

The Issue

Claims expenditure for insurers accounts for approximately 80% of their total costs. and the battle is on to develop a market leading and cost effective claims service in a rapidly changing and increasingly competitive market environment where:

- Claims costs have continued to escalate allied to an environment, which has become increasingly litigious. It has almost become socially acceptable to submit inflated claims
- Consolidation and convergence means that new entrants are competing on different value propositions
- Changes in technology and customer preferences are placing a premium on low cost, differentiated by quality of service provision

In addition, insurers are under increasing pressure to improve the level of claims service. After price, poor quality of the customer claims experience is generally the most common reason for policyholders to change their policy to another insurance carrier.

After all, a policyholder only really finds out how good their insurer is when they have to make a claim, and it is critical that insurers handle claimants both with sensitivity and efficiency in their hour of greatest need.

Overall ensuring that claims service is an integral component of the insurers broader proposition is now central to a deepening and retainable relationship with customers, whilst providing leading edge claims service is increasingly seen as a key differentiator.

The Challenge

Today the critical challenge for the management of insurers is achieving an optimal balance between improving bottom line profitability and enhancing customer service and responsiveness. Leading insurers are responding by examining each aspect of their claims value chain from notification through to subrogation understanding their capabilities and establishing opportunities for improvement / value generation with in each segment.

Although estimates vary widely, it is generally considered that insurers could reduce their overall claims cost by up to 20% by undertaking such analysis and by moving towards being best in class. Whilst a significant proportion of such savings result from reducing claims leakage, which may be defined simply as avoidable over expenditure in the handling and settlement of claims, they are also driven through more radical approaches to sourcing, supplier management and technical enablement.

Improving The Level Of Claims Service

Developments which were considered revolutionary five years ago such as systems driven call centres are not only common today but may already be seen as the norm as more cost effective e-enabling applications become increasingly available.

As policyholders continue to become more demanding regarding the level of service required to provoke customer satisfaction, insurers have needed to rollout more and more sophisticated claims functionality.

Customer Satisfaction

Although every claim is unique in terms of the surrounding circumstances the parties involved and the manner in which compensation is effected a common number of client satisfaction criteria are emerging including;

- An emphatic and efficient handling of the notification of the claim, together with a clear articulation of the steps and the anticipated life cycle of the claim
- Regular communication between the claimant and the insurer as to the status of the claim and the path to resolution, including a single view of the customer across all touch points of the insurer. Failure to keep the claimant apprised will only lead to frustration and repeated chasing of the insurer for an update. (On-line claim tracking and SMS messaging provide excellent time efficient methods of communicating to the claimant)
- Rapid validation and settlement of the claim which offers value with the minimum of disruption and inconvenience to the customer.
- Remedial action or compensation which takes place quickly, efficiently and to a high level of quality after settlement has been agreed
- Where replacement goods are involved the brands or specifications are these need to be a close match to the original.

Recent Developments To Meet The New Challenges

In order to meet the increasingly demanding nature of customers and given the critical importance of maintaining a superior level of claims service to maximise customer retention insurers have undertaken a broad variety of initiatives to meet these challenges.

For example, on line claims notification and claim status tracking to provide 24/7 access and up to date information to claimants have become increasingly widespread.

Alternatively off-shoring of call centre capabilities to India and other locations can provide s person to person claims service which is near 24 hours, if a sufficiently broad geographical spread is available, as well as improved cost effectiveness. However, due to the customer sensitivity at the time of making a claim many insurers will feel that any customer touch points should be maintained on shore and may consider other out of hours services.

An increasing move to integrated suppliers into the claims value chain has been observed to the extent that both claims notification and validation are increasingly being conducted by vendors, in addition to service delivery and logistics management. A logical extension of this model has been the introduction of on line directories of replacement goods from suppliers to provide the claimant with greater choice and customer satisfaction as a consequence.

Another emerging feature is the differentiation of the level of claims service depending on some measure of customer lifetime value or other assessment of customer importance. For example customers who are both high net worth and multiple product purchasers might have claims below a certain threshold paid automatically in order to ensure that they are more likely to be retained.

Reducing Claims Costs

The question is how have insurers raised their game in terms of claims service and technology investment without adding extensively to their cost base? Although approaches vary from one insurer to the next there are generally two underlying elements, which underpin these approaches

Firstly, by reducing or eliminating those areas in which non-compliance with insurers enshrined claims practices or best practice exist, significant operational improvements and cost savings can be achieved.

Secondly by moving to the cutting edge leveraging latest technologies and using innovative approaches to procurement, litigation and dispute resolution and outsourcing some insurers have been able to radically transform their claims strategy, operating models and associated costs.

Claims Leakage

Although the term claims leakage is variously defined by different insurers and can encompass either only the first or both of the above elements its reduction or elimination is critical to the overall objective of claims cost reduction.

In seeking to address claims leakage to many insurers focus on indirect claims handling expense. The bulk of the insurers overall expenditure relates to indemnity costs and direct claims handling costs such as solicitors and loss adjuster's fees insurers are now making significant inroads

The Source Of Claims Leakage

The main sources of claims leakage in terms of quantum vary from one insurer to the next. One common theme is a failure to detect fraudulent or over inflated claims which when coupled with an excessive reliance on manual processes resulting in the inevitable human error and the potential for the build up of processing backlogs can give rise to significant pressures in the early stages of the claims value chain.

Inefficient supply chain management results in haphazard procurement and sourcing programmes and poor levels of service (as a result of ill defined service level agreements and incentivisation programmes coupled with weak supplier performance monitoring) while non-compliance with panels of preferred suppliers results in a loss of rebates and volume discounts.

Excessive levels of litigation or a tendency to litigate rather than reach an early out of court settlement at more economic levels will inflate overall claims expenditure and delay claims resolution while inconsistencies in the claims handling approach case reserving and settlement values across individual claims handlers within an organisation will increase the level of uncertainty around eventual claims outturns and result in unnecessary over-payment on valid claims.

Finally, missed or late reinsurance recovery identification reporting and collection coupled with reinsurer failure can adversely impact the bottom line as can the poor recognition of potential third party recoveries and salvage opportunities

For reinsurers, claims leakage can arise from all of the above sources on the part of the cedants and the right to audit cedants claims files provide the primary opportunity to establish the sources and extent of over expenditure and to seek remedial action as a consequence.

Other common sources of leakage for reinsurers include poor internal controls around workflow management resulting in opportunities to influence the outturn of very large or complex losses being lost and the incorrect application of exchange rates deductibles numbers of reinstatements and indexation clauses.

Remedies For Claims Leakage

Leading insurers have adopted a number of different techniques to reduce or eliminate claims leakage. Some of these have centred around IT-enabled controls environments or the use of cutting edge technology, whereas others have resolved through easily implemented step changes to the underlying process. Some of the more common uses of enabling technology have included the following.

- The implementation of the latest generation rules based claims handling systems for high volume low value claims
- The use of technology and techniques for the identification of fraudulent claims including access to industry fraud databases
- E-procurement of vendor services via insurers extranet with sourcing taking place in real time or near real time. E-procurement systems have the added benefit of ensuring adherence to the most up to date panel of preferred suppliers and the identification of volume discounts due
- The use of new software tools which generate indicative case reserves on the basis of the key parameters of the claim with such tools leveraging with internal information from the insurers claims universe or through external benchmarking
- A move towards systems driven reinsurance and third party recovery identification and online recovery advice issuance and collection

Rules Based Claims Systems

The latest generation rules based claims systems represent a huge advance for insurers looking to eliminate or significantly reduce claims leakage. Whilst effective case strategy development loss adjusting and negotiation not to mention innovative resolution techniques can result in significant savings to the insurer in the context of very large or catastrophe claims in practice high volume low value claims generally represent the bulk of an insurers overall claims cost.

As a result rules based claims systems have evolved to such an extent that lower value claims, which are notified on line, are capable of being investigated, validated, adjusted and settled with little or no human intervention. Even where a cutting edge state of automation has not yet been achieved by a given insurer a claims handler is now able for example to ensure that a preferred supplier within a close geographical proximity to the claim site can be identified briefed and deployed with minimal effort.

By underpinning all consumers touch points with such a system and integrating it with all other internal systems and extranets a significant speed of resolution and efficiency gains as well as enhanced levels of service can be achieved. By linking all of an insurers key suppliers and outsourced service providers into the insurers claims system via a web enabled technology real time information on the status of a claim can be made available to both the claimant and the insurer. As well as the enhancement to the insurers knowledge of the performance of different suppliers.

Whereas such systems have become increasingly widespread among personal lines insurers and commercial lines insurers covering the SME markets insurers of much larger risks have not generally embraced such advances to the same extent, primarily given to their different mix of claims by value band.

Notwithstanding the continued commoditisation of the external loss adjusting services for lower value commercial claims we consider that cost savings and efficiency gains are achievable through the adoption of such technology for all types of claims. At the very least such systems allow decisions to be recorded more effectively as well as reducing substantially the time spent on the administrative aspects of claims of all sizes. The system also enhance the quality of the data being retained which provides to insurer with better MIS on which to base all aspects of the management of the claim and the policy.

Beyond Process Efficiency

Whilst significant benefits can be achieved through detailed process improvement and the application of enabling technology. A number of insurers are looking more radically at their whole value chain assessing their core competences and deciding which elements they wish to retain, invest in or outsource to an external service provider. This has typically resulted in an increase in outsourcing to the lower cost providers or to entities with a strong track record of service delivery, ranging from the initial notification of a claim through to more traditional aspects such as litigation and subrogation. An alternative approach has been to co-source both the core and non-core functions to achieve greater efficiencies and savings, or to develop cross industry shared service centres to achieve economies of scale.

Finally insurers are increasingly electing to offshore aspects of their claims handling functions utilising the integrated rules engine to confer seamless service delivery from a remote location, as well as a significantly enhance degree of control and a single view of the claim across a variety geographical locations

Conclusion

Increasing demand for even higher levels of customer service and satisfaction has required insurers to reconsider their claims strategies and overall customer proposition. Where insurers have sought to reduce the extent of claim leakage this has provided an offset to the additional cost of the enhancements to the customer experience. The real prize for insurers is to continue to provide a differentiated claims service while significantly improving the bottom line through a combination of higher revenues via improved customer retention and reduced overall claims outgoing.