessing value from an emerging technology and managing risks appropriately. The report offers insurance buyers a peak into the future of how insurance companies will try to use AI to make their operations more efficient in various sectors.

Property and Casualty (P&C)

Generative AI can help streamline the claims process and optimize risk management for P&C insurers.

- Streamlined claims processing (Value drivers: enhance workforce productivity, enable cost savings and efficiencies): Gen AI-powered chatbots can record and respond to first notice of loss and give customers real-time information on triage and repair services to improve turnaround time and customer experience.
- Enhanced loss prevention and control (Value drivers: enhance workforce productivity, generate new revenue streams): Gen AI can play a crucial role in risk identification and mitigation. By analyzing claims data from multiple sources and

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Insurance Rates continue to stabilize entering 2024

Global commercial insurance rates rose 2% in the fourth quarter of 2023, compared to 3% in the prior two quarters, according to the Marsh Global Insurance Market Index. This was the twenty-fifth consecutive quarter in which composite rates rose, continuing the longest run of increases since the inception of the index in 2012.

Global product line trends Q4 2023

Property insurance rates increased 6% and experienced increases in every region except the Pacific, where rates were flat. Underwriters globally continued to scrutinize property valuations in light of ongoing inflation.

Casualty lines rates increased 3%; globally, insurers remained con-

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forms (e.g., Internet of Things, video, text), historical claims, and external factors (e.g., weather patterns), Gen AI models can help P&C insurers identify areas prone to losses, which can aid in the development of risk mitigation strategies and plans (e.g., recommending safety improvements, suggesting policy adjustments to reduce future losses).

Group

Group insurers can leverage Gen AI to provide additional value to employers and employees through tailored insights and recommendations.

- Customized group plans (Value drivers: generate new revenue streams, enhance workforce productivity): Gen AI can analyze data from a variety of sources (e.g., demographic information, health profiles, and historical claims data of group members) to generate insights and inform the design of customized group insurance plans and tailored benefits packages and options, enabling the employer to improve the value proposition of the benefits package.
- Improved member engagement (Value drivers: generate new revenue streams, enhance workforce productivity): Leveraging and analyzing member data (e.g., preferences, purchase history, social media data, etc.), Gen AI models can generate personalized health tips or provide financial advice to proactively equip members with informative insight and promote overall wellness.

Risks and Regulatory Implications of AI in Insurance

Gen AI presents potential risks and adoption may be slow if the following are not considered when scaling:

- Malicious hallucinations and deep fakes, phishing and prompt injections, and ambivalent actors can expose the attack surface and erode customer trust.
- Gen AI is prone to mimicking biases and propagating discriminatory behavior if implemented without guardrails and continuous monitoring.
- Models will be trained on a corpus of proprietary and often private data, requiring regulatory compliance, node isolation, and source traceability.
- Customer servicing and engagement within insurance companies requires a heightened sense of empathy and softer human interaction skills, especially during claims processing. Overemphasis on AI-driven automation may result in a lack of human touch, potentially leading to reduced customer satisfaction and loyalty.
- Insurance regulators want oversight on insurers' AI models and expect insurers to manage AI risk. AI oversight activity at the state level is forging ahead, with laws in place or contemplated, to bulletins from insurance commissioners asserting authority under multiple state and federal laws.

To mitigate these challenges, insurance companies should prioritize ethical AI development, leverage diverse and representative training data, evaluate and audit their AI systems on a consistent basis through a robust governance model, and maintain transparency in decision-making.

This Just In

cerned with social inflation, particularly regarding continuing large jury awards in US courts.

Financial and professional lines rates decreased 6%. Every region experienced a decrease. US exposures — such as US listed companies for directors and officers (D&O) coverage — were again a focus of insurers.

Cyber rates declined 3% globally. In regions where rates rose, the trend was for a slower pace of increase. Insurers continued to focus on cybersecurity controls, typically looking for year-over-year improvements.

- Stay aware of ongoing legislation and guidance frameworks for compliance.
- Ensure regular surveillance and governance of AI systems (internally) and with vendors. Maintain strong oversight and communication with third-party vendors when using their AI models or outputs.
- Be ready to share information with customers in a transparent fashion when an adverse decision is made (e.g., higher rates, policy declination, etc.); respond to customer complaints and mitigate and address bias when identified.
- Construct a training regimen throughout the organization on Gen AI use.
- Ensure systems are flexible to incorporate new regulatory mandates as those are developed.
- Manage brand risk by making sure that seasoned marketing and communications executives are in the loop when Gen AI opportunities are being implemented.

To read the full report, go to http://tiny.cc/4uopwz

Surety Bonds: The Other Risk Management Tool

Surety premiums are only about one percent of property/casualty premiums ($769.3 billion in 2022), but sureties play a critical role in our economy.

According to the Surety & Fidelity Association of America (SFAA), surety contracts protect over $9 trillion in assets.

Surety bonds and insurance policies both provide financial security, but in quite different ways. When you buy insurance, the insurer guarantees to reimburse you for a covered loss. When you buy a surety bond, it guarantees that you (the principal) will fulfill the terms of your contract or other obligation with a third party. If you fail to meet these obligations, the surety company will pay the other party (called the "obligee").

The indemnity provision in a typical surety agreement grants the surety the broad legal right to recover from the indemnitor (usually the principal) whatever it pays on the principal's behalf under the related bonds, as well as those amounts for which it remains liable.

When Do You Need Surety Bonds?

If your profession requires a license, the state will likely require you to have a license bond to protect your clients if you don't uphold the regulations that govern your license. Project owners often use construction or performance bonds to guarantee that a project or job will be completed according to the contract; contractors many also be required to buy bonds to guarantee they will pay workers' compensation claims. Crime bonds guarantee that a covered employee won't embezzle your funds.

Insurance vs. Surety Bonds

Although insurance and surety bonds both transfer risk, they have significant differences.

- In traditional insurance, the risk is transferred to the insurance company. In suretyship, the risk remains with the principal (as per the Indemnity provision mentioned above).
- In traditional insurance, the insurance company takes into consideration that a certain amount of the premium for the policy will be paid out in losses.
- In true suretyship, the premiums paid are 'service fees' charged for the use of the surety

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company's financial backing and guarantee.

- In underwriting traditional insurance products, the goal is "spread of risk." In suretyship, surety professionals view underwriting as a form of credit, so the emphasis is on prequalification and selection.

When you apply for a surety bond, the surety company will make a thorough investigation of your company, including its finances, qualifications and experience. The premium you pay depends on how the surety underwriter assesses your default risk. The greater your perceived risk of default, the higher your premiums will be.

If a surety company must make a payment to an obligee on your behalf, you must reimburse the surety. Each bond specifies a maximum amount of money the surety will pay, called the penal sum, in the event of your default.

Guaranteeing a financial obligation such as a loan requires a different set of underwriting tools — and a different type of bond. Financial guarantees require the analysis of complex contractual terms and conditions and an evaluation of how they will affect your ability to pay the loan or financial obligation you want to guarantee.

Because underwriting financial guarantees is so complex, insurance regulations permit only companies licensed expressly for that line of business to write it. Surety bonds can play an important role in your risk management program. For more information, please call us.

What to Do About the Rapidly Expanding Crime of Cargo Theft

Documented strategic cargo theft events increased 430% year-over-year in 2023, according to CargoNet, a cargo industry publication.

Much of the increase has been due to ongoing shipment misdirection attacks, in which thieves use stolen motor carrier and logistics broker identities to obtain freight and misdirect it from the intended receiver.

Strategic cargo theft groups have widened their preferred commodity targets to include truckload shipments of metal like copper, brass and aluminum; apparel — especially officially licensed sports apparel; and shipments of personal care and beauty products, the company said.

Thieves continue to pioneer new methods of strategic cargo theft seeking to evade compliance practices used by logistics brokers.

Strategic cargo theft groups have shown keen interest in perpetrating fraud against small motor carriers or owner/operators with intent of hijacking their accounts or convincing them to solicit shipments from logistics brokers on their behalf, according to CargoNet.

Cargo Theft by State

While thefts occur in nearly every state, a few stand out as the biggest targets for cargo theft. The top 10 states are:

1. California (1,770)
2. Texas (1,255)
3. Florida (921)
4. Illinois (712)
5. New Jersey (468)
6. Georgia (438)
7. Alabama (214)
8. North Carolina (204)
9. Indiana (192)
10. Missouri (181)

Companies that lose product due to theft face the cost of the lost load, the effort of recovery and increased insurance premiums and deductibles.

But the problem with cargo theft isn't necessarily the amount of what is stolen, but what is stolen. Common targets include food, beverages, and pharmaceuticals. Unfortunately, those stealing such products don't care about expiration dates. As a result, consumers could be getting expired food or drugs, both with potentially terminal impacts.

In 2016, a theft of a truck carrying beef was intercepted on its way to a black-market sale to a restaurant in Dallas, Texas. Stolen food and drugs are often sold online to small "mom-and-pop" shops placing unsuspecting customers at risk.

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To limit the impact of such theft on your transportation company, the NICB recommends organizations to:

- Screen employees. Conduct a background check to screen all employees, including drivers, warehouse employees, and those with access to the shipping information.
- Train employees. Provide security training for all employees making certain to educate truck drivers in hijack awareness and prevention. Training safeguards the employee, trailer, tractor, cargo, and customers.
- Be smart in selecting transportation partners. Check partners before hiring. Make certain they share your security philosophy, such as conducting background checks and employee training.
- Implement in-transit security measures. Cargo theft can be preplanned or opportunistic. It could also include an inside informant who follows the truck ultimately leading to organized crime or fence to quickly dispose of the goods on the truck. Thieves will often wait outside known shipping facilities waiting for drivers to stop. A good practice is to not stop within the first 200 miles and park in known secure locations and avoid hot spots.
- Keep a vigilant eye. Include countersurveillance in the duties of your security guards. Trucks and cargo are most vulnerable to theft when sitting idle.
- Take advantage of technology. Install alarm surveillance systems and respond to all alerts. Ensure the perimeter, entrances, building doors, and windows are well lit. Vehicle and cargo tracking, immobilizers, and advanced security seals are available.
- Conduct audits. Conduct supply chain audits and look for gaps in shipment protection. Cargo criminals are always coming up with new ways to defeat security systems.

Nation's Guardrails Can't Handle Heavier EV Vehicles

The growing number of electric vehicles on the road that weigh 20 to 50 percent more than gasoline powered vehicles has engineers at Nebraska's Midwest Roadside Safety Facility and the Army Corps of Engineers concerned. The extra weight, due to the batteries they carry, means that existing highway guardrails may not be effective at stopping these vehicles.

As part of their study, the engineers are evaluating a system that features a 12-gauge corrugated steel guardrail attached to 6-inch-deep steel posts, anchored to the rail with blockouts 8- to 12-inches thick. The top of the rail is 31 inches above the road.

Designed as an inexpensive, high-performing barrier, the guardrail system has already been tested with small cars that weigh up to 2,400 pounds and pickups that weigh 5,000 pounds. But little is known about how the system will perform in crashes involving EVs which are 20 to 50 percent heavier and have lower centers of gravity.

Research suggests that EVs are involved in run-off-road crashes at about the same rate and about the same speeds as gasoline vehicles. That would mean an EV crashing into a roadside barrier could have 20% to 50% more impact energy.

The University of Nebraska, Lincoln, which sponsors the research, has led several efforts to create next-generation barriers. Besides the MGS, the Husker team also developed the Steel and Foam Energy-Reducing, or SAFER, barrier, improving race car track safety and saving race car drivers' lives. The SAFER barrier was even installed in the Rose Bowl during an exhibition racing event.

Today's challenge is to again adapt roadside barriers to match the mix of heavier electric vehicles, lighter gasoline vehicles, taller SUVs and pickups, and smaller cars.

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