

Beyond the Text Podcast

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TRANSCRIPT

AI in Insurance: Insights from Industry Experts

Beyond the Text is a Conning podcast that features insights from its Insurance Research Department. Hosted by Alyssa Gittleman, a Director and Head of Consulting and Customer Operations for Conning Insurance Research. Alyssa will invite analysts and guests to provide insights on recent publications and emerging industry trends.

Beyond the Text is intended to provide just that: going beyond Conning's typical research. Conning's analysts have deep industry knowledge and come from various backgrounds providing a greater level of context on industry trends for insurance professionals.

[Opening Music]

[Alyssa Gittleman (AG)]

Hello and welcome to Beyond the Text, a Conning podcast featuring insights from our Insurance Research department. I'm your host, Alyssa Gittleman, a Director and Head of Consulting and Customer Operations here at Conning.

Join me as I welcome analysts and guests to provide insights on recent publications and emerging industry trends.

Today, I am bringing two analysts here to talk about the biggest buzzword in the industry: AI [Artificial Intelligence]. I am joined by Jay Sarzen, a Director in our Insurance Research department, as well as Manu Mazumdar, a Director and Head of Data Analytics and Insurance Technology here at Conning Insurance Research.

Manu is also a member of Conning's AI Governance Committee.

Thank you both for joining me.

(Manu Mazumdar [MM])

Thank you.

(Jay Sarzen [JS])

Thank you for having us.

(AG)

So today I'm really excited to bring you both here to discuss ITC (InsurTech Connect), which you both just got back from about a month ago and hopefully are finally recovered from. And I also wanted to talk about the work we're

doing here in Insurance Research and how we're covering AI. So, if that sounds good, I'll kind of jump into a couple of questions that we can get into.

(JS)

Fire away.

(AG) [1:18]

So with ITC, there's over 10,000 attendees I think that are now there, all focused on insurance technology. What were some of the key takeaways you took away from the sessions you attended and the conversations you had?

(JS)

Yeah. Well, obviously we didn't get to meet all 10,000 people, that would have been a Herculean effort, but I did manage to have a lot of conversations with some of my contemporaries, people I've met. I mean this is my 6th ITC that I've attended and every year the enthusiasm for artificial intelligence grows. So naturally what I detected from people was that there was a lot of excitement about it. There was a lot of excitement about the possibilities where it could take the insurance industry, how it could make it more efficient, how it can make it more fair, all those possibilities.

That said, there's still a lot of trepidation on the part of these insurance executives, largely because a lot of these concepts are out there without really having been fully proven out. I think that a lot of insurance executives love to be fast followers, but they don't necessarily like to be leaders. I think that's kind of the mantra I've stuck to for the, you know, most of the past couple of years.

Really, I think as these providers come out with more use cases that are more concrete, that will provide more proof points for insurance carriers to hang their hats on, I think we'll begin to see a little bit more of an uptake. But for right now, I think there are concerns about, number one: is it proven. Number 2: what would be the impact on policyholders and prospects? I think that there's a lot of concern about using data and using AI to help make a decision.

And remember, I just want to stress here that no one is believing that this is going to be a full machine decision. It will be a tool. It will be a tool to help a human being make a decision, but even then, they're still concerned about how policyholders [will] be impacted. And then of course, there is that ever-present possibility of regulatory impact from government. No one's really quite certain how government is going to react to the infiltration of artificial intelligence into decision making on a claim or on an underwriting decision.

(MM) [3:30]

That was comprehensive, and thanks Jay, that was pretty good. I would concur, there are 10,000 people like you said, Alyssa. What we typically do, and again, this is also my 6th or 7th ITC and what we typically do is kind of divide the cohort off attendees. And so, I kind of tend to ignore about 9,950 of those and generally focus in on, typically, what's beneficial to us and what's beneficial to us from Insurance Research as well as from Conning as an asset manager for insurance companies, is what the executives of consulting companies are thinking. McKenzie is one of the lead sponsors of ITC. And so, I spent a lot of time speaking with folks from these consulting companies. Some of whom are clients of Conning's Insurance Research.

And what I found out was that the consultants generally tend to be the folks who predict what's coming in the future. They are the harbingers of what the industry is going to take focus on. And the three key things that they are all focused on is how AI is going to improve operational efficiency. There are companies that they are consulting with

who already have gained about 98% operational efficiency.

But mind you, when they talk about operational efficiency, nobody, like Jay mentioned, is talking about getting rid of people. They're saying if I could do 100 things yesterday, today, with AI's enablement, I'll be able to do 200 things with the same amount of people. So that's the kind of cadence of thought. And then there is a whole lot of discussion around executives getting an understanding of how they would adopt AI. Typically, the operational folks are the ones who are fast and furious in trying to adopt some of the tools. But the executives need to understand from a business perspective. And so the consulting companies, we're thinking about all of those. We can expand on that later.

(AG) [5:37]

No, that's great. Thank you both for sharing that. And I just know here at Conning when we started talking about AI, and I can't put a number of years ago but at that point, when it was introduced, we really had that, oh, we're going to just push a button and it's going to be done. That was the intro thought and it's good to know that executives and everyone at it are well aware of that. That's not what's going to happen. And I know that Conning we're very well aware of that now too. And so, I was really hoping, Manu, you could talk about what we're doing here at Conning around AI, what we're seeing and just some of those top-of-mind trends that we're particularly looking at.

(MM)

Yeah. So, there are several things that we are we are taking a look at. First and foremost, much like everybody else in the insurance cohort, we are also very focused on understanding AI governance as it works with the rules and regulations currently in place, but also what NAIC and other jurisdictions are going to predict downstream down the road.

There are four key sectors of initiatives that we at Conning are taking a look at. First is AI model initiatives. So, we have developed a quantitative predictive factor model which helps with our prediction and allows us to understand our asset management predictions better and capabilities better.

We also developed a retrieval augmented generation model, typically known in the industry as a rag. Just let me take a second to explain what that is. Oftentimes you will have a large language model. There are four or five that the industry has already adopted, but the large language models, the rub against them are that they tend to hallucinate. Sometimes those hallucinations are really not hallucinations. Let me give you one quick example on that to elucidate.

You know, so if you asked a large language model to say, "tell me something about Travelers" and that large language model responds saying "travelers are people who like to travel," "they have wanderlust in them." All of that would be good responses. But within the walls of Travelers, the insurance company, those would be hallucinated answers. So, when you put a rag on top of those rags then those rags get your answers to be more in line with what you're looking for.

For example, if you had a rag within the large language model that Travelers is using and you asked, "what is travelers", then that rag will give you an answer that says "Travelers is a P&C insurance company with, you know, 30 companies" etcetera, etcetera - makes it more real.

We at Conning are also developing our own rag, so to say. And then there are several initiatives that we are working on for our investment process. We are utilizing the machine learning for identification of emerging risk themes. We are creating a dynamic quantitative dashboard that will help in our predictions as well. We are working on creating an earnings call analyzer. We are working on utilizing natural language processing, sentiment trend analyzers and then there are initiatives to improve our process efficiencies and productivity. For example, we are creating our own chat bot for the Insurance Research library, which you are well aware of, Alyssa.

We are also trying to utilize Copilot for integrating various parts of the sales and operations value chain and several other projects like that. So, lots of work going on, all under the guidance and framework of governance so that we can do our work keeping in mind the rules and regulations.

(AG) [9:31]

Great. And on that, I wanted to come back to Jay, who also just mentioned that word “regulation.” How has regulation impacted the adoption and implementation of these AI tools?

(JS)

Well, you know, a lot of what Manu just talked about, a lot of those operations will be internal facing. So, I can't imagine that government is going to be particularly tense about how those types of operations get executed within an organization. As far as operations that get executed for external facing operations, surprisingly, government, I think, is embracing the reality that AI is going to be a part of our landscape for the foreseeable future. I mean, they're not overtly hostile to it. When you hear about the regulatory bite of government, I think at this point it's more of a regulatory nip like a love tap maybe, for lack of a better term. And the truth is that most states, well, insurance obviously is regulated mostly by state commissioners, OK, there's no federal regulation for insurance, at least not at this point. But for right now, we stick with the National Association of Insurance Commissioners and that organization really tends to kind of have a say of where regulation goes and you know what direction it heads. So right now, what we're faced with is the most recent action taken by NAIC. It's the model bulletin that was issued in December of last year. And basically that model bulletin addresses the need to have transparency, the need to have no discriminatory practices that can result from artificial intelligence and of course it entails data protection, right. So you know the artificial intelligence on its own just is a tool. It's only dangerous when it ingests data, personally identifiable information, things of that nature that could be used in a way to potentially move someone who might be thought of as a good risk into a bad risk because they're in the wrong zip code, because they have the wrong income, whatever the case may be. But I think that the key is that what they're saying to those insurance carriers that are using artificial intelligence.

If you can explain your decisions, if you use artificial intelligence, if you can explain your decisions and you can demonstrate that you're not discriminating unfairly against certain groups of people when making your underwriting decisions, when making your claim decisions, and as long as you can demonstrate that you're keeping the data that's used to help you arrive at these decisions safe, everything should be copacetic.

Now the key thing that I want to stress is that at this point there is no real hard and fast regulation. What we have right now is what we call a framework, right? So their meaning, they meaning NAIC, has set out a framework for other state insurance commissions to follow and potentially adopt as enforceable regulations and I think that will come about in the next couple of years. I think you're already starting to see some state legislatures, notably Colorado, California and Connecticut. They're really driving ahead and putting into the legal code laws and regulations that can be enforced. So, if you're determined that you're in a position as an insurance carrier and you're inadvertently discriminating against a certain group of people, you'll be called out on it and fined or punished in some other way, shape or form. But I think, surprisingly, AI generally seems to be welcomed by these regulators. They just seem to understand that it's going to be a part of the insurance process and in all likelihood, it will make the insurance process better, more customer friendly, more efficient, more fair, all those things. So, fingers crossed we shall see.

(AG) [13:36]

Great. Thank you.

And I just wanted to spend a couple of moments and have Manu kind of talk about, here at Conning, we've done an AI study for the past two years. We've surveyed insurance executives and I know that both of you are working on getting that survey up. I think it's actually live right now and we're into that third year. So, I wanted to just hear - what do you hope to uncover in this report and the survey this year, what is the focus?

(MM)

Great question, Alyssa. And like you said, this is the third year that we've actually focused on doing surveys on this. But at Insurance Research, we've been focusing in on AI since about 2018, right? So, there's been a lot of work that's gone on behind the scene.

Let me touch on a couple of the key highlights from this last survey that Jay and I partnered to work on. You were also involved by the way.

The key takeaways were that 77% of the companies that we surveyed - and we surveyed about 100 top C-Suite and decision making executives off insurance companies - 77% of them said that they were in some stage of adopting AI as part of their value chain, right? That was a key finding from the last survey that we did.

The second key finding was that machine learning and predictive analytics was one of the highest amongst all technologies across the overall value chain - 44% adoption ratio on that - and that the technology that has the greatest potential of course was large language models, by 77% of the executives responding that they were piloting different areas of large language models to incorporate within their value chain.

So having said that, what are some of the things that we are expecting to come out for the survey that we are in the middle of doing right now that's going to be published in the first quarter of 2025. We expect more adoption of large language models; that number we fully expect to grow from piloting into early or full adoption.

We expect that wearables or telematics, which had not played a large part in last year's survey or the survey year before, is going to probably come off age this year. Given all of the indications that Jay and I have seen, Jay recently attended a workmen's compensation conference, where he uncovered some of those trends as well. So, we expect those. And then the one area that I think is going to be a breakout this year from all other survey years is generative AI and its capability on adopting chain of thought. Chain of thought is one of those landmark discoveries or implementations that the AI world has kind of come up with now.

Those technologies will help companies understand and predict how to adopt generative AI better in their workforce and value chain. So Gen AI's role in chain of thought is going to probably be the breakout discovery for the next survey. That's what I think.

(AG) [17:06]

Great, I look forward to reading that and seeing what you uncover there and unfortunately, that's all the time we have today. Thank you both so much for joining me and thank you all for listening to this episode. If you have any questions please email InsuranceResearch@conning.com. We hope you'll subscribe to this podcast and join us for the next episode as we stay up to date on industry trends and we also hope that you'll lookout for that new report on AI in Q1 of 2025. Thank you!

(MM)]

It was a pleasure. Thanks.

(JS)

Pleasure. Thank you, Alyssa.

[FADE TO MUSIC]

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