Property and casualty claims

Transformation path made clear

Claims under pressure
Chief Executives, concerned about the ability of their organizations to attract customers and operate efficiently in today’s rapidly changing insurance environment, are looking to their claims operations and asking them to make a substantial contribution to organizational results.

After an interesting run with a fundamentally sound pricing environment, the firm market days are drawing to a close. With the cost of securing a new client running upwards of ten times the cost of holding onto an existing customer, service and client satisfaction are key requirements. The current investment climate won’t compensate for any deteriorating results. Given the state of rising loss costs and increasingly sophisticated customer demands, there is a need to focus on improved operational performance and provide a much higher level of flexibility and responsiveness in today’s on demand world. Competing successfully means stepping up client service and delivering more capability for less cost. With potential for improvements on the combined ratio (indemnity and expense), the pressure to take action is growing accordingly.

Burdened by a legacy infrastructure and inefficient processes, most property and casualty (P&C) claim operations are not well positioned to help improve customer satisfaction and reduce organizational expense. Studies have shown that customers who benefit from prompt claim settlements are more apt to renew with their existing carriers. In addition, since 80 cents of every dollar a company takes in flows through an insurance company’s claim operation as indemnity or expense, it is a logical place to look for savings.

One size does not fit all
Just as each insurance company is a unique and different organization with specific priorities and needs, each solution for transforming the claims function into a world-class operation must be specifically tailored to individual circumstances. One size (solution or application) will not fit every company’s needs. A critical element of a successful approach involves intelligent decisions about what specific actions are required to meet the seemingly conflicting demands of customer satisfaction and cost reduction – demands that are unique for each organization.

Some organizations are able to benefit by optimizing and improving existing claim systems. Others need a more extensive transformation that begins with a close inspection of current business operations to determine where to apply best practices solutions. Still others may find it necessary to develop customized solutions to address specific pain points.
Continuing challenges

The fundamental pressure points haven’t really changed all that much over the past few years. The difference is the urgency to find solutions that quickly produce a favorable bottom-line impact.

- **Focus on the need for speed**: The need for speedy claim handling and resolution has never been more important. In many cases, the lack of information and appropriate activity at first notice of loss delays claim resolution and impacts downstream effectiveness.

- **Apply the best resource**: The inability to properly align adjuster skill with claim complexity often results in the most highly skilled adjusters performing relatively simple activities, rather than managing the most complex claims.

- **Stop the leakage**: Subrogation opportunities are frequently missed. Fraud detection is not as thorough and effective as it could be. Rules are not consistently enforced.

- **Service the customer**: Customer satisfaction is lower than it should be, especially when compared with other industries. Insurance organizations are finding it tough to align their performance with customer expectations.

Over the past few years, a number of packaged solutions have become available in the marketplace to target specific challenges. For example, many insurers have installed intelligence systems to assist with fraud identification. Enterprise call center structures and technologies have been implemented to improve the handling of first notices of loss and claims inquiries. There are automated rules engines to facilitate assignment and triage processes. No touch/low touch processing for claims like glass and towing are becoming more common, as well as automated routing to low-complexity and/or low-cost claims handling centers. The usage of shared services is increasing. Field adjusters are being given new mobility tools. Enhanced, preferred supplier relationships are being enabled and supported. All these and many more are helping. But, in studying the industry, it is clear that more can be done.

Time for meaningful transformation

While companies understand the need for improvement in claims management, the tricky part is getting the priorities right and determining how and where to start. For many companies, the thought of totally transforming the claims operation can be overwhelming. Given the reality of constraints on skills and budgets, strategic plans often get shelved in favor of addressing tactical problems. With the quick fix approach, key opportunities to cut cost and improve service are often left on the table. The overall strategic priorities are undefined. The most difficult questions remain unanswered. A high-level operating strategy – one that integrates business, application and technology needs – remains an elusive goal.

Insurers working with IBM Business Consulting Services are taking advantage of a set of methodologies and tools developed by seasoned claims professionals. These tools and methodologies are providing a sound direction in answer to the tough “how” and “where” questions. By capitalizing on unique benchmark and maturity information assembled specifically for the claims area, insurers are making intelligent choices about how and where to leverage skills and resources for the greatest bottom-line contribution.

Component Business Modeling

Using Claims Component Business Modeling, target business capabilities are mapped to define a clear end-state vision for the claims environment. This vision is then translated into a practical operating model that is designed to enable the claims executives, along with business, operations and systems communities, to plan and build a coordinated blueprint of how the claims environment should function to achieve optimal transformation benefits.

Claims Capability Assessment Methodology

Claims Capability Assessment Methodology provides a standard for measuring capabilities across an insurance organization’s people, processes and technologies. This more tactical view of the organization ties back to the
higher level Claims Component Business Model. This methodology includes a tool or template that is designed to quickly quantify the capabilities of the organization and develops a high-level business case for pursuing initiatives to address key capability gaps uncovered in the analysis.

**Claims File Analysis**
Claims File Analysis is used as a first step in sizing loss cost opportunity through a set of questionnaires and databases that guides the collection and analysis of data. The Claims File Analysis methodology and toolset is used to highlight the existing baseline for leakage identification. By analyzing the leakage across major dimensions including process stage, root cause, size of claim and so forth, companies often uncover major opportunities for loss cost reduction.

**Claims Task Analysis**
Using Claims Task Analysis, insurance organizations are able to understand how much time and expense are spent on all major activities within the claims operation. This information is then used to size the opportunity for expense reduction or productivity improvement driven by technology initiatives. The foundation for the Claims Task Analysis methodology is a tool made up of questionnaires and databases which facilitates the collection and analysis of data.

**Claims Process Analysis and Design**
Claims Process Analysis and Design includes a structured process design and gap analysis methodology, including templates used to describe and define “as-is” and “to-be” processes. Modeling tools are used to dynamically document detailed process flows and analyze multiple improvement scenarios. Along with process analysis and design, insurance companies are able to deploy workload and staff modeling tools that can result in productivity improvement or expense reduction capture.

*Indeed, one size doesn’t fit all when transforming claims*

These new methodologies and tools are now available to help insurance companies embark on an intelligent and financially sound path to a customized claims transformation. As mentioned, for some companies the journey to excellence will be driven by a legacy optimization and improvement process. The claims value chain is organized into discrete components that can be configured and connected, while taking advantage of existing investments in applications and technology. Beginning with first notice of loss and continuing through to final adjudication, rules and workflow connect the elements within a virtual claims file for the adjuster’s management of the loss. Best-of-breed vendor solutions for notification, assignment, investigation, evaluation, settlement and recovery are integrated through a services-oriented architecture on an “as needed” basis. The prompt resolution of the claim through more efficient processes can enhance customer satisfaction while helping to reduce organizational expense.

For other organizations, the transformation journey will start with a more granular review of business operations including leakage studies, activity-based costing, claim pattern analysis, organizational structure review, coring of claims by task, vendor management, span of control/staffing standards, sourcing strategies, use of imaging, mobile adjusting and a host of other capabilities. The objective is to infuse best practices in the claim operations where they can have rapid, value-driven impact for the organization.

Yet, other companies may benefit from unique point solutions based on claim market expertise and knowledge. For example, Fast Path Claims, Salvage/Subrogation/Recovery Excellence and Claims Procurement Optimization are value-driven solutions that can be custom built, based on organizational needs.
Results are real

A major West Coast insurer is leveraging a Fast Path claims concept to drive value through a greatly enhanced first notice activity, more accurate and appropriate claims segmentation and the streamlining of key functions. The first step involved developing a clear vision of the target environment. With the ability to accurately assess the current operations and measure them against specific claims-related benchmarks and maturity scales, the decisions regarding next steps became obvious. This insurer is seeing a quick and substantial return on its effort and a more satisfied customer set.

Another major U.S.-based insurer determined that priority one was to leverage key technologies to align claim complexity with adjuster skills and associated assignments and responsibilities. This streamlining has resulted in the reallocation of internal resources for investigation, evaluation, negotiation and settlement of more complex claims. Customer satisfaction is up and continuing to improve. And, most importantly, the results are impacting the bottom line. Again, the decisions concerning how and where to invest were quickly identified.

There are a myriad of good software solutions in the marketplace targeting a variety of areas. It is not always necessary to write new systems from the ground up. It is necessary to get the how and where right – and the leaders of tomorrow are focused on that task today.

About the Authors

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