



COUNTERING SOCIAL INFLATION PART 5: TECHNOLOGICAL APPLICATIONS

ABSTRACT

One would be hard pressed to find a current insurance industry publication that does not include an outright call to rename Social Inflation as litigation abuse. These clarion calls are accurate and eerily reminiscent of mass calls for innovation not that long ago. However, what is missing all too often are concrete counter measures. The goal of every article in this series is to provide accurate diagnosis of the practices disrupting insurance availability, affordability and reliability while also providing concrete action steps to begin preventing further deterioration. Anyone can smell smoke and see a flame and yell, "Fire!". The goal of this series is to grab a hose and a ladder.

Guy Fraker

An Ask For Participation

Throughout this series additional feedback and data has been gathering [via this online survey](#).

All respondents will receive

- A copy of the survey results,
- This series as a PDF,
- Opportunity to schedule a 1:1 or small group remote discussion.

Links to Previous Posted Installments

Bonus Installment: Economic impact of litigation growth on consumers & federal interventions bundled into a Federal Insurance Stabilization Economic Plan (FISEP)

Part 1 Social Inflation defined as a fully scaled litigation economy.

Part 2 Defining insurance vulnerabilities creating opportunities for disruption

Part 3 Third Party Litigation Funding and Phantom Medical Billing

Part 4 Countering litigation economy marketing and communication strategies

Upcoming: U.S. Insurance 2029: A summary of 4 future visions, including a forecast as to the most likely direction, and the road signs to watch out for.

Social Inflation Counter Measures

Background & Context:

One would be hard pressed to find a current insurance industry publication that does not include an outright call to rename Social Inflation as litigation abuse. These clarion calls are accurate and eerily reminiscent of mass calls for innovation not that long ago. However, what is missing all too often are concrete counter measures. The goal of every article in this series is to provide accurate diagnosis of the practices disrupting insurance availability, affordability and reliability while also providing concrete action steps to begin preventing further deterioration. Anyone can smell smoke and see a flame and yell, “Fire!”. The goal of this series is to grab a hose and a ladder.

To reinforce information provided thus far, counteracting innovative disruption exploiting insurers’ capabilities to accurately price, and affordably provide, insurance protections will require:

- Additional technological and procedural solutions, which will likely require expertise and capital investments.
- Continuous, or systematic, innovation best practices to protect the business model and generate revenues and/or capital returns.
- Solutions that may challenge historical business practices, cultural norms, and established protocols.
- Insurers are facing a long game. Market conditions make a compelling call to action now. The phrase “long game” is a reference to a long-term, if not permanent shift in market conditions. Said differently, the social norms, the boundaries, that shaped this industry pre-2021 impacted insurer results, and actuarial practices, are being rewritten by those who choose to use the institution of insurance as a means to an end. Neither national economic security, nor consumers’ need to recover from disasters are among their priorities.

Summary of Insurer Recommendations

Based on some questions and additional insights generated from prior installments, a note of clarity is needed before going further. The top priority, designed into this series, is sharing information worthy of consideration in formulated strategies to protect capital, investors, and policyholders. That said, conveying how to navigate through established corporate cultures, potential organizational hurdles, even assessing the impact of these predatory practices at a company level cannot be provided in this medium. This is particularly important to keep in mind before diving into the technological applications in play.

Based on real world engagements with insurers and reinsurers, the most common landmines negatively impacting insurer/self-insured strategies against the litigation economy’s accelerating growth includes converting significant

complexity into actionable priorities; determining measures of success; communicating potential unintended consequences in advance of final decisions; facilitating consensus as to organizational boundaries; prioritizing internal communication needs and separating assumptions from core drivers. Avoiding these landmines greatly accelerates time horizons to success. Experience leads to a recommendation that outside expertise be sought to deliver these services.

Information provided, identification of predatory practices, and recommendations for insurers represent the convergence of first-hand experiences reverse engineering these systems and practices. Findings were then confirmed with additional interviews and employing research best practices. These steps included:

- Identification of insurer, and insurance market, vulnerabilities from statutes, policy language, defense management, claim settling philosophies, trends within filed complaints.
- Extensive multi-industry literature research
- Firsthand stakeholder interviews, including but not limited to: Hedge fund managers, insurer executives, BOD members, TPA execs, insurance investors, ex-pats from TPLF firms, defense attorneys, contractors, medical billing providers, state counter-fraud law enforcement, state and federal lawmakers, city police, auto repair shop owners, consumers and consumer advocates, utility “high-line” equipment repair professionals.
- Experiences listed are limited to post 2020 and occurred in support of client advisory engagements and public policy development. As such, they are also highly relevant to this series including: Observation of trials, verdicts, juror selection, damage estimates, damage appraisals, a ride-along day with a contractor’s drone operator, job interviews with 5 roofing contractors, attended one plaintiff law conference, live demos with 5 defense firm AI case management platforms, 2 plaintiff based AI platforms, and volunteering at 2 insurance disaster recovery “villages”.
- Analysis of actual insurer data points as well as 5 post-op examinations of insolvent insurers
- Analysis of multiple telematics programs in use by insurers
- Experience developing and enacting counter measures in both public policy and private sectors.

Recommendations In This Installment

Certain technological capabilities are at the core of the litigation economy. These same technologies are core to insurer counter measures. Specific providers are named for information purposes only. Inclusion in this installment is not an endorsement. As a matter of disclosure, no technology provider is connected to the production of this white paper.

1. Adoption of sophisticated technological capabilities including Augmented Intelligence (AI), Machine Learning (ML), Natural Language Processing (NLP), and predictive analytics: ^{1, 2}
2. Adopt/refine systematic product innovation best practices

“The most powerful defenses to litigation exposures are execution of avoidance and mitigation strategies. This begins with loss control. Using data and predictive analytics and leveraging emerging technologies like telematics is useful in developing overall avoidance and mitigation plans of the initial losses.” Sedgwick, Winter 2024: Casualty, Auto

For those involved in decisions about adopting technological applications while also feeling challenged by maintaining a layman’s understanding of these capabilities, fear not. The essential take away is to be introduced to the primary objectives for these technologies within the litigation economy growth engine in order

¹ A comprehensive guide to legal spend management By Trever Mertz, Milliman, 07 April 2023

² Augmented Intelligence is a Second Set of Eyes on Casualty Claims, CLARA Analytics

to have greater clarity regarding the technologies needed to fight back. Whenever possible anecdotal examples are provided.

Technological Capabilities Defined

Augmented Intelligence (AI): Augmented intelligence is a design pattern for a human-centered partnership model of people and artificial intelligence working together to enhance cognitive performance, including learning, decision making and new experiences.

Machine Learning: Machine learning (ML) is a branch of artificial intelligence (AI) and computer science that focuses on the using data and algorithms to enable AI to imitate the way that humans learn, while continuously improving its accuracy.

Structured and Unstructured Data: Structured data is data that fits neatly into data tables and includes discrete data types such as numbers, short text, and dates. Unstructured data doesn't fit neatly into a data table because its size or nature: for example, audio and video files and large text documents.

Predictive Analytics: A branch of advanced analytics that makes predictions about future outcomes using historical data combined with statistical modeling, data mining techniques and machine learning.

Natural Language Processing (NLP): A machine learning technology that gives computers the ability to interpret, manipulate, and comprehend human language. This allows existing structured and unstructured data to be read, interpreted, and fed into current and predictive analytics regardless of format. Think claim adjuster notes, scanned handwritten notes, case data, handwritten documents.

Figure 1 from Medium represents the relationship and interplay among the individual capabilities defined above.³

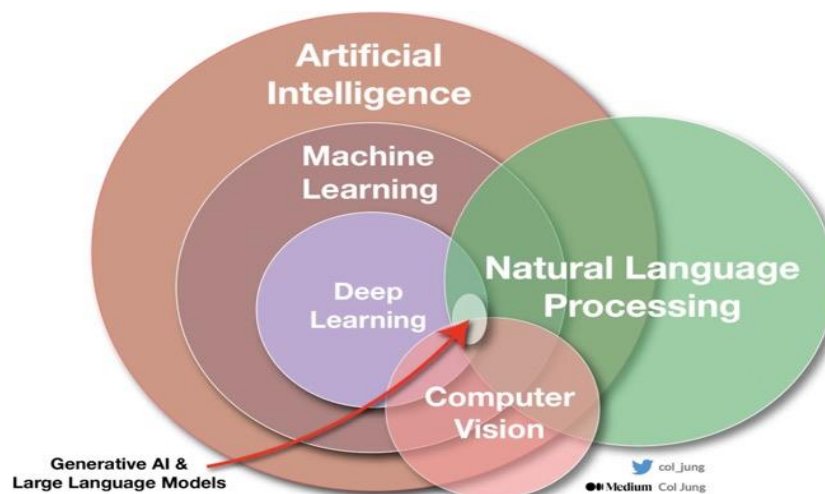


Figure 1: Graphic illustrating how technological applications interact for generating output.

³ [Medium: AI Revolution](#) — Your Fast-Paced Introduction to Machine Learning From Basics to Generative AI Col Jung, April, 2023

If we remove all of the technical jargon, and get down to the core missions for these advanced components, what we are left with is a system that takes in enormous volumes of data in the form of facts, figures, geography, weather, documents, public records, and past human behaviors in order to predict a very specific set of human behaviors in the context of an extremely well defined set of circumstances. Furthermore, these behavioral predictions are generated for every individual directly participating in the dispute, each of whom plays an equally well-defined role. Furthermore, the behavioral forecasting focuses on patterns established while processing prior claims in the context of their interactions with each other.

First, assume anti-solicitation laws do not exist. A hypothetical vehicle collision occurs in a suburban setting shortly before midnight involving 2 cars and 2 occupants per vehicle. One of the drivers calls 911, generating a police response to the incident. Within hours, the technological capabilities are initiated. Initial consumer profiles are generated for all parties involved, based on whatever information is accessible. As one example, police reports are read and interpreted, and an incident profile begins development including insurance information. Injury information will be captured later. An approximated attribution of fault is assigned to each party. The outcome is a first draft forecast identifying the claimants, estimated damages, likelihood of injuries, estimated total damages. Expected behaviors are also generated for a short list of likely adjusters given the insurer identified for the party most responsible, as well as forecasting the defense panelist based on likelihood of being assigned the claim.

At this point, a case assessment is generated including multiple forecasted outcomes based on a variety of factors affecting the process of resolving the claim such as settled vs fully litigated. Several platforms also establish a set of criteria, established collaboratively with their plaintiff firm user, to screen out potential cases that fail align with the thresholds established. Let's assume our hypothetical incident does pass this initial assessment for a local firm. The incident is now a lead. The assessment generated includes recommended assignments to specific attorneys.

In the most sophisticated platforms, a virtual assistant will call the party identified on behalf of the pre-assigned attorney and engage in a conversation about being retained as a client. Other platforms use standard contact centers. Again, depending upon the services provided, client intake is completed immediately upon verbal agreement from the solicited party. Understand why the suggestion was offered regarding anti-solicitation laws. The law firms are not the initiating the calls. The culprits are either software or unaffiliated persons. Regardless, they are leveraging existing statutes by navigating gaps, outdated definitions, etc.. Once served, behavioral profiles are refined as the case profile can be fully developed with the assigned claim professional, defense attorney, medical providers, assigned Judge, and likelihood of seating a jury.

Let's step back and remember, claims are adjusted based on rules, permissions, statutes, and finally with an established style unique to each claim professional. The same is true of defense attorneys, judges, plaintiff attorneys, medical providers, contractors, etc. The technological capabilities begin with historic behavioral markers and a set of rules (algorithms) are established for an individual and for interactions that individual may have with other relevant parties. Moving forward, "the machine" will continue capturing data as that person interacts with future clients and cases. The system automatically uses new data points for learning purposes to improve future predictions. Natural language processing will read, and extract from, past depositions, trial testimony, recorded statements, deposition questions, defense trial strategies, bench rulings on motions, objections, bench verdicts, and effectiveness of expert witnesses.

The core process for insurance claim disputes across all lines is virtually the same albeit leveraging different data sets and case files. At each point in this overly simplified example, the time required to generate the outputs described is measured in minutes if not seconds. Finally, the language analysis and behavioral data

from all cases read into the system is aggregated to inform, if not actually produce, consumer facing content and strategies.

Figure 2 is a high-level graphical representation of these applications combined in a single process. entire capability

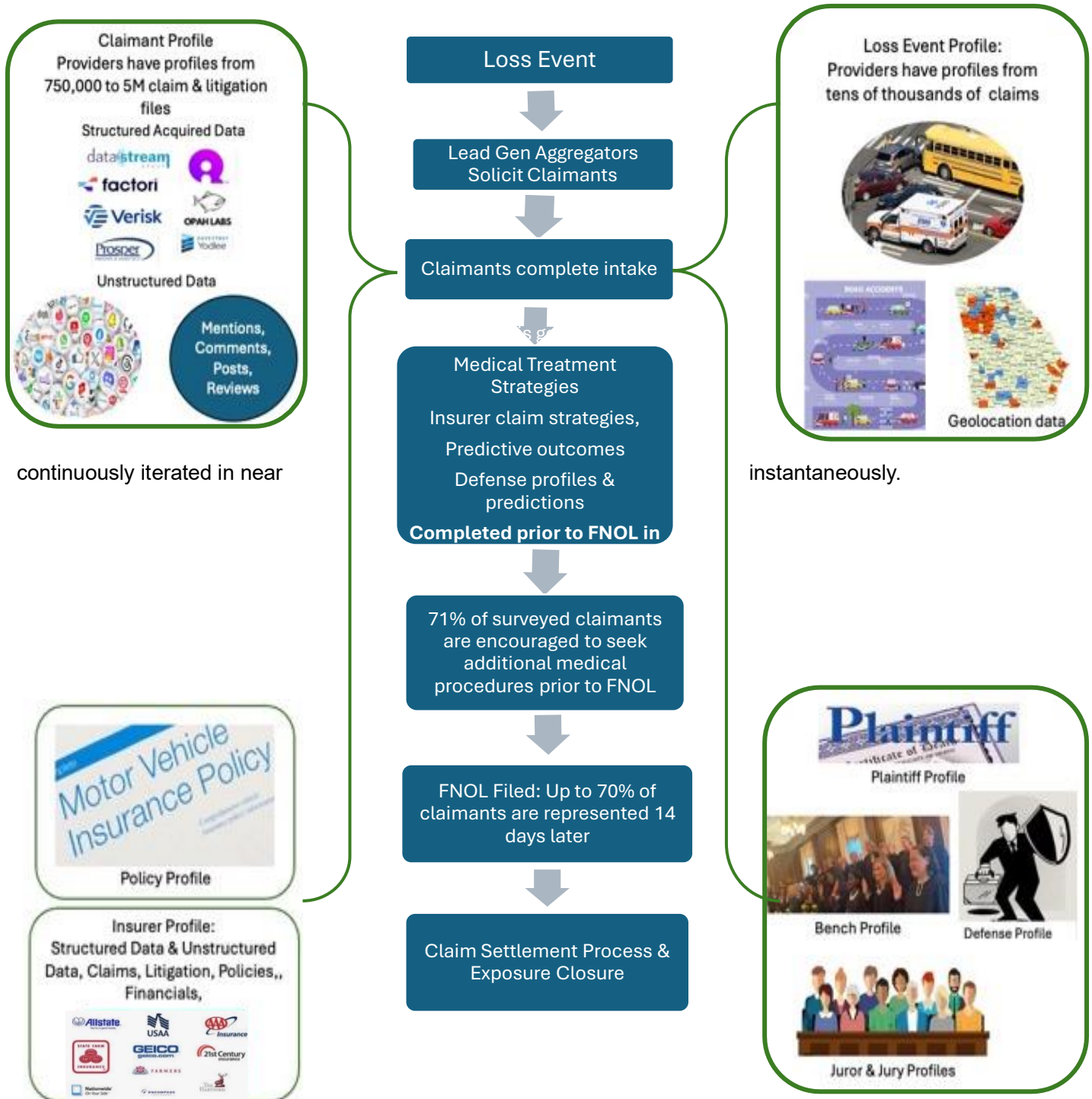


Figure 2: Illustrative example showing the convergence of AI, ML, and networked data in prevalent use throughout sectors in the Litigation Economy

A few closing thoughts relevant to the technologies described in our illustrative incident. A common misperception creating concerns about artificial intelligence boils down not relinquishing control over a set of consequential circumstances. Our hypothetical crash is filled with specific points in time relying on augmented intelligence. At each key decision point, the system generates recommendations, propensities for multiple outcomes, and contingencies leaving the professionals to make the decisions.

CASE STUDY: Litify

Fast forward to 2016 and the launch of an AI based plaintiff litigation growth platform Litify by founder Reuven Moskowitz. John Morgan, Founding CEO at Morgan and Morgan, was the sole seed level investor becoming the primary Board member and hands on mentor. Prior to the launch of Litify, Moskowitz was named COO of Morgan & Morgan in addition to being Litify's founding CEO.⁴ Tiger Global Management (TGM) filled a Series A round of \$50M in 2019. In Q1 2023, Bessemer Venture Partners became the majority shareholder in 2023 for a reported raise of \$150M with TGM retaining a minority position.⁵ In 2021, Litify was described in the National Law Journal using a comparison to Google's advanced technology lab.⁶ Litify is considered the gold standard in using AI to drive growth among client plaintiff firms. While growth metrics vary by source, VC information provider GetLatka reported Litify's YTD revenues through Q3 as \$10.6M, with a customer base of 27,000.⁷ In February of this year Berkshire Hathaway's business wire reported the platform is in use by 400+ enterprise clients, 55K+ legal professionals, primarily in personal injury, insurance defense, and immigration law firms and the in-house legal departments of Fortune 500 companies across North America and Europe.⁸

One additional notable output of Morgan's technological development efforts is extremely sophisticated SEO capabilities leveraging Google Ad Words, which is an extremely nimble model for growth. In February of 2024, The Institute For Legal Reform reported Morgan & Morgan, spent \$40.3 million on digital ads in 2023 up by 47% over 2022.⁹ Morgan acquires as many keywords as Ford, McDonalds, Costco, and Starbucks combined with a monthly spend ranging from \$750K to \$1.5M. Advanced algorithms update in real time based on millions of litigation case files managed on behalf of client plaintiff firms throughout the country.

In a recent podcast, John Morgan hinted at the next phase of artificial intelligence development. A digital offering will connect litigation lead gen firms, potential claimants, and plaintiff firms via an enhanced artificial intelligence-based client intake process resulting in an immediate vetting of the potential case and if accepted distribution to participating law firms/lawyers.

As an aside, according to the start-up data platform Crunchbase, Litify's initial seed round investment transaction was completed through the private equity firm and third party litigation funding giant, Fortress Investment Group.¹⁰ Majority ownership of the Fortress Investment Group is held by [Mubadala Investment Co.](#), a state-owned sovereign wealth fund of the United Arab Emirates'.¹¹

Litify is by no means the only litigation management platform for law firms. In June 2023 plaintiff services start-up EvenUp closed a funding round of \$50M on a valuation of \$325M. EvenUp automates the workflow for demand letters, using generative AI and a proprietary legal dataset to personal injury law firms that. Its customers have seen a 30% increase in payouts, in addition to time savings from drafting legal claims.¹² As reported by ITL's Chief Editor, Paul Carroll, six months following this \$325M valuation, EvenUp successfully raised another round resulting in a

⁴ "Just Raised \$50M To Take On The \$450Billion Legal Industry", Fund Raising Blog by Alejandro Cremades

⁵ "Bessemer Venture Partners Acquires Majority Stake in Legal Practice Management Company Litify", LawSites, Feb. 9, 2023.

⁶ The National Law Journal, November 2015, 2021

⁷ [GetLatka: Litify](#)

⁸ [Business wire, Litify Announces Record Performance In 2023, February 2024](#)

⁹ [The Institute For Legal Reform: Lawyers Near Me: The Scoop Behind Trial Lawyer Advertising](#)

¹⁰ [Crunchbase Profile: Litify](#)

¹¹ [New Report Shines Light On TPLF Giant Fortress Investment Group, PatentProgress, October 2024](#)

¹² [Legal AI company EvenUp raises \\$50 million at \\$325 million valuation](#), Reuters, June 8, 2023

\$1B updated valuation.¹³ Additionally, Bessemer is an investor in e-discovery company [DISCO](#), law practice management company [Clio](#), IP asset management software firm [Anaqua](#), contract lifecycle management company [Contractbook](#) and [Formally](#), a platform for immigration cases.

Recommendation #1: The Case For Adoption Of Competitive Technological Capabilities

Keep in mind, from a counter-measure perspective, defense-oriented versions of the described capabilities are available and can be used even more effectively dependent for form and availability of proprietary data within each insurer. Finally, output from such a capability can also feed insurers' marketing and communications outputs. In other words, a portion of existing funds budgeted to marketing, online content, social media, can be leveraged with far greater potential given the relative scale of established customer facing communications. Several reputable organizations have published studies on adoption rates of the core AI technologies described between 2019 and 2022 by insurers.

According to a 2017 report from Deloitte, 1.3% of insurers were investing in the adoption of similar capabilities. More recent studies published by Claims Litigation Management (CLM) 2023¹, Lex Machina in 2024, and Milliman Datalytics, quote current insurer adoption rates at 34%. When asked to score their "awareness" of analytical technologies on a 0 to 100 scale, insurer responses averaged 40. However, 75% predict increased investment in technologies over the next 3 years to address these issues. In contrast, the 2024 Lex Machina study of insurance defense firms indicates an adoption rate of approximately 68% among 358 firms. This study also confirmed the topic of technological capabilities is included in defense panelist selection or performance assessments by insurers on an "extremely rare" basis.

Listed below is a sampling of specific goals when completing a resource assessment of requirements, expected achievements, and potential providers to achieve: ¹⁴ The list is neither prioritized nor near complete.

- Dynamic, predictive outcomes and recommended claim specific strategies for: likelihood of future atty rep, settlement recommendations, likelihood of requiring a trial, potential use of alternative dispute resolution options such as mediation
- Reduced litigation spends by 15% to 30%
- Reduced atty rep rates, particularly for claims over \$250K in estimated valuations
- Best case claim assignments to both claim consultant/adjuster and defense panelist
- Objective, consistent and continuous defense panelist performance assessments and panelist selection
- Reduced phantom medical billing abuse (new collateral source rule challenges)
- Continuous analysis of differential between expected vs actual claim resolutions, feeding into Insurer reserving methodologies
- Maximize claim handler performance assessments

The actual process of determining prioritized requirements can be daunting simply because we don't know what we don't know. A facilitator, independent of available technology vendors that may be considered, can greatly accelerate the timeline. However, many insurers who decide to leverage some configuration of these capabilities,

¹³ [Insurance Thought Leadership](#), December 2, 2024; Six Things, Paul Carroll

¹⁴ Sedgwick: Winter 2024: Casualty, Auto,

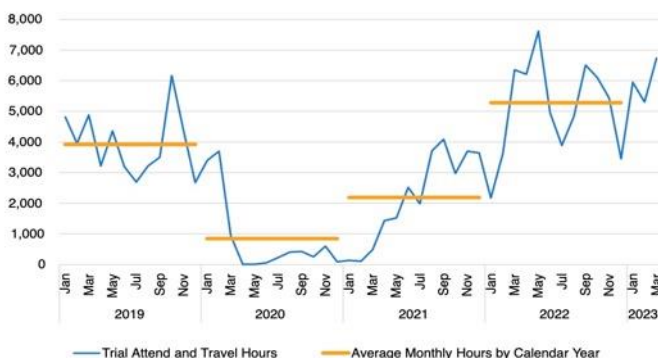
must first cross a bridge not applicable to plaintiffs and public adjusters. Who is responsible for adoption? Does an insurer vet and contract with technology providers with the expectation that outside counsel will also be users? What is the impact on defense panelist who may have already adopted some variation of these capabilities? Where do the original case files for litigated claims reside? Does this vary by state, or by damages or by line of insurance?

Litigated claim disputes have represented skirmishes and battles as long as the history of the industry. However, these individual battles are now open warfare requiring modernized weapons. However, one first step is to determine which specific technologies are in use among existing defense firms. As this is completed, carriers might want to also consider whether or not technology adoption is an objectively scorable category when evaluating Defense Panelist performance?

With respect to insurers, one Accenture study noted investments in adoption were *in process* among 21% of insurers. The gap in capabilities between the carriers and self-insureds vs the heart of social inflation litigation growth is significant, particularly when time and experience are also considered. That said, research does emphasize the degree to which insurers need to become educated as to what is possible.

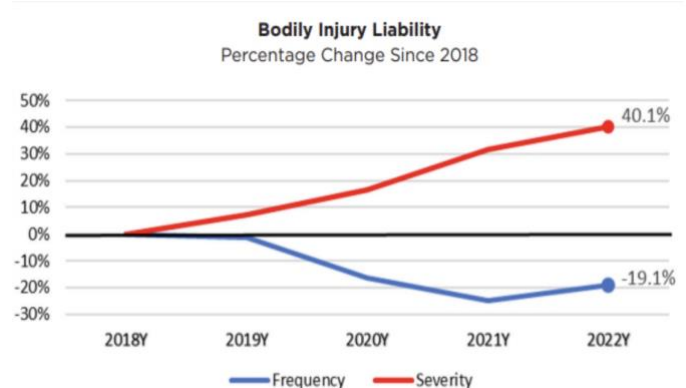
For context, two recent studies can be compared highlighting a disconnect between insurers and defense firms with respect to understanding the possibilities should these capabilities be adopted. CLM's study collected data from 90 insurance senior corporate leaders. Lex Machina's 2024¹⁵ Insurance Defense Analytics study is based on information collected from 358 defense counsel. Milliman's report contains aggregated use data from Insurance clients. These research surveys provide a very interesting opportunity for identifying high level gaps between insurers and potentially their defense firms. Comparing results from these studies indicates the scale of disruption, as well as the benefits available through technologies, are significantly underestimated.

Understanding Social Inflation Impacts vs Changes In Claims & Litigation Management ^{16, 17}



Source: Milliman Datalytics-Defense data that includes on average over 28,000 open claims throughout the reporting period

Chart 1: Milliman Defense Datalytics: Trial trends in liability claims



Source: APCIA using Fast Track Monitoring System via ISS Fast Track Plus; paid claim severity and frequency per 100 insured car-year exposures.

Chart 2: APCIA Severity trends 2019-2023

Charts 1&2 Indicate insurers understand escalating claims litigation costs, growing trial rates, and larger litigation inventories are impacting the business model. As indicated in Table 1, insurance executive respondents clearly understand the post 2020 liability insurance market trends are a challenge, and 76% identify litigation as the source. And yet, Table 2 suggests, very little has changed in approaches to assessing performance or expectations of defense panelist and claim handler performance management. Opportunities to on review of defense panelist selection and evaluation processes within two insurers yielded similar findings.

¹⁵ [Lex Machina Legal Analytics Study 2024](#)

¹⁶ [Leveraging AI-powered analytics to understand](#), allocate, and manage insurers' legal spend, By Chad C. Karls 25 July 2023

¹⁷ [Anderson Insurance: The Most Difficult Insurance Market In Decades](#)

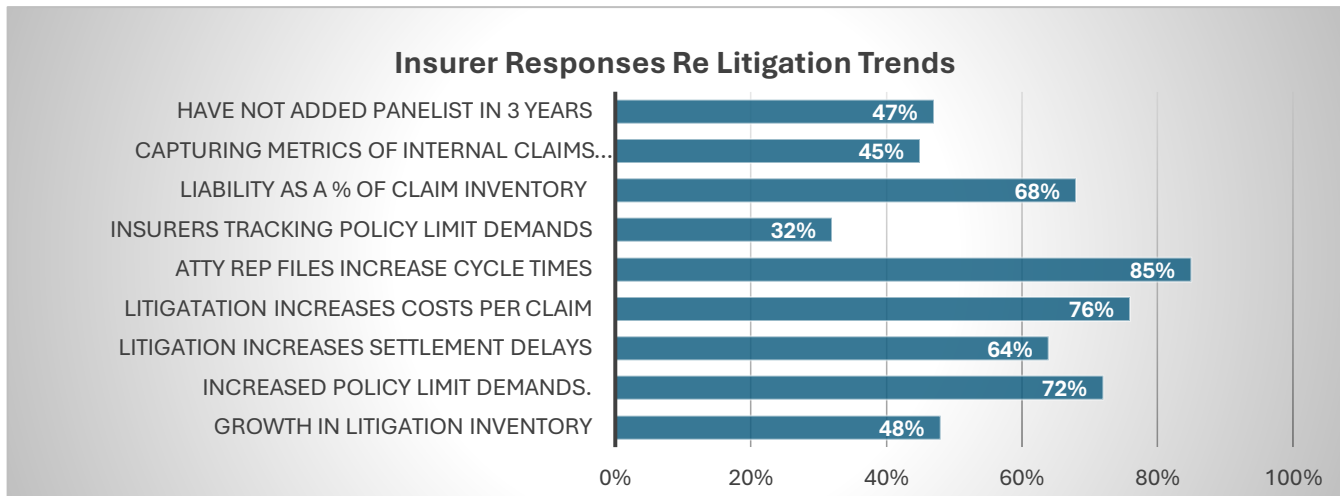


Table 1: Insurers responses re litigated claims management practices

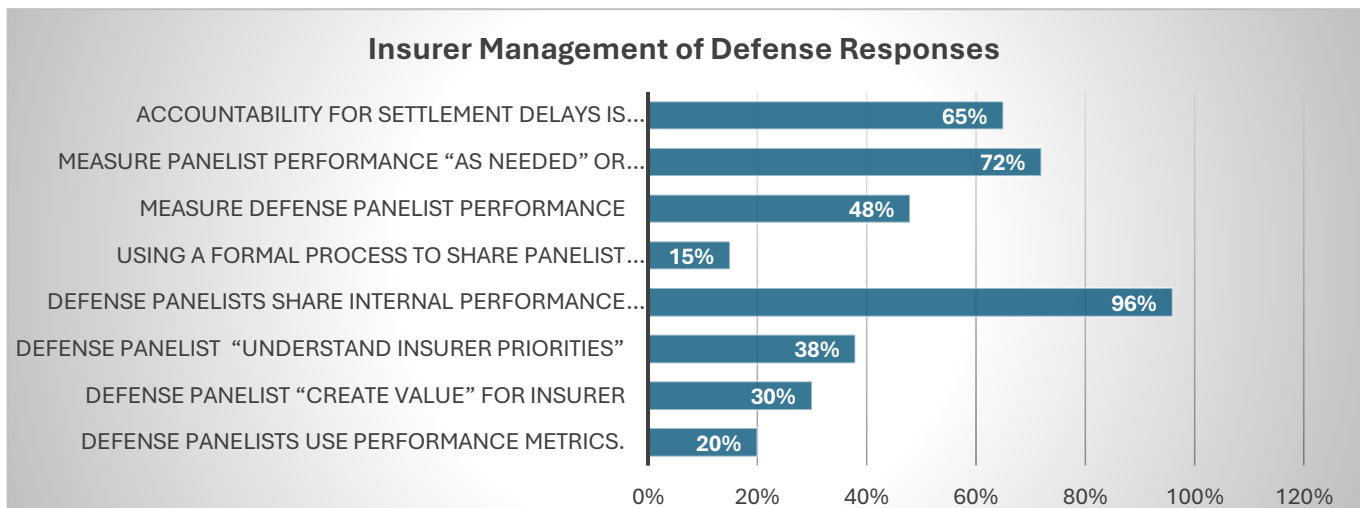


Table 2: Insurer responses re the management of defense panelist

A distinct minority of insurers have modified their processes for assessing or maximizing claim adjuster and defense panelist performance, nor formulating strategies to reverse detrimental trends. Considering the data points reviewed thus far, metrics focusing on managing defense panelist just do not align with the need. Once again, improving upon these results is yet another use case for the technological capabilities in this recommendation. An alternative title to Table 2 might be, "No Clear Definitions Of Success".

Time to look at information about technological adoption among defense panelists. An important distinction must be made about adoption stats from this study, condensed in Tables 3 & 4. "Legal Analytics" is not defined, leaving the interpretation of the data far too open. That said additional questions about future deployments of Generative AI strongly suggests a significant performance gap exists between plaintiff multi-layered platforms and the standard analytical defense platform. Furthermore, in CLM's 2024 Defense Counsel Study, only 6% of the participants stated they are using AI capabilities. However, 5 live demos of defense-based AI platforms, certainly indicated the capabilities are commercially available.

Insurer responses indicate asking defense panelist about their use of technology is extremely rare. Additionally, technology adoption is not an area covered in the selection, or the evaluation of defense panelist. The 2024 Lex

Machina study cited a 68% adoption rate of legal analytics among law firms responding to their study. 80% of the adoptees stated their clients expect use of these technologies.¹⁸ The balance of the responses indicate why insurers would benefit from developing an understanding of the technological capabilities of their panelist. Table 3 contains the top goals non-plaintiff firms listed as drivers of adoption. Table 4 contains the top use cases among the 68% of firms identified as adoptees.

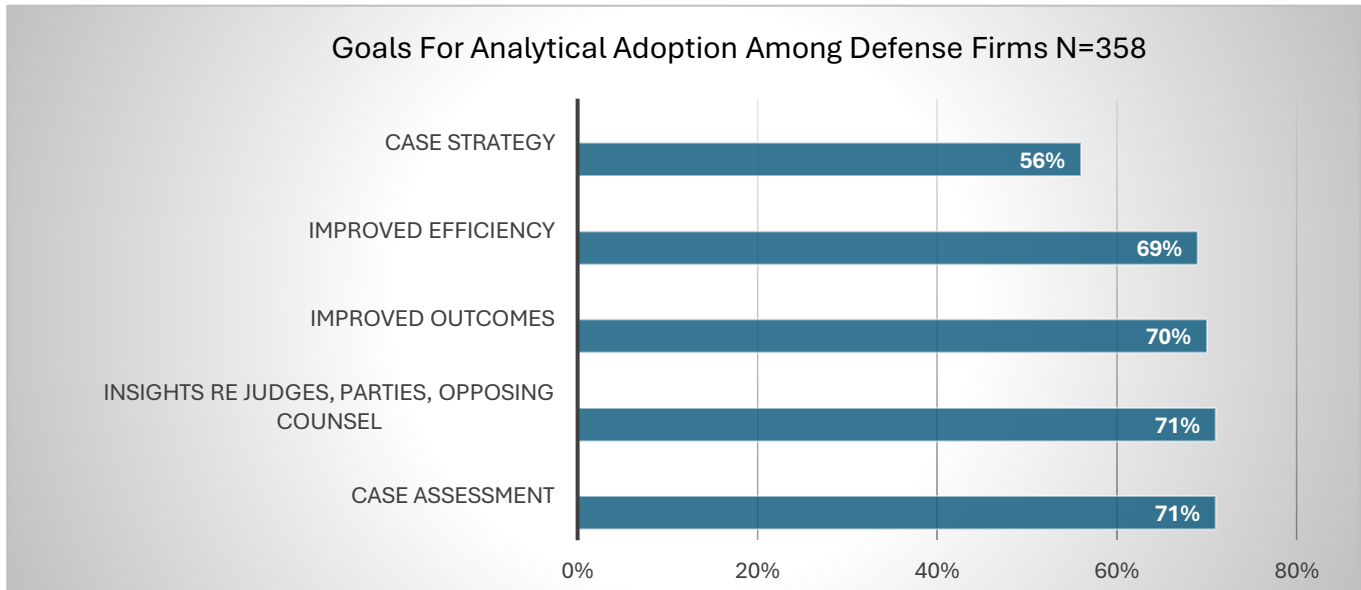


Table 3: Lex Machina 2023 Survey of Legal Analytics Adoption Among Defense Firms

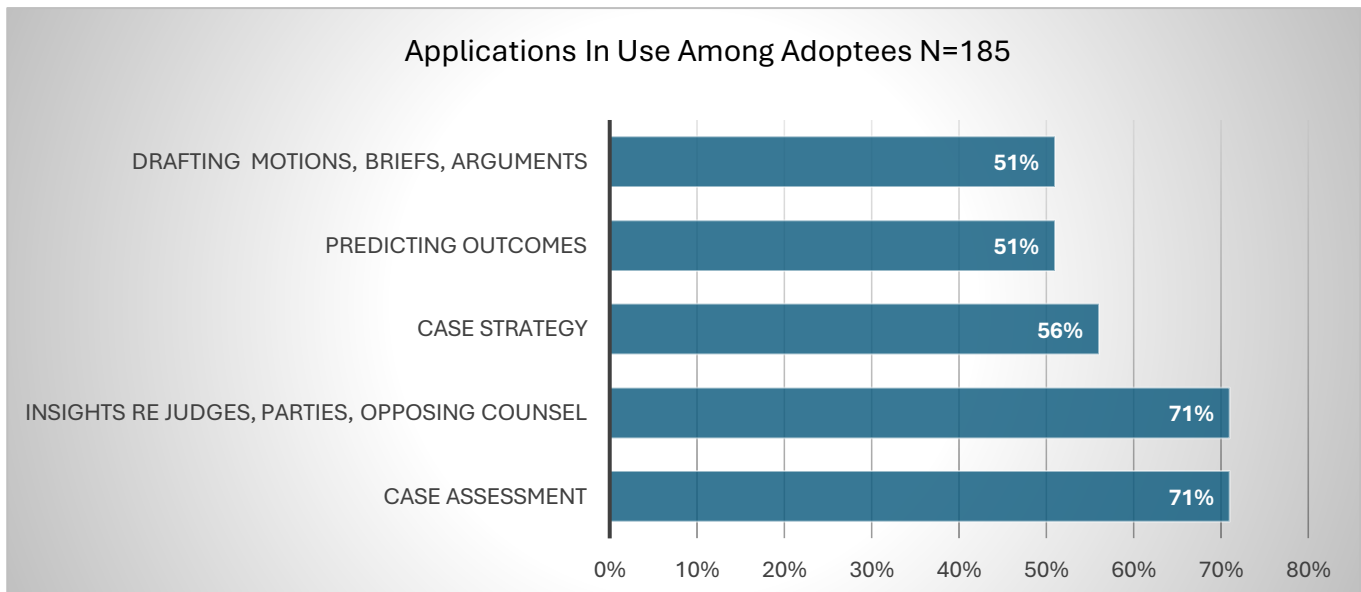


Table 4: Applications In Use Among Adopting Firms

¹⁸ [2024 Survey Of Legal Analytics, LexMachina, January 2024.](#)

This technology suite of capabilities is generally considered high-end and thus perceived to be affordable to a narrow segment of market leaders. While these are relatively advanced technologies, most run on an extremely efficient software as a service (SAS) business model. Additionally, the cost of computational applications as well as growth in performance over time are both exponential trends.

The cost of computational capability is a measure of the cost to process a set volume of data. Since 2010, \$1,000 of computational capability has fallen to \$0.01, or cost per unit decline in the magnitude of 1,000X. Conversely, from 2010 to 2024 computational capabilities have grown in a magnitude of 10,000X.

The previously cited report, “Social Inflation: Navigating the evolving claims environment” from The Geneva Association concluded with 3 recommendations, two of which address this recommendation:

- “Enhanced defense case management can effectively counter the plaintiff bar.”
- “Invest in forward-looking liability exposure management to pre-empt new, emerging perils and assess the potential liability cost shifts in future social inflation.”¹⁹

The Insurance Innovation Reporter described the case for these technologies in a June 2023 social inflation article this way:

“Some adjusters will tell you they “know” a claim that will be represented and whether it will go to trial. And in many cases, they do. But data-driven decision systems, especially those developed with advanced artificial intelligence, can predict litigation for additional claims outside the range of the adjuster’s knowledge. Information is the oil that keeps the “litigation engine” operating—and when wielded correctly, it can be used to minimize or avoid attorney involvement altogether. “

The [December 2 Issue of Six Things by the Institutes Insurance Thought Leadership](#) is a focus on AI, ML, Gen AI, etc... The issue is a remarkable collection of leading edge research about the capabilities and the perspectives of various cross-sections of the industry. One piece authored by Oleksandr Stefanovskyi, titled “*Harnessing Data To Improve Decision-Making*” is an excellent snapshot using research from Capgemini, McKinsey, Forrester, Tripple-I, and BearingPoint Institute. In short, the plans and potential use cases for the same capabilities appear to be very similar to the current priorities for marketing and social media strategies.

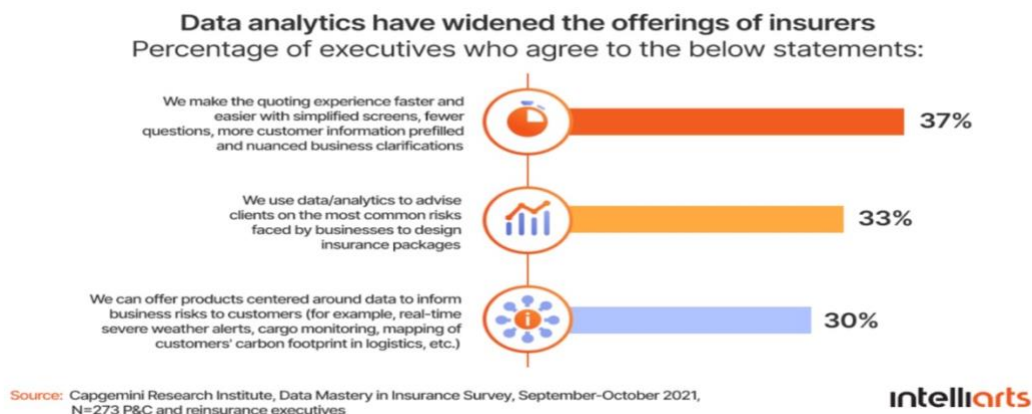


Figure 3 Screenshot from ITL's article by Oleksander Stefanovski, “*Harnessing Data To Improve Decision-Making*”.

This leads to an assertion that admittedly runs the risk of being dismissed as hyperbole. Protecting the availability of affordably products while being operationally reliable providers should be among the top priorities among

¹⁹ [Social Inflation: Navigating The Evolving Claims Environment](#), The Geneva Association

insurers. Affordability, availability, reliability, and coverage adequacy are all historic attributes of the U.S. insurance industry being disrupted.

Recommendation #2: Systematic Product Innovation

The strategy proposed for concept investigations and idea management is based on systematic innovation best practices. This recommendation is based on success designing, launching, correcting insurance innovation practices. This included being among the founding architects of enterprise innovation within multiple insurers, reinsurers, Chief Innovation Officer at Insurance Thought Leadership, and insurance rating agencies.

As stated, this recommendation represents an outgrowth from the research completed on Social Inflation and claims litigation countermeasures. The social inflation report published by The Geneva Association quoted previously included a third recommendation.

“Product innovation to ensure commercial liability insurance remains fit for purpose, including promoting more radical solutions such as risk participation arrangements, parametric solutions and. Possibly in time, transfer of certain liability risks to capital markets.”

In their Winter 2024 report, Sedgwick weighed in on innovation to increase agility and develop social inflation solutions. “The most powerful defenses to litigation exposures are execution of avoidance and mitigation strategies. This begins with loss control. Using data and predictive analytics and leveraging emerging technologies like telematics is useful in developing overall avoidance and mitigation plans of the initial losses. “

Social Inflation is an attack on the traditional insurance business model. Again, quoting from The Geneva Association, “For their part, insurers must adapt business models to ensure they continue to offer their customers vital protection from liability costs associated with unforeseen and unintended incidents. While it may be tempting to rely on the recent upswing in the underwriting pricing cycle to boost insurers’ results, such an approach leaves insurers vulnerable to a sudden spike in required reserves should the long-run outlook for claims deteriorate.”

Successful, systematic insurance innovation tends to be defined more by myths than facts because the requirements for success seem quite counter-intuitive to insurance corporate structures and cultures. Consequently, descriptions of innovation practices often include phrases such as,

- “We tried that for a couple of years, then stopped because the returns just didn’t materialize.”
- “Our innovation plan is dispersed and the responsibility of each product line and business division.”
- “We just don’t have the scale (or size) to warrant innovation. That’s for the bigger companies.”
- “Based on our previous efforts, innovation was all expense, sunk cost, never a profit center.”
- “We had no problems generating new ideas, new concepts, but strategies for the business and product areas we already established so nobody had the resources to act on the ideas.”

While social inflation is a compelling case for continuous innovation within the insurance model, it is by no means the only compelling motivator. Shifting climate risks, the emerging growth of new models, and legislative trends all represent solid arguments for best-in-class innovation practices. The key attributes for profitable continuous innovation are illustrated in include:

- Constraints drive innovation. Therefore, company specific constraints must be defined up front.
- Prior to seeking, or exploring, ideas and concepts, Strategic Opportunity Areas (SOA) need to be defined and prioritized. SOA’s are comprised of three elements of information:
 - A clearly defined consumer segment
 - A job to be done, or problem to be solved, that matters to the customer segment defined
 - A general description of potential solutions

SOAs are the basis for refined concept exploration. The prioritization of defined SOA's is typically reevaluated annually. These steps are equally effective when deployed within a small, centralized function or when innovation is dispersed and a responsibility within multiple existing business areas.

Potential topical examples include, but are not limited to: ²⁰, ²¹, ²²

- P&C Parametric Triggers
- Non-insurance revenue streams
- Geographic expansions
- Products and services reliant upon geolocation
- Opportunities brought by ADAS and Autonomous technologies
- Behavioral Telematics incl auto reporting of accidents/impacts
- Product Line Expansions: Ex- micro insurance, embedded insurance
- Climate adaptation
- Consistent social inflation tracking and development of countermeasure

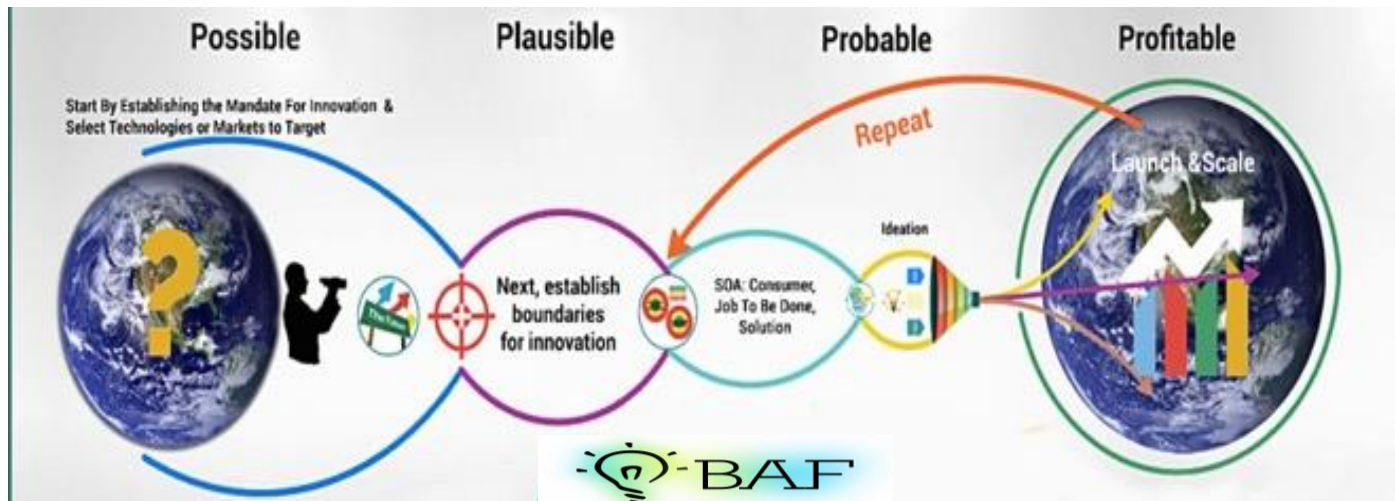


Figure 4: Continuous and Profitable Innovation System

About Guy Fraker, and BAF Insurance Innovation Advisory

BAF Advisory, previously cre8tfutures, LLC has been working with insurers, early-stage companies, and lawmakers to convert complex scaled challenges into profitable opportunities for over a decade. Successes have been achieved establishing systematic and consistent innovation practices to discover and scale opportunities. Success has equally been achieved working with insurers, stuck midstream while attempting to either discover growth and/or problem-solving solutions. Working across intrapreneurs, entrepreneurs, regulators and legislative bodies, significant capital and new revenues have benefited both insurers and scaled markets. Social Inflation factors will continue to challenge the fundamental building blocks of the insurance business model. However, and hear this with confidence, SI trends and influences also hold significant opportunities for insurers to preserve, to grow, capital and profitable revenue streams.

²⁰ The Geneva Association: Social Inflation: Navigating the evolving claims environment, p36-37

²¹ ALM Property Casualty 360: AI provides the edge that insurers need in general liability, Tom Warden, 8/14/2023

²² Insurance Innovation Reporter: Structural Insurance Transformation Needed: 'Predict and Prevent' To the Rescue